

**South Carolina Student
Loan Corporation**

Report on Consolidated Financial Statements

For the year ended June 30, 2020

South Carolina Student Loan Corporation

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of South Carolina Student Loan Corporation (the "Corporation"), which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited South Carolina Student Loan Corporation's 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedules by fund, consolidated schedule of property and equipment, schedule of expenses for the operating fund and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Corporation's internal control over financial reporting and compliance.



Columbia, South Carolina
September 30, 2020

South Carolina Student Loan Corporation
Consolidated Statement of Financial Position
As of June 30, 2020 (with comparative amounts for 2019)

	2020			2019 Totals Memorandum Only
	Without Restrictions	With Restrictions	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 7,973,669	\$ 56,318,747	\$ 64,292,416	\$ 77,733,802
Investments	202,463,035	-	202,463,035	207,042,146
Current portion of student loans receivable	10,325,695	61,395,522	71,721,217	187,788,211
Current portion of teacher loans receivable	-	3,083,159	3,083,159	2,807,325
Interest due from borrowers	2,112,505	44,112,694	46,225,199	42,562,325
Accounts receivable	8,279	10	8,289	35,695
Due from United States Department of Education	-	-	-	726,298
Due from servicers	100,310	893,061	993,371	1,447,865
Due from South Carolina State Education Assistance Authority	27,798	570,660	598,458	607,500
Accrued investment income	-	3,226	3,226	81,083
Prepaid expenses	531,188	62,203	593,391	491,391
Due from (to) other funds	203,575	(203,575)	-	2,128
Total current assets	<u>223,746,054</u>	<u>166,235,707</u>	<u>389,981,761</u>	<u>521,325,769</u>
Long-term receivables and other assets				
Student loans receivable, net of current portion and allowance for loan loss of \$36,820,921	102,801,826	941,305,549	1,044,107,375	1,098,496,872
Teacher loans receivable, net of current portion and allowance for loan cancellations of \$10,248,037	-	27,683,308	27,683,308	28,732,024
Overfunded defined benefit plan	681,776	-	681,776	1,644,316
Due from (to) other funds	20,942,464	(20,942,464)	-	-
Total long-term receivables and other assets	<u>124,426,066</u>	<u>948,046,393</u>	<u>1,072,472,459</u>	<u>1,128,873,212</u>
Property and equipment				
Land	364,900	-	364,900	364,900
Building	4,358,670	-	4,358,670	4,358,670
Furniture and equipment	4,670,122	-	4,670,122	4,517,229
Automobiles	80,030	-	80,030	80,030
Less accumulated depreciation	(4,302,002)	-	(4,302,002)	(3,856,221)
Net property and equipment	<u>5,171,720</u>	<u>-</u>	<u>5,171,720</u>	<u>5,464,608</u>
Total assets	<u>\$ 353,343,840</u>	<u>\$ 1,114,282,100</u>	<u>\$ 1,467,625,940</u>	<u>\$ 1,655,663,589</u>

See Notes to Consolidated Financial Statements

(Continued)

South Carolina Student Loan Corporation
Consolidated Statement of Financial Position
As of June 30, 2020 (with comparative amounts for 2019)

	2020			2019 Totals Memorandum Only
	Without Restrictions	With Restrictions	Total	
Liabilities and Net Assets				
Current liabilities				
Current maturities of notes payable - finance loans	\$ -	\$ 3,110,750	\$ 3,110,750	\$ 6,346,620
Current maturities of bonds payable	-	78,254,393	78,254,393	166,398,390
Interest payable	-	1,275,780	1,275,780	3,354,429
Accounts payable	1,968,219	(378)	1,967,841	1,745,133
Unearned revenues	169,274	252,234	421,508	626,993
Customer refunds payable	7,246	-	7,246	18,426
Teacher loan liability	-	958,136	958,136	1,072,340
Compensated absences	1,054,551	-	1,054,551	1,014,892
Due to United States Department of Education	55,222	4,401,207	4,456,429	1,419,824
Total current liabilities	<u>3,254,512</u>	<u>88,252,122</u>	<u>91,506,634</u>	<u>181,997,047</u>
Noncurrent liabilities				
Notes payable - finance loans, net of current maturities	-	16,489,147	16,489,147	20,335,190
Bonds payable, net of current maturities	-	704,285,633	704,285,633	806,835,850
Payable to the State of South Carolina	-	53,689,721	53,689,721	50,660,027
Due to South Carolina State Education Assistance Authority	-	39,835,008	39,835,008	39,835,008
Total noncurrent liabilities	-	<u>814,299,509</u>	<u>814,299,509</u>	<u>917,666,075</u>
Total liabilities	<u>3,254,512</u>	<u>902,551,631</u>	<u>905,806,143</u>	<u>1,099,663,122</u>
Net Assets				
Net assets with restrictions				
Bond indentures - current debt service	-	4,609,241	4,609,241	8,034,351
Bond indentures	-	207,121,228	207,121,228	204,066,183
Total net assets with restrictions	-	<u>211,730,469</u>	<u>211,730,469</u>	<u>212,100,534</u>
Net assets without restrictions				
Board designated for Power:Ed	15,000,000	-	15,000,000	10,000,000
Undesignated	335,089,328	-	335,089,328	333,899,933
Total net assets without restrictions	<u>350,089,328</u>	-	<u>350,089,328</u>	<u>343,899,933</u>
Total net assets	<u>350,089,328</u>	<u>211,730,469</u>	<u>561,819,797</u>	<u>556,000,467</u>
Total liabilities and net assets	<u>\$ 353,343,840</u>	<u>\$ 1,114,282,100</u>	<u>\$ 1,467,625,940</u>	<u>\$ 1,655,663,589</u>

See Notes to Consolidated Financial Statements

South Carolina Student Loan Corporation

Consolidated Statement of Activities

For the year ended June 30, 2020 (with comparative amounts for 2019)

	2020			2019
	Without Restrictions	With Restrictions	Total	Totals Memorandum Only
Revenues				
Income from United States Department of Education:				
Student loan interest - subsidized	\$ 100,520	\$ 3,831,355	\$ 3,931,875	\$ 5,733,582
Special allowances	(180,520)	(12,915,463)	(13,095,983)	(7,251,713)
Student loan interest - unsubsidized	6,780,033	56,825,873	63,605,906	73,089,053
Investment income	2,609,328	588,124	3,197,452	6,211,528
Unrealized (loss) gain on investments	(191,427)	-	(191,427)	595,911
Late charges	41,060	890,163	931,223	1,140,924
Miscellaneous payments of student loans	266	11,806	12,072	12,682
Remittance from South Carolina State Education Assistance Authority				
for operating costs	361,758	-	361,758	420,830
Servicing fees	-	-	-	337,647
Miscellaneous (loss) income	(58,303)	-	(58,303)	292,583
Other income	576,269	-	576,269	-
Net assets released from restrictions	49,601,923	(49,601,923)	-	-
Total revenues	<u>59,640,907</u>	<u>(370,065)</u>	<u>59,270,842</u>	<u>80,583,027</u>
Expenses				
Personnel	4,216,941	-	4,216,941	4,051,952
Contractual services	4,993,743	-	4,993,743	5,033,638
General operating	2,317,263	-	2,317,263	1,800,272
Interest on debt	26,218,932	-	26,218,932	41,898,239
Payments to South Carolina State Education Assistance Authority				
for student loan income	1,270,881	-	1,270,881	1,935,938
Loan fees	4,731,361	-	4,731,361	5,477,597
Reinsurance expense	1,043,218	-	1,043,218	911,368
Borrower incentives	3,308,369	-	3,308,369	3,813,030
Broker dealer fees	224,669	-	224,669	246,358
Loan loss expense	5,126,135	-	5,126,135	5,062,972
Total expenses	<u>53,451,512</u>	<u>-</u>	<u>53,451,512</u>	<u>70,231,364</u>
Changes in net assets	6,189,395	(370,065)	5,819,330	10,351,663
Net assets				
Beginning	343,899,933	212,100,534	556,000,467	545,648,804
Ending	<u>\$ 350,089,328</u>	<u>\$ 211,730,469</u>	<u>\$ 561,819,797</u>	<u>\$ 556,000,467</u>

See Notes to Consolidated Financial Statements

South Carolina Student Loan Corporation
Consolidated Statement of Functional Expenses
For the year ended June 30, 2020

	Program Expenses		Supporting Services	Total Expenses
	PAL and PAL Refi	FFEL	Management and General	
Operating				
Personnel				
Staff salaries	\$ 2,116,967	\$ 264,621	\$ 264,621	\$ 2,646,209
Social security	131,051	16,382	16,382	163,815
Group insurance	154,092	19,262	19,262	192,616
Retirement	954,274	119,284	119,284	1,192,842
Unemployment	17,167	2,146	2,146	21,459
Total personnel	<u>3,373,551</u>	<u>421,695</u>	<u>421,695</u>	<u>4,216,941</u>
Contractual				
Information technology	826,448	78,984	78,984	984,416
Third party servicing fees	991,137	2,053,958	-	3,045,095
Legal and professional	70,049	-	571,059	641,108
Accounting	-	-	159,403	159,403
Skip tracing	875	-	-	875
Credit bureau	63,611	-	-	63,611
Loan servicing	99,235	-	-	99,235
Total contractual	<u>2,051,355</u>	<u>2,132,942</u>	<u>809,446</u>	<u>4,993,743</u>
Total operating	<u>5,424,906</u>	<u>2,554,637</u>	<u>1,231,141</u>	<u>9,210,684</u>
General operating				
Telephone	52,088	6,511	6,511	65,110
Printing	6,565	821	821	8,207
Postage	7,973	997	997	9,967
Supplies	8,628	1,078	1,078	10,784
Travel	14,079	1,760	1,760	17,599
Equipment maintenance	22,653	2,832	2,832	28,317
Subscriptions and fees	100,791	12,599	12,599	125,989
Meeting and conference expenses	182,268	22,783	22,783	227,834
Insurance - general and automotive	50,883	6,361	6,361	63,605
Outreach and awareness	341,771	-	18,504	360,275
Depreciation	-	-	720,680	720,680
Building	-	-	184,594	184,594
Third party collections	68,390	-	-	68,390
Other operating expense and contingencies	-	-	425,912	425,912
Total general operating	<u>856,089</u>	<u>55,742</u>	<u>1,405,432</u>	<u>2,317,263</u>
Student loans				
Loan fees	-	4,731,361	-	4,731,361
Reinsurance expense	-	1,043,218	-	1,043,218
Borrower incentives	217,991	3,090,378	-	3,308,369
Loan loss expense	5,126,135	-	-	5,126,135
Broker dealer fees	31,889	192,780	-	224,669
Payments to South Carolina State Education Assistance				
Authority for student loan income	909,188	361,693	-	1,270,881
Interest on debt	<u>3,383,862</u>	<u>22,835,070</u>	<u>-</u>	<u>26,218,932</u>
Total student loans	<u>9,669,065</u>	<u>32,254,500</u>	<u>-</u>	<u>41,923,565</u>
Total functional expenses	<u>\$ 15,950,060</u>	<u>\$ 34,864,879</u>	<u>\$ 2,636,573</u>	<u>\$ 53,451,512</u>

See Notes to Consolidated Financial Statements

South Carolina Student Loan Corporation
Consolidated Statement of Cash Flows
For the year ended June 30, 2020 (with comparative amounts for 2019)

	2020			2019
	Without Restrictions	With Restrictions	Total	Totals Memorandum Only
Cash flows from operating activities				
Changes in net assets	\$ 6,189,395	\$ (370,065)	\$ 5,819,330	\$ 10,351,663
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:				
Depreciation	720,680	-	720,680	587,654
Unrealized loss (gain) on investments	191,427	-	191,427	(595,911)
Amortization of bond discounts	-	1,730,969	1,730,969	3,798,754
Loan loss expense	1,988,443	3,137,692	5,126,135	5,062,972
Changes in operating assets and liabilities:				
Due from South Carolina State Education Assistance Authority	16,524	(7,481)	9,043	49,653
Interest due from borrowers	(935,733)	(2,727,141)	(3,662,874)	(2,330,919)
Accounts receivable	938,841	8,565	947,406	(5,902)
Due from United States Department of Education	36,871	689,428	726,299	(370,608)
Due from servicers	(103)	454,597	454,494	730,828
Accrued investment income	29,513	48,344	77,857	130,741
Due from subsidiaries	-	-	-	-
Prepaid expenses	(96,628)	(5,374)	(102,002)	874,546
Defined benefit plan	962,540	-	962,540	847,639
Due from (to) other funds	94,017	(91,888)	2,129	(2,128)
Interest payable	-	(2,078,649)	(2,078,649)	(503,223)
Accounts payable	236,136	(13,428)	222,708	4,306
Unearned revenues	(54,306)	(151,179)	(205,485)	(209,072)
Compensated absences	39,659	-	39,659	5,455
Teacher loan liability	-	(114,205)	(114,205)	(237,013)
Customer refunds payable	(24,919)	-	(24,919)	9,768
Payable to the State of South Carolina	-	3,029,693	3,029,693	4,064,712
Due to United States Department of Education	49,396	3,000,949	3,050,345	(891,145)
Net cash provided by (used for) operating activities	<u>10,381,753</u>	<u>6,540,827</u>	<u>16,922,580</u>	<u>21,372,770</u>
Cash flows from investing activities				
Purchases of property and equipment	(427,792)	-	(427,792)	(1,694,729)
Net changes in student loans receivable	(18,361,403)	183,691,760	165,330,357	192,163,254
Net changes in teacher loans receivable	-	772,882	772,882	(249,335)
Net changes in investments	4,387,683	-	4,387,683	(19,713,995)
Net cash provided by (used for) investing activities	<u>(14,401,512)</u>	<u>184,464,642</u>	<u>170,063,130</u>	<u>170,505,195</u>
Cash flows from financing activities				
Net changes in notes payable - finance loans	(920,000)	(7,081,913)	(8,001,913)	(8,641,755)
Net payments on bonds payable	-	(192,425,183)	(192,425,183)	(253,934,441)
Net cash provided by (used for) financing activities	<u>(920,000)</u>	<u>(199,507,096)</u>	<u>(200,427,096)</u>	<u>(262,576,196)</u>
Net decrease in cash and cash equivalents	<u>(4,939,759)</u>	<u>(8,501,627)</u>	<u>(13,441,386)</u>	<u>(70,698,231)</u>
Cash and cash equivalents				
Beginning	12,913,428	64,820,374	77,733,802	148,432,033
Ending	<u>\$ 7,973,669</u>	<u>\$ 56,318,747</u>	<u>\$ 64,292,416</u>	<u>\$ 77,733,802</u>
Supplemental disclosures of cash flow information				
Cash payments for interest	<u>\$ -</u>	<u>\$ 26,566,610</u>	<u>\$ 26,566,610</u>	<u>\$ 38,602,709</u>
Disposal of fully depreciated property and equipment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,016</u>

See Notes to Consolidated Financial Statements

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies

Reporting entity:

The South Carolina Student Loan Corporation (the "Corporation") was incorporated on November 15, 1973, under the Laws of the State of South Carolina. 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 of students to attend eligible post-secondary institutions. Funds from various sources are administered by the Corporation to achieve this goal.

During the fiscal year ended June 30, 2019, the Corporation's Board of Directors established Power:Ed as an arm of the Corporation to assist in fulfilling some of the Corporation's philanthropic initiatives within its mission. See Note 15 for further discussion.

Effective September 10, 2015, Palmetto Investment Holdings, Inc. ("PIHI"), a South Carolina Corporation (C-Corp) was organized as a wholly-owned subsidiary of the Corporation. PIHI functions as the holding company for for-profit ventures within the Corporation's consolidated corporate structure. Also effective September 10, 2015, SC3 Solutions, LLC ("SC3") was formed under the Laws of the State of South Carolina as a wholly-owned subsidiary of PIHI. Since its inception, SC3 has operated as a call and customer contact center with a client base within the healthcare industry. After careful consideration, the Corporation decided to discontinue this service line and ended the contact center activity as of October 6, 2017.

On April 1, 2011, the Corporation formed EdVantage Corporation ("EdVantage"), which is a controlled affiliate of the Corporation for the purpose of providing debt collector services. EdVantage is not actively serving as a debt collector at this time.

On July 30, 2012, the Corporation became the sole owner of Educational Loan Services, LLC ("ELS"), d/b/a Campus Partners ("CP"), a provider of servicing of student educational loans for universities, colleges and other educational institutions nationwide. ELS was dissolved as of May 20, 2019 and the liquidation of all assets was completed as of August 30, 2019 (see Note 5).

The Corporation administers the operations of the South Carolina State Education Assistance Authority (the "Authority"). The Authority is a body politic as well as a corporate and 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 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 the Senate Finance Committee and Chairman of the South Carolina House of Representatives Ways and Means Committee.

On June 22, 2016, the SFAA delegated to the Corporation the authority to communicate with the United States Department of Education ("USDE") at the appropriate time to terminate the guaranty agreement between the Authority and USDE, cease operating as a guaranty agency under the Higher Education Act of 1965, as amended, and to present to the State Treasurer all necessary documents required to effect such termination. The Corporation notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Reporting entity, continued:

On July 21, 2016, the Corporation received notice from the USDE formally naming Educational Credit Management Corporation ("ECMC") as the receiving guarantor; however, initial discussion and coordination of the transfer between the parties began on July 7, 2016. The related conversion occurred on December 1, 2016. During the fiscal year ended June 30, 2017, the level of services provided by the Corporation to the Authority were reduced due to the termination of the guaranty agreement between the Authority and USDE, the transfer of the guaranty agency function to ECMC on December 1, 2016 and the completion of subsequent reporting to the USDE which closed the guaranty function of the Authority with the USDE. Since this time, the Corporation has performed specified services for the Authority on a contractual basis with mutually agreed-upon terms.

The basic, but not the only, criterion 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 consolidated financial position, results of activities and cash flows of the Corporation and its controlled affiliate and subsidiaries.

Overall operating arrangement:

The Authority, as a guaranty agency, approved the Corporation as an eligible lender to administer the Federal Family Education Loan ("FFEL") 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 USDE. Upon entering the repayment period, the interest is paid by the borrower. Effective July 1, 2010, the FFEL Program was discontinued and all future federal loans are originated through the Direct Loan Program. The Corporation does, however, continue to serve as the eligible lender of the previously originated FFEL loans.

The Corporation financed both FFEL and private education loans using several sources. One source was the issuance of tax-exempt revenue bonds by the Authority. The Corporation, using the proceeds of these bonds as described in Note 8, makes loans. The Corporation remits proceeds on these loans to the Authority as required by a loan agreement between the two entities.

During the fiscal year ended June 30, 1985, the Corporation began administering the South Carolina Teacher Loan Program ("TLP"). The TLP is a part of the Education Improvement Act of 1984 (the "Act") passed by the South Carolina General Assembly. The Corporation was named in the Act as the administrator of this program. 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 of South Carolina. Loans are cancelled at the greater of a specified dollar amount or 20% to 33 1/3% 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 in a critical subject or critical location. TLP loans made for academic years before 1994-1995 are guaranteed by the Authority. TLP loans made for academic years 1994-1995 or after are non-guaranteed.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Overall operating arrangement, continued:

As stipulated by the South Carolina Code of Laws when the TLP began during the fiscal year ended June 30, 1985, a separate revolving State-owned bank account was designated and established for the TLP. The account is named the EIA Revolving Student Loan Program Fund 41L1 ("Fund 41L1"). Funds generated from repayments to the TLP must be retained in this account for the purpose of making TLP loans in keeping with the stipulation of the originally appropriated funds. Transactional activity of Fund 41L1 is directed by the Corporation as it administers the program while the investment of funds in the account is directed by the State Treasurer. As of June 30, 2020, the balance of Fund 41L1 was \$15,242,108.

The Commission on Higher Education in consultation with the State Department of Education and the Corporation developed the Governor's Teacher Scholarship Loan Program to provide talented and qualified State residents loans not to exceed \$5,000 a year to attend public or private colleges and universities for the purpose of becoming certified teachers employed in the public schools of South Carolina. Recipients of a loan are entitled to have 100% of the amount of the loan plus accrued interest cancelled if he/she becomes certified and teaches in a South Carolina public school for at least five years. The Corporation began making loans under this program during 1990; however, due to lack of funding through State appropriations, the program ceased after the 1997-1998 academic year.

During the fiscal year ended June 30, 1996, the Corporation began making and servicing supplemental loans through the Palmetto Assistance Loan ("PAL") Program. The PAL Program offered supplemental loans for students and parents of students enrolled at least half-time in an eligible school and for fourth year medical students with specified federal loans originated through the Corporation who were seeking funds for their residency and relocation. These loans were funded from the Corporation's accumulated unrestricted net assets and bond funds. The Corporation discontinued offering this PAL Program during December 2008.

During the fiscal year ended June 30, 2010, the Corporation restructured the PAL Program and began marketing the restructured program. The new PAL Program restricts the offering of loans only to students. The student must be enrolled on at least a half-time basis in a certificate or degree granting program and attending an eligible school in the State of South Carolina, or be a resident of South Carolina and attending an eligible college or university within the United States. These loans are funded by an \$85,000,000 bond offering issued by the Authority dated November 5, 2009.

During the fiscal year ended June 30, 2012, the Corporation began disbursing PAL Program in-school loans out of the Corporation's unrestricted net assets.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Overall operating arrangement, continued:

During May 2013, the Corporation began offering PAL Program Consolidation Loans. This PAL Program Consolidation Loan restricted the offering of loans to students who were in a grace period or post-enrollment repayment status and in good standing on all education loans being consolidated. The student was required to have a FICO score of 675. The student was also required to have loans made for attendance at eligible schools located in the United States, be a South Carolina resident or a nonresident with eligible loans made for attendance at eligible in-state schools, and not be incarcerated. These consolidation loans were funded from available funds of the Corporation. During August 2014, this program was terminated due to lower volume attributed to a new federal consolidation loan program allowing both FFEL Program and Direct Loan Program loans to be consolidated into one federal consolidation loan.

During mid-2015, the Corporation began offering the Palmetto Assistance Loan Refinancing Loan ("PAL ReFi") Program through an initial targeted direct mailing to eligible South Carolina residents who obtained federal Parent Loan for Undergraduate Student (PLUS) loans on or after July 1, 2010. The student was also required to have loans made for attendance at eligible schools located in the United States, be a South Carolina resident or a nonresident with eligible loans made for attendance at eligible in-state schools, and not be incarcerated. As of June 30, 2020, a minimum FICO score of 670 and a debt to income ratio of 43% or less is required as part of the determination of the creditworthiness of each applicant. These loans are funded from available funds of the Corporation that are without restrictions.

During the fiscal year ended June 30, 2020, the Corporation made adjustments to the interest rates for the PAL Program. Borrowers may receive a range of 4.75% to 8.95% fixed rates depending upon their credit score and enrolled payment option. The required minimum FICO credit score remained at 670. Parent borrowers now have the option of applying for the PAL Program loan in their name for a benefiting student. Fixed interest rates for the PAL Refi Program loan were changed to 4.24%, 5.24% and 6.24% for the 5, 10 and 15 year terms, respectively, as selected by the borrower. These loans are funded from available funds of the Corporation that are without restrictions.

During the fiscal year ended June 30, 2020, the Corporation introduced a variable rate option for its PAL Program, with borrowers receiving rates based on one-month LIBOR plus a margin of 1.50% to 6.05%, with the rate capped at 12.00%. The margin given depends on the borrower's credit score, enrolled payment selection, and repayment term selection. The variable rate is reset quarterly using the one-month LIBOR rate two business days prior to the start of each quarter. For both fixed and variable rate loans in its PAL Program, the Corporation also introduced an option for student borrowers to fully defer payments while in school, and an option for parent borrowers to begin repayment immediately following loan disbursement.

During the fiscal year ended June 30, 2020, the Corporation introduced a 20 year repayment term for the PAL Refi Program, and set fixed interest rates to 4.72%, 5.47%, 6.22%, and 7.22% for the 5, 10, 15, and 20 year terms, respectively. On June 15, 2020, these rates were further altered to 4.24%, 5.24%, 6.24%, and 7.24%.

The Health Care and Education Reconciliation Act of 2010 nationalized the federally-guaranteed student loan program mandating that all federal student loans made on or after July 1, 2010 be originated by the USDE. Without the ability to continue to originate these federal loans, the Corporation's student loan portfolio steadily decreased and reached a level which was not economically feasible to continue to service in-house.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Overall operating arrangement, continued:

After entering into a contract with National Education Loan Network ("Nelnet") to perform the servicing function on the Corporation's behalf for FFEL loans, the Corporation formally began transitioning its student loan servicing function to Nelnet and completed the conversion of FFEL loans on August 19, 2016. Transition of private loans to Firstmark Services, a division of Nelnet, was completed on January 13, 2017. Loans outstanding for the TLP were transitioned to Firstmark Services effective February 16, 2019.

Basis of accounting:

These statements are prepared using the accrual basis of accounting, recognizing income when earned regardless of when received and expenses when incurred regardless of when paid.

Consolidation policy:

The consolidated financial statements include the accounts of the Corporation and its controlled affiliate, EdVantage and subsidiaries including ELS/CP, PIHI, and SC3. The Teacher Loan Fund is included on the consolidated Statement of Financial Position of the Corporation as a liability due to the State of South Carolina. All material inter-corporation accounts and transactions of the consolidated subsidiaries have been eliminated in the consolidation.

Display of net assets by class:

The Corporation adheres to the disclosures and display requirements of ASC 958, *Not-For-Profit-Entities*. ASC 958 establishes standards for external financial reporting by non-profit organizations and requires that resources be classified for accounting and reporting purposes as follows:

Net assets without restrictions - Net assets without restrictions include those designated by the Corporation's Board of Directors and can be used in any Corporation activity.

Net assets with restrictions - Net assets with restrictions consist of accumulated assets and liabilities for the general resolutions of outstanding bonds.

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; 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 and Treasury Bills, commercial paper and money market funds with a maturity of three months or less, including those that are classified as assets with restrictions, to be cash equivalents.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Concentration risk:

The Corporation maintains its cash in bank deposit accounts, which, at times, may exceed the federally insured limit. At June 30, 2020, all of the Corporation's cash was held in institutions that are covered by federal depository insurance; however, some demand deposit accounts exceeded the federally insured limit. The Corporation monitors each of these institutions for financial deterioration characteristics on a continuous basis, and as of June 30, 2020, believed each institution is well-capitalized with no going concern issues.

Investments:

Investments are classified as available-for-sale and initially recorded at cost with adjustments for amortization of premiums or discounts over the level yield method. Thereafter, investments are recorded at fair value and any changes in unrealized gains or losses are recorded through the Consolidated Statement of Activities. Realized gains or losses on sale of investments are determined using the specific identification method.

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 and meet the criteria for annual cancellation of the greater of a specified dollar amount or 20% to 33 1/3% 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 \$10,248,037 at June 30, 2020. The Corporation maintains \$958,136 as a liability at June 30, 2020, for the undisbursed funds from the TLP. The Corporation matches the receipt of the funds from the State of South Carolina with the disbursement of the funds to the teachers who are expected for cancellation.

Student loans - provision for losses:

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 Program loans and losses related to servicing all guaranteed loans by the Corporation that are not covered by its financings (See Note 7). The Corporation makes no provision for losses on student loans securing any of its financings as all of the borrowings disclosed in Note 8 are nonrecourse to the Corporation. The holders of the bonds have all the credit risk for student loan losses that occur in each "trust estate". The provision also includes an estimate for non-guaranteed PAL Program loans. In making the estimate for student loan losses, the Corporation considers default rate trends, 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.

For all PAL Program loans 180 days or more past due, the Corporation maintains a 100% allowance. For the fiscal year ended June 30, 2019, the Corporation increased its allowance for loan loss related to PAL Program loans by allowing additional amounts for delinquent loans 15 to 179 days past due. PAL Program loans 15 to 179 days past due are grouped by level of delinquency and amounts are reserved based on the percentage of each group that is expected to default. The percentage used for each group is based on the Corporation's last ten years of default experience. The total calculated allowance is then adjusted by the Corporation's recovery rate. The Corporation's recovery rate was 10% for the fiscal year ended June 30, 2020. The allowance for loan losses was \$36,820,921 at June 30, 2020.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Property and equipment:

The Corporation's property and equipment costing over \$10,000 is 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 thirty-nine years for the building.

Amortization of deferred cost of issuance of bonds and bond premiums and accretion of bond discounts:

The cost of issuance of bonds and bond premiums and discounts are being amortized/accreted over the lives of the bond issues on a straight-line basis and are included in interest on debt.

Compensated absences:

Annual leave is earned at the rate of twelve to twenty-five days per year depending on length of employment. Part-time employees who are eligible for benefits will earn vacation leave on a pro-rated basis determined by the number of regular scheduled hours worked. Employees are expected to use at least one week (five consecutive days) each year. Earned, but unused, annual leave will be paid when an employee terminates his/her employment. Sick leave is earned at the rate of ten days per year. Employees are not paid for earned, but unused, sick days upon termination of employment.

Income taxes:

The Corporation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the Corporation's tax positions and concluded that the Corporation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Corporation is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2016.

EdVantage is also exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated EdVantage's tax positions and concluded that EdVantage had no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. PIHI is a taxable entity. Management has evaluated PIHI's tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. No income tax provision is needed at this time.

Availability of funds for general expenses:

The Corporation has certain net assets that are available for general expenses within one year of June 30, 2020 based on conducting the normal activities of its programs in the coming fiscal year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenses within one year (see Note 4).

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Expense allocation:

The costs of providing programs and activities of the Corporation's funds without restrictions have been summarized on a functional basis in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Expenses of the Corporation include:

Program expenses - Program expenses include the costs associated with specific programs of the Corporation.

Supporting services - Supporting services include the general, administrative and operating costs of the Corporation.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function, and therefore, require allocation on a reasonable basis that is consistently applied. Personnel, general operating, and contractual services expenses included allocations on the basis of management's reasonable estimate of time spent for each category. The allocation used was 10% for Management and General Supporting Services, 80% for Program Expenses of PAL, and 10% for Program Expenses of FFEL. Where applicable, management allocated expenses based on the direct cost method for these categories as well. Management determined that a more appropriate allocation for expenses, such as interest on debt, payments to the South Carolina Education Assistance Authority for student loan income, and broker dealer fees would be based on loan volume of programs by bond trust and was allocated accordingly.

Recently issued accounting pronouncements:

During February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. This accounting standard establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases.

The new guidance (1) results in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases; (2) results in fewer opportunities for organizations to structure leasing transactions to achieve a particular accounting outcome on the statement of financial position; (3) improves understanding and comparability of lessees' financial commitments regardless of the manner they choose to finance the assets used in their businesses; (4) aligns lessor accounting and sale and leaseback transactions guidance more closely to comparable guidance in Topic 606, *Revenue from Contracts with Customers*, and Topic 610, *Other Income*; (5) provides users of financial statements with additional information about lessors' leasing activities and lessors' exposure to credit and asset risk as a result of leasing; and (6) clarifies the definition of a lease to address practice issues that were raised about the previous definition of a lease and to align the concept of control, as it is used in the definition of a lease, more closely with the control principle in both Topic 606 and Topic 810, *Consolidation*.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

The new guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. Management is currently evaluating the potential effects of this accounting standard on the Corporation's consolidated financial statements.

During November 2016, the FASB released Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230)*, and the amendments in this accounting standard apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this accounting standard require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this accounting standard do not provide a definition of restricted cash or restricted cash equivalents.

The amendments in this accounting standard are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption during an interim period. If an entity early adopts the amendments during an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this accounting standard should be applied using a retrospective transition method to each period presented. Management adopted the amendments in this accounting standard during the fiscal year ended June 30, 2020.

During August 2018, the FASB released Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820)* to amend the disclosure requirements for fair value measurement. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the FASB's Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, including the consideration of costs and benefits. The amendments of this Update include the removal, modifications and additions of certain disclosure requirements.

The following disclosure requirements were removed from Topic 820: (1) The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) The policy for timing of transfers between levels; (3) The valuation processes for Level 3 fair value measurements; and (4) For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

The following disclosure requirements were modified in Topic 820: (1) In lieu of a roll-forward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. Management is currently evaluating the potential effects of this accounting standard on the Corporation's consolidated financial statements.

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 consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Reclassifications:

Certain prior fiscal year amounts have been reclassified to conform to the current fiscal year presentation. There was no effect on previously reported net assets or changes in net assets as a result of these reclassifications.

Subsequent events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition and disclosure through September 30, 2020, the date these financial statements were available to be issued.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 2. Cash and Cash Equivalents

As of June 30, 2020, cash and cash equivalents include demand deposits and short-term investments with a maturity of three months or less as follows:

	<u>Cost</u>	<u>Market Value</u>
Without restrictions		
South Carolina State Treasurer pool	\$ 3,868	\$ 3,868
Collateralized demand deposits	5,973,055	5,973,055
Money market	<u>1,996,746</u>	<u>1,996,746</u>
Total without restrictions	<u>\$ 7,973,669</u>	<u>\$ 7,973,669</u>
With restrictions		
Collateralized demand deposits	\$ 33,292	\$ 33,292
Money market	36,586,626	36,586,626
South Carolina State Treasurer pool	<u>19,129,213</u>	<u>19,698,829</u>
Total with restrictions	<u>\$ 55,749,131</u>	<u>\$ 56,318,747</u>

Included in the balance of cash and cash equivalents with restrictions is a total of \$19,698,829 of the TLP fund that resides in the South Carolina State Treasurer Pool.

Note 3. Investments

The market value of investments is determined by quoted market values and consists of the following as of June 30, 2020:

	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 3,146,000	\$ 5,060,910
Corporate stocks/bonds	104,570,716	136,291,212
Insured deposits/repurchase obligations	<u>55,990,165</u>	<u>61,110,913</u>
Total	<u>\$ 163,706,881</u>	<u>\$ 202,463,035</u>

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the Consolidated Statement of Financial Position.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 3. Investments, Continued

For the fiscal year ended June 30, 2020, the Corporation's realized investment income was \$3,197,452, unrealized loss on investments was \$191,427, and investment expense was \$383,954. The Corporation's net investment income was \$2,622,071 for the fiscal year ended June 30, 2020.

Note 4. Availability and Liquidity

Financial assets available for general expenses without restrictions limiting their use within one year of the Statement of Financial Position date of June 30, 2020 were comprised of the following at June 30, 2020:

Total assets at June 30, 2020	<u>\$ 1,467,626,014</u>
Less amounts not available to be used within one year due to illiquidity:	
Prepaid expenses	531,189
Overfunded defined benefit plan	681,776
Student loans receivable, net of current portion and allowance for loan loss	102,801,826
Due from other funds	20,942,464
Net property and equipment	<u>5,171,713</u>
	<u>130,128,968</u>
Less amounts not available to be used within one year due to restrictions and designations:	
Assets with restrictions	1,114,282,099
Board designated assets, Power:Ed	<u>15,000,000</u>
	<u>1,129,282,099</u>
Financial assets available to meet cash needs for expenses due within one year	<u>\$ 208,214,947</u>

As a part of the Corporation's liquidity management, its policy is to have adequate cash and other short-term investments to meet its financial obligations which become due within the next twelve months. This assessment is performed daily to ensure there are adequate funds for a rolling twelve month period.

Note 5. Investment in Educational Loan Services, LLC ("ELS") d/b/a Campus Partners

On November 23, 2011, the Corporation signed a contract with Educational Loan Servicing, LLC ("ELS") d/b/a Campus Partners ("CP") as a vendor to provide a platform and servicing functionality sufficient to meet the requirements for servicing USDE direct loans. Subsequently on February 1, 2012, the Corporation purchased 27.67% ownership of ELS for \$4,000,000 from JPT Partners ("JPT"), which was the sole owner of all equity of ELS, with an option to purchase from JPT an additional 23.33% at a later date for \$3,500,000 for a total ownership of 51.00%. As a result of several delays by CP in providing the contracted servicing platform for Direct Loans, the Corporation evaluated its current investment in ELS and declined to make the additional \$3,500,000 investment. On June 20, 2012, the Corporation made an offer under certain conditions to CP to provide a revocable line of credit for \$6,000,000 for a term of three years at a rate of prime plus 1.50% to provide CP sufficient funding to complete the development of the servicing platform. Additional terms of the offer to provide the \$6,000,000 line of credit was that the initial \$4,000,000 investment would represent a 51.00% ownership by the Corporation, as the Corporation believed that the equity value had declined as a result of the delays in the delivery of the servicing platform. Also, the Board of Directors of ELS would be restructured from three members to five members with three members appointed by the Corporation and two members appointed by JPT.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 5. Investment in Educational Loan Services, LLC ("ELS") d/b/a Campus Partners, Continued

All decisions would be approved by a majority vote. The amended offer term sheet also included several less significant provisions that would need to be met in order for the Corporation to provide the line of credit. On July 30, 2012, the Corporation extended the revocable \$6,000,000 line of credit to CP and as a result of the conditions to provide the note, the Corporation obtained an additional 23.33% of ELS for a total ownership of 51.00%. On February 26, 2013, the Corporation purchased the remaining 49.00% of equity in CP from ELS for a purchase price of \$1,245,000, resulting in an ownership of 100.00% of CP.

On June 11, 2015, ELS entered into an agreement with Heartland Payment Systems, Inc. ("HPS, Inc.") resulting in the sale of all CP customer contracts to HPS, Inc. The contract included managing the servicing, accounting and processing of Perkins and institutional student loans for higher education institutions. Under the terms of the agreement, for a specified period, CP continued to coordinate certain transition services needed by HPS, Inc. to perform under the terms of the contracts using CP's servicing system. CP also shared in the contract revenue with HPS, Inc. as specified in the agreement. As a result of this transaction, the \$13,396,336 note payable from CP to the Corporation was reduced to \$920,000 at June 30, 2015. The Corporation recorded a valuation allowance of \$12,476,336 on the note for the year ended June 30, 2015. CP recorded income for cancellation of debt related to the valuation allowance for \$12,476,336 on the note payable for the year ended June 30, 2015. These amounts were eliminated in the consolidated financial statements.

On July 15, 2016, ELS entered into an agreement with Heartland Payment Systems, LLC ("HPS, LLC") resulting in the sale of the majority of the remaining assets of CP including contracts with vendors, the "Campus Partners" name and stated trademark registrations, and other specified assets related to the servicing of customer contracts sold to HPS, Inc. in the June 11, 2015 agreement. Under the new agreement, HPS, LLC's assumption of responsibility for the contracts with vendors was completed through either an assignment of the contract from ELS/CP to HPS, LLC as provided for by the vendor or negotiation of a new contract between HPS, LLC and the vendor coupled with termination of any existing contract that ELS/CP had with the respective vendor. The purchase price of the assets was \$724,165. The term for the shared revenue related to the June 11, 2015 agreement was adjusted to end as of May 31, 2016. ELS was dissolved as of May 20, 2019 and the liquidation of all assets was completed as of August 30, 2019.

Note 6. Amounts Due from (to) the South Carolina State Education Assistance Authority

As of June 30, 2020, the Authority owes the Corporation funds collected on their behalf of \$598,458, which are required to be paid by the tenth of each month. The Corporation owes the Authority funds related to its contribution of loans in the amount of \$39,835,008 to the 2010-1 General Resolution (see Note 8) and \$211,061 for deferred costs of issuance on the 2009 PAL General Resolution.

Note 7. Federal Family Education Loans and Federal Reinsurance Loans

During the fiscal year ended June 30, 2020, these loans were bearing interest at fixed rates ranging from 2.85% to 9.00% or an annual variable rate of 4.23% to 5.50%. As required by the HEA, the annual variable rate is reset each July 1 using either the bond equivalent rate of the 91-day Treasury Bill, determined at the final auction held prior to the preceding June 1, or the weekly average of the one-year constant maturity Treasury yield as published for the last calendar week ending on or before June 26 of each year, plus 1.70% to 3.25% with a cap on the rate of 8.25% to 12.00%.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 7. Federal Family Education Loans and Federal Reinsurance Loans, Continued

The repayment period for these loans is five to thirty years with a minimum payment of \$360 or \$600 per year, except 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 half-time 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 twenty-five 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. Total loans insured at June 30, 2020 are \$897,407,106.

Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the USDE. Upon entering the repayment period, the interest is paid by the borrower.

The origination fee for Stafford loans was 3% for loans first disbursed on or before June 30, 2006. It decreased to 2% on July 1, 2006; to 1.50% on July 1, 2007; 1% on July 1, 2008; and 0.50% on July 1, 2009. The origination fee for Stafford loans was eliminated as of July 1, 2010. The origination fee for PLUS loans remained at 3% through June 30, 2010. This fee is no longer paid/received after July 1, 2010, due to the Corporation no longer originating FFEL Program loans.

The Health Care and Education Reconciliation Act of 2010 ("HCRA") was signed into law on March 30, 2010, requiring all new federal student loans to be originated through the Federal Direct Loan Program as of July 1, 2010. The Corporation's ability to originate FFEL Program loans terminated on June 30, 2010. As a result, the Corporation's servicing revenues were reduced year over year as the aggregate loan portfolio being serviced by the Corporation began to decline. This trend has continued and is reflected in reductions in the FFEL portfolio primarily due to consolidation of these loans to the Direct Loan Consolidation Program offered by the USDE and receipt of normal borrower payments. Additionally, since the FFEL Program was the major component of the Corporation's lending activity, it is expected that the future asset growth and related earnings on that portion of the asset growth will continue to be impacted. The Corporation is currently evaluating the potential impact on its future revenue stream and is also currently exploring alternative revenue sources to offset the impact of the declining FFEL portfolio. The potential impact cannot be reasonably predicted.

Note 8. Bonds Payable

The Corporation issued bonds for the first time during 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 five 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

Notes to Consolidated Financial Statements

June 30, 2020

Note 8. Bonds Payable, Continued

The transactions for each bond resolution are accounted for in a resolution specific fund. These funds are subject to restrictions imposed by the underlying bond agreements as described in the *Net Assets with Restrictions* section of Note 1 and are included in the Corporation's consolidated financial statements.

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, 2020, the Corporation held funds on deposit as cash with restrictions in the debt service funds of \$4,609,241.

The bonds outstanding as of June 30, 2020 are as follows:

<u>Issued</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Balance Outstanding at June 30, 2019</u>	<u>Issued (Retired)</u>	<u>Balance Outstanding at June 30, 2020</u>
June 25, 2008	\$ 600,000,000	9/2/2014 - 9/3/2024	\$ 70,370,770	\$ (24,726,584)	\$ 45,644,186
November 30, 2010	920,000,000	1/25/2021 - 10/27/2036	287,205,306	(53,115,262)	234,090,044
February 20, 2013	323,620,000	1/25/2041	108,982,085	(17,759,386)	91,222,699
August 20, 2014	501,500,000	4/1/2030 - 8/1/2035	413,194,169	(75,090,558)	338,103,611
November 25, 2015	198,400,000	1/25/2036	<u>112,607,632</u>	<u>(21,733,393)</u>	<u>90,874,239</u>
			<u>992,359,962</u>	<u>\$ (192,425,183)</u>	<u>799,934,779</u>
Less: unamortized costs of issuance			<u>(19,125,722)</u>		<u>(17,394,753)</u>
			<u>\$ 973,234,240</u>		<u>\$ 782,540,026</u>

London Interbank Offered Rate (LIBOR) Indexed Bonds Secured by 1996 General Resolution:

The Corporation's LIBOR Indexed Bonds in the 1996 General Resolution totaled \$338,103,611 as of June 30, 2020, and have variable interest rates equal to three-month LIBOR plus 0.12% to 0.14%, as adjusted quarterly, or one-month LIBOR plus 0.75% to 1.5%, as adjusted monthly. Throughout the fiscal year ended June 30, 2020, none of the rates exceeded 3.94%. Future interest payment projections are based upon the ten-year weighted average rate for all currently outstanding bond resolutions at June 30, 2020, which was 2.001%.

The 2005 and 2006 LIBOR Indexed Bonds are subject to pro rata principal reduction payments prior to maturity based on targeted amortization schedules set forth in the 1996 General Resolution. The principal and interest payments on the 2005 and 2006 Series bonds are paid quarterly on the distribution dates (the first business day of each March, June, September and December). During the fiscal year ended June 30, 2019, the 2005 and 2006 Series bonds were paid in full.

On August 20, 2014, the Corporation issued \$501,500,000 of Education Loan Revenue Bonds, 2014 Series, under the 1996 General Resolution. Proceeds of the issue were used to: (i) pay target amortization payments for prior bonds within the 1996 General Resolution that had not been satisfied prior to the 2014 Series issuance, (ii) finance repurchased education loans held as unencumbered assets of the Corporation, (iii) fund certain accounts and funds required under the 1996 General Resolution including the Supplemental Reserve Fund, the General Revenue Fund, the Senior Lien Account and the Subordinate Lien Account of the Debt Service Fund, and (iv) pay cost of issuance.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 8. Bonds Payable, Continued

London Interbank Offered Rate (LIBOR) Indexed Bonds Secured by 1996 General Resolution, Continued:

During the fiscal year ended June 30, 2019, the Supplemental Reserve Fund was then used in its entirety to begin payments on the 2014 Series bonds when the 2005 Series bonds were paid in full. Principal and interest payments for the 2014 Series bonds are paid on distribution dates (the first business day of each month).

LIBOR Notes Secured by the 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 three-month LIBOR plus 1%. 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 A-1 and A-2 notes have been 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 the 2008-1 General Resolution had a balance of \$45,644,187 as of June 30, 2020.

LIBOR Notes Secured by the 2010-1 General Resolution:

On November 30, 2010, the Corporation issued \$920,000,000 of Student Loan Backed Notes, 2010-1 Series, with variable interest rates ranging from three-month LIBOR plus 0.45% to three-month LIBOR plus 1.05%. Proceeds of the issue were used to (i) refinance the Corporation's credit facility with the Royal Bank of Canada, (ii) refinance prior indebtedness of the Authority, consisting of Auction Rate Securities issued under the Authority's 2002 General Resolution, (iii) fund the Debt Service Reserve Fund, (iv) fund the Capitalized Interest Fund, and (v) pay cost of issuance.

The Corporation transferred unencumbered FFEL Program loans of the Authority in the amount of \$39,835,008 and unencumbered loans of the Corporation of \$20,942,464 principal and interest to provide additional equity to the bond offering by increasing the parity of the bonds. The funds from both the Corporation and the Authority were provided through a Residual Trust Agreement, which allows for all remaining loans of the Trust to be shared between the Corporation and the Authority on a pro-rata basis, based on the percentage contribution made by each entity once all bonds have been redeemed.

Principal and interest on the LIBOR Notes is to be paid on each distribution date (the twenty-fifth day of each January, April, July, and October, or the next business day if such day is not a business day). Principal will be paid first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, and third on the A-3 Notes until paid in full. The A-1 notes have been paid in full. The LIBOR Notes are subject to optional redemption on the next distribution date occurring when the pool balance is 10% or less of the initial pool balance. The LIBOR Notes secured by the 2010-1 General Resolution had a balance of \$234,090,043 as of June 30, 2020.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 8. Bonds Payable, Continued

LIBOR Notes Secured by the 2013-1 General Resolution:

On February 20, 2013, the Corporation issued \$323,620,000 of Student Loan Backed Notes, 2013-1 Series, with a variable interest rate of one-month LIBOR plus 0.50%. Proceeds of the issue were used to (i) prepay the Corporation's Funding Note under the Straight A Funding federal conduit, (ii) refinance the Corporation's credit facility with the Royal Bank of Canada, (iii) fund a distribution to the Corporation for the pledge of certain FFEL Program loans, (iv) fund the Debt Service Reserve Fund, (v) fund the Capitalized Interest Fund, and (vi) pay cost of issuance.

Principal and interest on the LIBOR Notes is to be paid on each distribution date (the twenty-fifth day of each month, or the next business day if such day is not a business day). The LIBOR Notes are subject to optional redemption on the next distribution date occurring when the pool balance is 10% or less of the initial pool balance. The LIBOR Notes secured by the 2013-1 General Resolution had a balance of \$91,222,698 as of June 30, 2020.

LIBOR Notes Secured by the 2015-A General Resolution:

On November 25, 2015, the Corporation issued \$198,400,000 of Student Loan Backed Notes, 2015-A Series, with a variable interest rate of 1-month LIBOR plus 1.50%. Proceeds of the issue were used to (i) fund the purchase pursuant to the Corporation's Tender Offer of the Auction Rate Securities issued by the 2004 Trust together with accrued interest, (ii) fund the redemption at par of the portion of the remaining Auction Rate Securities issued by the Corporation's 2004 Trust together with accrued interest, (iii) fund the Collection Fund, (iv) fund the Debt Service Reserve Fund, (v) fund the Operating Fund, (vi) fund the Department Reserve fund and (vii) pay costs of issuance.

Principal and interest payments for the LIBOR Notes are paid on each distribution date (the twenty-fifth day of each month, or the next business day if such day is not a business day) beginning January 25, 2016. The LIBOR Notes are subject to optional redemption on the next distribution date occurring when the pool balance is 10% or less of the initial pool balance. The LIBOR Notes secured by the 2015-1 General Resolution had a balance of \$90,874,238 as of June 30, 2020.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 8. Bonds Payable, Continued

Projected debt service:

As of June 30, 2020, the scheduled debt service to retire the bonds and notes of the Corporation is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 37,430,761	\$ 37,430,761
2022	-	37,430,761	37,460,761
2023	-	37,430,761	37,430,761
2024	-	37,430,761	37,430,761
2025	45,644,186	36,740,831	82,385,017
2026	139,315,772	34,377,232	173,693,004
2027	-	33,668,843	33,668,843
2028	-	33,668,843	33,668,843
2029	-	33,668,843	33,668,843
2030	164,603,611	32,831,871	197,435,482
2031	-	23,625,179	23,625,179
2032	-	23,625,179	23,625,179
2033	100,500,000	21,070,081	121,570,081
2034	-	17,492,943	17,492,943
2035	-	17,492,943	17,492,943
2036	163,874,238	11,392,759	175,806,998
2037	94,774,273	6,343,003	101,117,276
2038	-	5,566,161	5,566,161
2039	-	5,566,161	5,566,161
2040	-	5,566,161	5,566,161
2041	<u>91,222,698</u>	<u>3,368,592</u>	<u>94,591,290</u>
	<u>\$ 799,934,779</u>	<u>\$ 496,328,669</u>	<u>\$ 1,296,263,448</u>

The weighted average interest rate used for all currently outstanding bond resolutions for future interest payment projections was 2.01%. This estimate is inherently subjective and the rate may change significantly in the future.

As outlined in the 2008-1 General Resolution, the 2010-1 General Resolution, the 2013-1 General Resolution and the 2015-1 General Resolution, the Corporation is making either optional redemption payments or principal distributions to pay down the bonds when they receive excess revenues from the student loans receivable. At June 30, 2020, the Corporation estimated they would make optional redemption or principal distribution payments for the next fiscal year in the amount of approximately \$78,254,000.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 9. Notes Payable - Finance Loans

Each bond resolution of the Authority requires that all funds advanced to the Corporation 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 the Corporation from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009. Since the bonds for the 2009 PAL General Resolution were issued after the peak Student Loan Funding period, the Corporation was only able to finance new student loans of approximately \$40,000,000, while the bonds outstanding were \$85,000,000. Due to market conditions during the fiscal year ended June 30, 2010 and restrictions on types of investment instruments available to the Authority, interest earned on its investments from the excess funds received from the bond issuance was less than the interest expense of the bonds. During October 2013, the Corporation contributed \$6,717,492 of PAL Program loans from its unrestricted portfolio to the 2009 PAL General Resolution. During July 2018, the Corporation made a loan contribution of PAL Program loans to the 2009 PAL General Resolution in the amount of \$11,227,151. The net asset balance was \$9,642,809 at June 30, 2020. The notes payable - finance loan balance as of June 30, 2020 was \$19,599,897.

Note 10. Special Allowance Income or Expense

Special allowance was instituted to ensure the interest rate and other limitations of the Higher Education Act, in the context of the 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, 2020, the Corporation remitted \$13,095,983 of interest income in excess of the special allowance support level to the USDE.

Note 11. Employee Benefit Plans

Effective August 1, 2015, the Corporation changed the trustee for its benefit plans from BB&T or TIAA CREF to USI Consulting Group Inc. This change included the South Carolina Student Loan Corporation Money Purchase Pension Plan, the South Carolina Student Loan Corporation Defined Benefit Plan, the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan, the South Carolina Student Loan Corporation Tax Deferred Annuity Group Supplemental Retirement Annuity and the South Carolina Student Loan Corporation 457(b) Deferred Compensation Plan. However, any contributions to the South Carolina Student Loan Corporation Tax Deferred Annuity ("TDA") Group Supplemental Retirement Annuity ("GSRA") prior to July 1, 2015 remain in that plan with the prior trustee, TIAA CREF, until paid out to the participant under the terms of a release or transferred to another qualified plan as directed by the participant and allowed by the annuity terms.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 11. Employee Benefit Plans, Continued

Money Purchase Pension Plan:

The Corporation provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan ("MPPP") for all employees who have completed one year of service and attained age twenty-one. The MPPP was originally established on July 1, 1975. 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 annually. A participant is 20% vested after two years of service and 100% vested after six years of service. 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 of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Forfeitures under the plan reduce the employer's contribution during the year following the plan year in which the forfeiture occurs. Contributions within the plan are employee self-directed. The total retirement expense for the fiscal year ended June 30, 2020 was \$157,049 and is fully funded. The MPPP experienced a partial termination on August 18, 2016 and October 17, 2017 due to the reduction in workforce at the Corporation. Therefore, all contributions to the MPPP were immediately 100% vested for affected employees.

403(b) Defined Contribution Plan:

Effective July 1, 2015, the Corporation consolidated the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan and the South Carolina Student Loan Corporation TDA GSRA into a single plan known as the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan ("403(b) DC Plan"). The 403(b) DC Plan continues to offer the same provisions as the previous separate plans, but is now administered under one plan for both the non-elective and pre-tax deferral contribution types.

Prior to the consolidation, the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan, as established on November 5, 2002 and subsequently amended on January 1, 2009, provided for the non-elective type of contribution. The 403(b) DC Plan continued to provide for a 5% contribution based on the participant's total annual compensation; however, the Board of Directors voted on May 5, 2017 to set this annual contribution to 0% until further action by the Board of Directors. All employees who have completed one year of service and attainment of age twenty-one are eligible to receive employer contributions. Contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

Established on January 1, 1995 and subsequently amended on January 1, 2009, the South Carolina Student Loan Corporation TDA GSRA provided the pre-tax deferral (elective) type of contribution. As a part of the 403(b) DC Plan beginning July 1, 2015, employees continue to be eligible to participate in the elective portion of the 403(b) DC Plan upon hire. Employee participation in this plan is voluntary and funded only through employee contributions. Employee contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

457(b) Deferred Compensation Plan:

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

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 11. Employee Benefit Plans, Continued

Defined Benefit Pension Plan:

The Corporation established the South Carolina Student Loan Defined Benefit Plan ("DBP") on July 1, 1998. The DBP covered substantially all employees with a minimum of one year of service and twenty-one years of age. The DBP 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 thirty 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 this plan. During November 2018, the Corporation's Board of Directors approved the de-risking of the DBP. This process was completed during May 2019. Related settlement accounting was recognized during the fiscal year ended June 30, 2019. The following sets forth the benefit obligation, the fair value of plan assets, and the funded status of the Corporation's plan, as well as the amounts recognized in the Corporation's consolidated financial statements at June 30, 2020:

Change in projected benefit obligation:	
Projected benefit obligation at June 30, 2019	\$ 4,944,415
Service cost	175,231
Interest cost	175,281
Actuarial loss	770,636
Benefits paid	<u>(32,269)</u>
Projected benefit obligation at June 30, 2020	<u>\$ 6,033,294</u>
Change in fair value of plan assets:	
Fair value of plan assets at June 30, 2019	\$ 6,588,731
Actual return on assets	158,608
Benefits paid	<u>(32,269)</u>
Fair value of plan assets at June 30, 2020	<u>\$ 6,715,070</u>
Funded status	<u>\$ 681,776</u>
Amounts recognized in the Consolidated Statement of Financial Position:	
Non-current assets	<u>\$ 681,776</u>
Amounts recognized in the Consolidated Statement of Activities:	
Net loss	<u>\$ 1,888,144</u>

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 11. Employee Benefit Plans, Continued

Defined Benefit Pension Plan, continued:

The following are weighted average assumptions used to determine benefits, obligations and net periodic benefit cost as of June 30, 2020 and 2019. The measurement date of the projected benefits obligation and plan assets was June 30, 2020.

	<u>2020</u>	<u>2019</u>
Assumptions used		
Weighted-average assumptions used to determine benefit obligations		
Discount rate	2.78 %	3.57 %
Rate of compensation increase	4.00 %	4.00 %
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	3.57 %	4.17 %
Expected return on plan assets	7.00 %	7.00 %
Rate of compensation increase	4.00 %	4.00 %

The Corporation's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's 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 for the year ended June 30, 2020 are as follows:

Net periodic benefit cost	
Service cost	\$ 175,231
Interest cost	175,281
Expected return on plan assets	(457,058)
Amortization of unrecognized net (gain) or loss	<u>43,927</u>
Total benefit cost	(62,619)
Administrative expenses	<u>(59,965)</u>
Net periodic benefit cost	<u>\$ (122,584)</u>
Employee benefit - related changes other than net periodic benefit cost	<u>\$ 1,025,159</u>
Total net periodic benefit cost and employee benefit - related changes other than net periodic benefit cost	<u>\$ 902,575</u>

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 11. Employee Benefit Plans, Continued

Defined Benefit Pension Plan, continued:

The net pension loss for the DBP totaled \$902,575 plus \$59,965 of administrative expenses, totaling \$962,540 for the fiscal year ended June 30, 2020. The accumulated benefit obligation for the DBP was \$5,194,601 at June 30, 2020.

The DBP experienced a partial termination on August 18, 2016 due to the reduction in workforce at the Corporation. Therefore, all contributions to the DBP were immediately 100% vested for affected employees. The DBP's plan assets include life insurance policies and mutual funds. See the target asset allocation below.

The Corporation's target asset allocation as of June 30, 2020, by asset category, is as follows:

Money market	1.43%
Debt securities	29.22%
Equity securities	55.62%
Insurance policies	<u>13.73%</u>
	<u>100.00%</u>

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 asset allocation percentages (shown above) by major asset categories.

The objectives of the target asset 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.

The Corporation does not expect to make contributions to its DBP during the fiscal year ending June 30, 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the fiscal years ending June 30:

2021	\$	136,000
2022		148,000
2023		159,000
2024		192,000
2025		196,000
2026 – 2030		1,369,000

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 12. Rental Property, Operating Leases and Commitments

The Corporation owns and conducts its business from an office building in the northeast area of Columbia, South Carolina. The entire building is utilized by the Corporation. However, prior to the Authority and Corporation establishing a contractual relationship effective July 1, 2017, certain lease expense was charged to the Authority based on space occupied in the building. In addition, the Corporation leases mail room equipment for terms of thirty-six to sixty month periods. Required minimum lease payments are \$11,996 for the fiscal year ending June 30, 2020. During the fiscal year ended June 30, 2020, the Corporation terminated its lease agreement for mail room equipment and its last lease payment was made during July 2020.

Note 13. Assets Released from Restrictions

Net assets during the fiscal year ended June 30, 2020 were released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of other events specified as follows:

Interest on debt	\$ 26,218,932
Payments to South Carolina State Education Assistance Authority for student loan income	1,270,881
Loan fees	4,661,870
Reinsurance expense	1,012,767
Borrowers incentives	3,227,813
Broker dealer fees	224,669
Loan loss expense	<u>3,137,692</u>
Total expenses	39,754,624
Transfer from taxable bonds/financings for loan servicing	<u>9,847,299</u>
Total	<u>\$ 49,601,923</u>

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 14. Disclosures About Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1: Observable, unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets and inputs other than quoted prices, such as interest rates, yield curves and prepayment speeds.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 compared to the prior year.

Cash and cash equivalents' carrying amounts approximate fair value because of the short maturity of those instruments. The fair value of the investments is based on quoted market rates or similar quoted market rates. Management believes that the student loans receivable's carrying value approximates fair value based on like sale of student loans within the industry. Management also believes that debt instruments' carrying value approximates fair value based on the prices for the same or similar debt issues and on current rates offered to the Corporation for debt of the same remaining maturities with similar collateral requirements.

	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Financial assets		
Cash and cash equivalents	\$ 44,593,587	\$ 44,593,587
Cash and cash equivalents - TLP	19,129,213	19,698,829
Investments	163,706,881	202,463,035
Student loans receivable, net	1,115,828,592	1,115,828,592
Teacher loans receivable, net	30,766,467	30,766,467
Financial liabilities		
Notes payable	19,599,897	19,599,897
Bonds payable, net	782,540,026	782,540,026

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 14. Disclosures About Fair Value of Financial Instruments, Continued

	<u>June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash and cash equivalents	\$ 44,593,587	\$ 44,593,587	\$ -	\$ -
Cash and cash equivalents – TLP	19,698,829	19,698,829	-	-
Insured deposits/repurchase obligations	61,110,913	61,110,913	-	-
Mutual funds	5,060,910	5,060,910	-	-
Corporate stocks and bonds	136,291,212	-	136,291,212	-
Student loans receivable, net	1,115,828,592	-	1,115,828,592	-
Teacher loans receivable, net	30,766,467	-	30,766,467	-
Total financial assets	<u>\$ 1,413,350,510</u>	<u>\$ 130,464,239</u>	<u>\$ 1,282,886,271</u>	<u>\$ -</u>
Financial liabilities				
Notes payable	\$ 19,599,897	\$ -	\$ 19,599,897	\$ -
Bonds payable, net	<u>782,540,026</u>	<u>-</u>	<u>782,540,026</u>	<u>-</u>
Total financial liabilities	<u>\$ 802,139,923</u>	<u>\$ -</u>	<u>\$ 802,139,923</u>	<u>\$ -</u>

Note 15. Board Designated Net Assets

During the fiscal year ended June 30, 2006, the Board of Directors designated funds to establish the Mackie Scholarship Fund to award scholarships to employees or family members of employees. At the August 14, 2018 Board of Directors meeting, the Board of Directors effectively ended the program and these monies are no longer restricted for the purpose of making future scholarships.

During the fiscal year ended June 30, 2019, the Board of Directors established Power:Ed as an arm of the Corporation to assist in fulfilling some of the Corporation's philanthropic initiatives. Power:Ed's mission is to support educational priorities in South Carolina with the goal of getting more South Carolinians prepared for the workforce. To date, the Corporation has designated \$15,000,000 to Power:Ed for its future endeavors.

Note 16. Contingencies

The 2019 novel coronavirus ("COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Corporation's and its customers' costs, demand for the Corporation's products and services, and the U.S. economy. These conditions could adversely affect the Corporation's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Corporation's operations or other businesses of the Corporation's customers and suppliers, which could significantly disrupt the Corporation's operations and the operations of the Corporation's customers. The extent of the adverse impact of the COVID-19 outbreak on the Corporation cannot be predicted at this time.

South Carolina Student Loan Corporation

Notes to Consolidated Financial Statements

June 30, 2020

Note 17. Teacher Loan Program Fiscal Year 2020 Activity

As discussed in Note 1, the Corporation is the administrator for the TLP. For the fiscal year ended June 30, 2020, the Corporation received \$6,089,963 in appropriations from the State Department of Education for the purpose of issuing new teacher loans. Loans are cancelled at the greater of a specified dollar amount or 20% to 33 1/3% per year for each year of teaching in a critical subject and/or location as set forth in the South Carolina Code of Laws. These loans are repaid by the borrower in the event the borrower does not teach in a critical subject and/or location.

For the fiscal year ended June 30, 2020, the TLP cancelled \$4,979,897 of teacher loans. The activities of the TLP are summarized below:

Revenues:

Subsidized student loan interest	\$	8
Unsubsidized student loan interest		1,749,658
Late charges		44,541
Miscellaneous payments of student loans		9
State appropriations - State Department of Education		6,089,963
Investment income		333,446
Other		402,388
		<u>8,620,013</u>

Expenses:

Contractual services		601,885
Borrower incentives		8,537
TLP cancellations		4,979,897
		<u>5,590,319</u>

Additions to payable to the State

3,029,694

Payable to the State, beginning

50,660,027

Payable to the State, ending

\$ 53,689,721

Note 18. Subsequent Events

On August 20, 2020, the Corporation issued \$92,710,000 of Student Loan Backed Notes, Senior Series 2020A ("Series 2020A Taxable Bonds") under the 2020 Resolution. The proceeds of the Series 2020A Taxable Bonds will be used for the purpose of (i) financing Eligible Loans currently held on the Corporation's balance sheet, (ii) financing additional Eligible Loans during the Acquisition Period, (iii) financing deposits to the Debt Service Reserve Fund and the Capitalized Interest Fund, and (iv) paying the cost of issuing the Series 2020A Taxable Bonds.

South Carolina Student Loan Corporation

Consolidated Schedule of Financial Position By Fund - Without Restriction:

As of June 30, 2020

	Operating/SLC	Campus Partners	PIHI	SC3	Eliminations	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 7,963,772	\$ -	\$ 4,895	\$ 5,002	\$ -	\$ 7,973,669
Investments	203,703,035	-	(540,000)	(700,000)	-	202,463,035
Current portion of student loans receivable	10,325,695	-	-	-	-	10,325,695
Interest due from borrowers	2,112,505	-	-	-	-	2,112,505
Accounts receivable	8,279	-	-	-	-	8,279
Due from subsidiaries	112,288	-	(112,288)	-	-	-
Due from servicers	100,310	-	-	-	-	100,310
Due from South Carolina State Education Assistance Authority	27,798	-	-	-	-	27,798
Prepaid expenses	531,188	-	-	-	-	531,188
Due from other funds	203,575	-	-	-	-	203,575
Total current assets	<u>225,088,445</u>	<u>-</u>	<u>(647,393)</u>	<u>(694,998)</u>	<u>-</u>	<u>223,746,054</u>
Long-term receivables and other assets						
Student loans receivable, net of current portion and allowance for loan loss for \$14,420,851	102,801,826	-	-	-	-	102,801,826
Overfunded defined benefit plan	681,776	-	-	-	-	681,776
Due from other funds	20,942,464	-	-	-	-	20,942,464
Total long-term receivables and other assets	<u>124,426,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,426,066</u>
Property and equipment						
Land	364,900	-	-	-	-	364,900
Building	4,358,670	-	-	-	-	4,358,670
Furniture and equipment	4,670,122	-	-	-	-	4,670,122
Automobiles	80,030	-	-	-	-	80,030
Less accumulated depreciation	(4,302,002)	-	-	-	-	(4,302,002)
Net property and equipment	5,171,720	-	-	-	-	5,171,720
Total assets	<u>\$ 354,686,231</u>	<u>\$ -</u>	<u>\$ (647,393)</u>	<u>\$ (694,998)</u>	<u>\$ -</u>	<u>\$ 353,343,840</u>
Liabilities and Net Assets						
Current liabilities						
Accounts payable	\$ 1,968,219	-	-	-	-	\$ 1,968,219
Unearned revenues	169,274	-	-	-	-	169,274
Customer refunds payable	7,246	-	-	-	-	7,246
Compensated absences	1,054,551	-	-	-	-	1,054,551
Due to United States Department of Education	55,222	-	(106,044)	106,044	-	55,222
Total current liabilities	<u>3,254,512</u>	<u>-</u>	<u>(106,044)</u>	<u>106,044</u>	<u>-</u>	<u>3,254,512</u>
Total liabilities	<u>3,254,512</u>	<u>-</u>	<u>(106,044)</u>	<u>106,044</u>	<u>-</u>	<u>3,254,512</u>
Net assets						
Board designated for Power:Ed	15,000,000	-	-	-	-	15,000,000
Undesignated	336,431,719	-	(541,349)	(801,042)	-	335,089,328
Total net assets	<u>351,431,719</u>	<u>-</u>	<u>(541,349)</u>	<u>(801,042)</u>	<u>-</u>	<u>350,089,328</u>
Total liabilities and net assets	<u>\$ 354,686,231</u>	<u>\$ -</u>	<u>\$ (647,393)</u>	<u>\$ (694,998)</u>	<u>\$ -</u>	<u>\$ 353,343,840</u>

South Carolina Student Loan Corporation
Consolidated Schedule of Financial Position by Fund - With Restriction:
As of June 30, 2020

	Teacher Loans	1996 Resolution	2008 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 2009 PAL Resolution	2015 Resolution	Total
Assets								
Current assets								
Cash and cash equivalents	\$ 19,698,829	\$ 12,891,372	\$ 3,535,957	\$ 14,162,800	\$ 3,486,077	\$ 33,294	\$ 2,510,418	\$ 56,318,747
Current portion of student loans receivable	-	23,024,826	6,232,421	14,340,045	3,624,915	3,110,750	11,062,565	61,395,522
Current portion of teacher loans receivable	3,083,159	-	-	-	-	-	-	3,083,159
Interest due from borrowers	3,877,485	13,467,712	5,095,039	13,241,952	6,137,195	324,514	1,968,797	44,112,694
Accounts receivable	10	-	-	-	-	-	-	10
Due from servicers	44,308	258,351	114,503	280,446	65,370	-	130,083	893,061
Due from South Carolina State Education Assistance Authority	260,380	-	-	-	-	310,280	-	570,660
Accrued investment income	-	1,267	343	1,573	43	-	-	3,226
Prepaid expenses	-	5,207	7,500	17,948	19,673	-	11,875	62,203
Due from (to) other funds	-	151,105	(38,959)	(140,523)	(53,102)	1,364	(123,460)	(203,575)
Total current assets	26,964,171	49,799,840	14,946,804	41,904,241	13,280,171	3,780,202	15,560,278	166,235,707
Long-term receivables and other assets								
Student loans receivable, net of current portion and allowance for loan loss of \$22,400,070	-	357,270,840	97,658,512	245,101,949	93,058,376	25,714,738	122,501,134	941,305,549
Teacher loans receivable, net of current portion and allowance for loan cancellations of \$10,248,037	27,683,308	-	-	-	-	-	-	27,683,308
Due to other funds	-	-	-	(20,942,464)	-	-	-	(20,942,464)
Total long-term receivables and other assets	27,683,308	357,270,840	97,658,512	224,159,485	93,058,376	25,714,738	122,501,134	948,046,393
Total assets	\$ 54,647,479	\$ 407,070,680	\$ 112,605,316	\$ 266,063,726	\$ 106,338,547	\$ 29,494,940	\$ 138,061,412	\$ 1,114,282,100
Liabilities and Net Assets								
Current liabilities								
Current maturities of notes payable - finance loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,110,750	\$ -	\$ 3,110,750
Current maturities of bonds payable	-	32,491,653	8,735,749	20,811,583	4,058,276	-	12,157,132	78,254,393
Interest payable	-	326,516	51,350	861,994	10,407	-	25,513	1,275,780
Accounts payable	(378)	-	-	-	-	-	-	(378)
Unearned revenues	-	-	-	-	-	252,234	-	252,234
Teacher loan liability	958,136	-	-	-	-	-	-	958,136
Due to United States Department of Education	-	1,131,158	455,390	1,826,007	890,816	-	97,836	4,401,207
Total current liabilities	957,758	33,949,327	9,242,489	23,499,584	4,959,499	3,362,984	12,280,481	88,252,122
Noncurrent liabilities								
Notes payable - finance loans, net of current maturities	-	-	-	-	-	16,489,147	-	16,489,147
Bonds payable, net of current maturities	-	301,767,449	36,908,438	211,899,786	85,978,043	-	67,731,917	704,285,633
Payable to the State of South Carolina	53,689,721	-	-	-	-	-	-	53,689,721
Due to South Carolina State Education Assistance Authority	-	-	-	39,835,008	-	-	-	39,835,008
Total noncurrent liabilities	53,689,721	301,767,449	36,908,438	251,734,794	85,978,043	16,489,147	67,731,917	814,299,509
Total liabilities	54,647,479	335,716,776	46,150,927	275,234,378	90,937,542	19,852,131	80,012,398	902,551,631
Net assets								
Bond indentures - current debt service	-	4,609,241	-	-	-	-	-	4,609,241
Bond indentures	-	66,744,663	66,454,389	(9,170,652)	15,401,005	9,642,809	58,049,014	207,121,228
Total net assets	-	71,353,904	66,454,389	(9,170,652)	15,401,005	9,642,809	58,049,014	211,730,469
Total liabilities and net assets	\$ 54,647,479	\$ 407,070,680	\$ 112,605,316	\$ 266,063,726	\$ 106,338,547	\$ 29,494,940	\$ 138,061,412	\$ 1,114,282,100

South Carolina Student Loan Corporation
Consolidated Schedule of Activities By Fund - Without Restrictions
For the year ended June 30, 2020

	Operating/SLC	Campus Partners	PIHI	SC3	Eliminations	Total
Revenues						
Income from United States Department of Education:						
Student loan interest - subsidized	\$ 100,520	\$ -	\$ -	\$ -	\$ -	\$ 100,520
Special allowances	(180,520)	-	-	-	-	(180,520)
Student loan interest - unsubsidized	6,780,033	-	-	-	-	6,780,033
Investment income	2,609,328	-	-	-	-	2,609,328
Unrealized loss on investments	(191,427)	-	-	-	-	(191,427)
Late charges	41,060	-	-	-	-	41,060
Miscellaneous payments of student loans	266	-	-	-	-	266
Remittance from South Carolina						
State Education Assistance Authority for operating costs	361,758	-	-	-	-	361,758
Miscellaneous income (loss)	118,213	(176,516)	-	-	-	(58,303)
Other income	576,269	-	-	-	-	576,269
Total revenues	<u>10,215,500</u>	<u>(176,516)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,038,984</u>
Expenses						
Personnel	4,216,941	-	-	-	-	4,216,941
Contractual services	4,991,199	-	2,544	-	-	4,993,743
General operating	2,316,008	-	1,255	-	-	2,317,263
Interest on debt	-	-	-	-	-	-
Teacher Loan Program cancellations	-	-	-	-	-	-
Payments to South Carolina State Education Assistance						
Authority for student loan income	-	-	-	-	-	-
Loan fees	69,491	-	-	-	-	69,491
Reinsurance expense	30,451	-	-	-	-	30,451
Borrower incentives	80,556	-	-	-	-	80,556
Broker dealer fees	-	-	-	-	-	-
Building expense	-	-	-	-	-	-
Loan loss expense	1,988,443	-	-	-	-	1,988,443
Recall - Governor's Teaching School Loan Program	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenses	<u>13,693,089</u>	<u>-</u>	<u>3,799</u>	<u>-</u>	<u>-</u>	<u>13,696,888</u>
Transfers between accounts						
Transfers in	62,975,254	-	-	-	-	62,975,254
Transfers out	(53,127,955)	-	-	-	-	(53,127,955)
Total transfers between accounts	<u>9,847,299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,847,299</u>
Changes in net assets						
	6,369,710	(176,516)	(3,799)	-	-	6,189,395
Net assets						
Beginning	345,062,009	176,516	(537,550)	(801,042)	-	343,899,933
Ending	<u>\$ 351,431,719</u>	<u>\$ -</u>	<u>\$ (541,349)</u>	<u>\$ (801,042)</u>	<u>\$ -</u>	<u>\$ 350,089,328</u>

South Carolina Student Loan Corporation

Consolidated Schedule of Activities by Fund - With Restrictions

For the year ended June 30, 2020

	Teacher Loans	1996 Resolution	2008 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 2009 PAL Resolution	2015 Resolution	Total
Revenues								
Income from United States Department of Education:								
Student loan interest - subsidized	\$ -	\$ 1,157,262	\$ 620,712	\$ 1,366,253	\$ 553,588	\$ 26,374	\$ 107,166	\$ 3,831,355
Special allowances	-	(1,854,592)	(1,792,614)	(5,774,699)	(3,190,601)	(5)	(302,952)	(12,915,463)
Student loan interest - unsubsidized	-	19,375,664	5,891,884	15,604,999	6,363,793	2,179,726	7,409,807	56,825,873
Investment income	-	198,303	78,103	210,336	45,717	-	55,665	588,124
Late charges	-	311,529	135,956	238,054	108,241	25,990	70,393	890,163
Miscellaneous payments of student loans	-	3,528	1,879	3,808	2,174	93	324	11,806
Total revenues	-	19,191,694	4,935,920	11,648,751	3,882,912	2,232,178	7,340,403	49,231,858
Expenses								
Interest on debt	-	10,023,518	1,737,433	8,319,254	2,215,863	-	3,922,864	26,218,932
Teacher Loan Program cancellations	-	-	-	-	-	-	-	-
Payments to South Carolina State Education Assistance Authority for student loan income	-	-	-	-	-	1,270,881	-	1,270,881
Loan fees	-	3,247,590	-	1,245,105	42,614	-	126,561	4,661,870
Reinsurance expense	-	363,921	110,255	271,939	207,930	9,581	49,141	1,012,767
Borrower incentives	-	1,687,600	233,319	1,017,596	54,282	76,509	158,507	3,227,813
Broker dealer fees	-	77,211	20,984	53,869	35,637	-	36,968	224,669
Building expense	-	-	-	-	-	-	-	-
Loan loss expense	-	-	-	-	-	792,625	2,345,067	3,137,692
Recall - Governor's Teaching School Loan Program	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total expenses	-	15,399,840	2,101,991	10,907,763	2,556,326	2,149,596	6,639,108	39,754,624
Transfers between accounts								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	(2,260,121)	(509,576)	(1,819,218)	(3,673,645)	-	(1,584,739)	(9,847,299)
Total transfers between accounts	-	(2,260,121)	(509,576)	(1,819,218)	(3,673,645)	-	(1,584,739)	(9,847,299)
Changes in net assets								
	-	1,531,733	2,324,353	(1,078,230)	(2,347,059)	82,582	(883,444)	(370,065)
Net assets								
Beginning	-	69,822,171	64,130,036	(8,092,422)	17,748,064	9,560,227	58,932,458	212,100,534
Ending	\$ -	\$ 71,353,904	\$ 66,454,389	\$ (9,170,652)	\$ 15,401,005	\$ 9,642,809	\$ 58,049,014	\$ 211,730,469

South Carolina Student Loan Corporation
Consolidated Schedule of Cash Flows By Fund - Without Restrictions
For the year ended June 30, 2020

	Operating/SLC	Campus Partners	PIHI	SC3	Total
Cash flows from operating activities					
Changes in net assets	\$ 6,369,710	\$ (176,516)	\$ (3,799)	\$ -	\$ 6,189,395
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:					
Depreciation	720,680	-	-	-	720,680
Unrealized loss on investments	191,427	-	-	-	191,427
Loan loss expense	1,988,443	-	-	-	1,988,443
Changes in operating assets and liabilities:					
Due from South Carolina State Education Assistance Authority	16,524	-	-	-	16,524
Interest due from borrowers	(935,733)	-	-	-	(935,733)
Accounts receivable	938,841	-	-	-	938,841
Due from United States Department of Education	36,871	-	-	-	36,871
Due from servicers	(103)	-	-	-	(103)
Accrued investment income	29,513	-	-	-	29,513
Due from subsidiaries	(2,544)	-	2,544	-	-
Prepaid expenses	(96,628)	-	-	-	(96,628)
Overfunded defined benefit plan	962,540	-	-	-	962,540
Due from other funds	94,017	-	-	-	94,017
Accounts payable	237,489	(1,353)	-	-	236,136
Unearned revenues	(54,306)	-	-	-	(54,306)
Compensated absences	39,659	-	-	-	39,659
Customer refunds payable	(24,919)	-	-	-	(24,919)
Due to United States Department of Education	49,396	-	-	-	49,396
Net cash provided by (used for) operating activities	<u>10,560,877</u>	<u>(177,869)</u>	<u>(1,255)</u>	<u>-</u>	<u>10,381,753</u>
Cash flows from investing activities					
Purchases of property and equipment	(427,792)	-	-	-	(427,792)
Net changes in student loans receivable	(18,361,403)	-	-	-	(18,361,403)
Net purchases of investments	4,387,683	-	-	-	4,387,683
Net cash provided by (used for) for investing activities	<u>(14,401,512)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,401,512)</u>
Cash flows from financing activities					
Net changes in notes payable - finance loans	-	(920,000)	-	-	(920,000)
Net cash provided by (used for) financing activities	<u>-</u>	<u>(920,000)</u>	<u>-</u>	<u>-</u>	<u>(920,000)</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,840,635)</u>	<u>(1,097,869)</u>	<u>(1,255)</u>	<u>-</u>	<u>(4,939,759)</u>
Cash and cash equivalents					
Beginning	11,804,407	1,097,869	6,150	5,002	12,913,428
Ending	<u>\$ 7,963,772</u>	<u>\$ -</u>	<u>\$ 4,895</u>	<u>\$ 5,002</u>	<u>\$ 7,973,669</u>
Supplemental disclosure of cash flow information					
Cash payments for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of fully depreciated property and equipment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

South Carolina Student Loan Corporation
Consolidated Schedule of Cash Flows By Fund - With Restrictions
For the year ended June 30, 2020

	Teacher Loans	1996 Resolution	2008 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 2009 PAL Resolution	2015 Resolution	Total
Cash flows from operating activities								
Changes in net assets	\$ -	\$ 1,531,733	\$ 2,324,353	\$ (1,078,230)	\$ (2,347,059)	\$ 82,582	\$ (883,444)	\$ (370,065)
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:								
Amortization of bond discounts and cost of issuance	-	287,941	-	650,066	84,240	-	708,722	1,730,969
Loan loss expense	-	-	-	-	-	792,625	2,345,067	3,137,692
Changes in operating assets and liabilities:								
Due from South Carolina State Education								
Assistance Authority	(70,221)	-	-	-	-	61,956	784	(7,481)
Interest due from borrowers	108,872	(1,024,743)	(436,651)	(1,199,009)	(375,599)	5,429	194,560	(2,727,141)
Accounts receivable	8,565	-	-	-	-	-	-	8,565
Due from United States Department of Education	84	689,344	-	-	-	-	-	689,428
Due from servicers	(18,109)	170,461	45,266	158,762	110,734	-	(12,517)	454,597
Accrued investment income	-	(1,267)	6,006	35,135	8,470	-	-	48,344
Prepaid expenses	-	(43)	(7,500)	1,303	862	-	4	(5,374)
Due to other funds	2,129	(32,232)	(8,120)	(25,376)	(10,718)	(470)	(17,101)	(91,888)
Interest payable	-	(760,790)	(155,086)	(1,072,662)	(42,347)	-	(47,764)	(2,078,649)
Accounts payable	(13,428)	-	-	-	-	-	-	(13,428)
Unearned revenues	-	-	-	-	-	(151,179)	-	(151,179)
Teacher loan liability	(114,205)	-	-	-	-	-	-	(114,205)
Payable to the State of South Carolina	3,029,693	-	-	-	-	-	-	3,029,693
Due to United States Department of Education	-	836,551	391,472	1,247,381	441,473	-	84,072	3,000,949
Net cash provided by (used for) operating activities	2,933,380	1,696,955	2,159,740	(1,282,630)	(2,129,944)	790,943	2,372,383	6,540,827
Cash flows from investing activities								
Net changes in student loans receivable	-	70,324,743	21,653,812	46,832,065	19,800,942	6,290,500	18,789,698	183,691,760
Net changes in teacher loans receivable	772,882	-	-	-	-	-	-	772,882
Net cash provided by (used for) investing activities	772,882	70,324,743	21,653,812	46,832,065	19,800,942	6,290,500	18,789,698	184,464,642
Cash flows from financing activities								
Net changes in notes payable - finance loans	-	-	-	-	-	(7,081,913)	-	(7,081,913)
Net payments on bonds payable	-	(75,090,559)	(24,726,582)	(53,115,261)	(17,759,387)	-	(21,733,394)	(192,425,183)
Net cash provided by (used for) financing activities	-	(75,090,559)	(24,726,582)	(53,115,261)	(17,759,387)	(7,081,913)	(21,733,394)	(199,507,096)
Net increase (decrease) in cash and cash equivalents	3,706,262	(3,068,861)	(913,030)	(7,565,826)	(88,389)	(470)	(571,313)	(8,501,627)
Cash and cash equivalents								
Beginning	15,992,567	15,960,233	4,448,987	21,728,626	3,574,466	33,764	3,081,731	64,820,374
Ending	\$ 19,698,829	\$ 12,891,372	\$ 3,535,957	\$ 14,162,800	\$ 3,486,077	\$ 33,294	\$ 2,510,418	\$ 56,318,747
Supplemental disclosure of cash flow information								
Cash payments for interest	\$ -	\$ 10,496,366	\$ 1,892,518	\$ 8,741,849	\$ 2,173,971	\$ -	\$ -	\$ 23,304,704
Disposal of fully depreciated property and equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

South Carolina Student Loan Corporation**Consolidated Schedule of Property and Equipment****For the year ended June 30, 2020**

	Balance as of June 30, 2019	Additions	Disposals	Balance as of June 30, 2020
Cost				
Land	\$ 364,900	\$ -	\$ -	\$ 364,900
Total land	364,900	-	-	364,900
Building	4,358,670	-	-	4,358,670
Total buildings	4,358,670	-	-	4,358,670
SCSLC furniture and fixtures	4,517,229	427,792	(274,899)	4,670,122
SCSLC automobiles	80,030	-	-	80,030
Cost total	9,320,829	427,792	(274,899)	9,473,722
Accumulated depreciation				
Building	843,757	111,761	-	955,518
Total buildings	843,757	111,761	-	955,518
SCSLC furniture and fixtures	2,932,434	608,919	(274,899)	3,266,454
SCSLC automobiles	80,030	-	-	80,030
Accumulated depreciation total	3,856,221	720,680	(274,899)	4,302,002
Net book value	\$ 5,464,608	\$ (292,888)	\$ -	\$ 5,171,720

South Carolina Student Loan Corporation

Schedule of Expenses for the Operating Fund

For the year ended June 30, 2020

	Operating/SLC	
	2020	2019
Operating expenses		
Personnel		
Staff salaries	\$ 2,646,209	\$ 2,426,618
Social security	163,815	159,827
Group insurance	192,616	179,813
Retirement	1,192,842	1,265,384
Unemployment	21,459	20,310
Total personnel	<u>4,216,941</u>	<u>4,051,952</u>
Contractual		
Information technology	984,416	771,567
Third party servicing fees	3,045,095	3,503,345
Legal and professional	641,108	435,399
Accounting	156,859	165,835
Skip tracing	875	1,500
Credit bureau	63,611	60,154
Loan servicing	99,235	95,838
Total contractual	<u>4,991,199</u>	<u>5,033,638</u>
General operating		
Telephone	65,110	81,220
Printing	8,207	12,347
Postage	9,967	25,840
Supplies	10,784	15,398
Travel	17,599	27,945
Equipment maintenance	28,317	42,509
Subscriptions and fees	125,989	102,395
Meeting and conference expenses	227,834	208,511
Insurance - general and automotive	63,605	63,490
Outreach and awareness	360,275	295,345
Depreciation	720,680	587,654
Building expense	184,594	190,487
Third party collections	68,390	91,355
Other operating expense and contingencies	424,657	42,882
Total general operating	<u>2,316,008</u>	<u>1,787,378</u>
Total personnel, contractual services and general operating expenses	<u>\$ 11,524,148</u>	<u>\$ 10,872,968</u>

South Carolina Student Loan Corporation

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education Programs		
Federal Family Education Loan Program		
Special allowances (See Note 2 below)	84.032	See Note 2 Below
Subsidized interest	84.032	<u>\$ 3,931,875</u>
Total U.S. Department of Education Programs (Major program)		<u>\$ 3,931,875</u>

Notes to the Schedule of Expenditures of Federal Awards:

1. Summary of Significant Accounting Policies: This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The financial activity shown in this schedule reflects amounts recorded by the Corporation during the fiscal year ended June 30, 2020.
2. Special Allowances: The USDE now requires lenders to pay the USDE when lenders have negative special allowance. The Corporation paid \$13,095,983 during the fiscal year ended June 30, 2020.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance with *Government Auditing Standards***

To the Board of Directors
South Carolina Student Loan Corporation
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 consolidated financial statements of South Carolina Student Loan Corporation (the "Corporation"), as of and for the year ended June 30, 2020, and the related notes to the consolidated financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

Elliott Davis, LLC

Columbia, South Carolina
September 30, 2020

**Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We were engaged to audit South Carolina Student Loan Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2020. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit, conducted in accordance with auditing standards generally accepted in the United States of America, of the types of compliance requirements referred to above.

Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance for the Corporation's major federal program.

Basis for Disclaimer of Opinion on Federal Family Education Loan Program - Lenders

As permitted in the *OMB Compliance Supplement*, the Corporation elected to use a third-party servicer to administer the requirements governing Special Tests and Provisions one through nine in accordance with the requirements of the Federal Family Education Loan Program - Lenders. Those requirements govern functions performed by National Education Loan Network, Inc. ("Nelnet"). Nelnet obtained a compliance attestation engagement under the January 2011 *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* ("Lender Servicer Audit Guide") for the year ended December 31, 2019. We did not perform any auditing procedures with respect to the Lender Servicer Audit Guide, except for confirming that the audit period of Nelnet's compliance attestation engagement for the year ended December 31, 2019 was completed timely. Since the audit period of Nelnet is different than that of the Corporation, we also obtained a representation from Nelnet that they have engaged (or will engage) an auditor to perform the required audit under the Lender Service Audit Guide for the immediate subsequent audit period.

Likewise, we confirmed that Nelnet's compliance attestation engagement for the year ended December 31, 2019, together with its compliance attestation engagement for the year ended December 31, 2020, covers the Corporation's audit engagement for the year ended June 30, 2020. Our report does not include the results of the auditor's examination of Nelnet's compliance with such requirements.

Disclaimer of Opinion on Federal Family Education Loan Program - Lenders

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Corporation's compliance with the requirements of the Federal Family Education Loan Program - Lenders.

Other Matter

The results of our auditing procedures disclosed a matter which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001. As described in the *Basis for Disclaimer of Opinion* paragraphs above, this matter resulted in a disclaimer of opinion on the major federal program.

The Corporation's response to the disclosed matter identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Elliott Davis, LLC

Columbia, South Carolina
September 30, 2020

South Carolina Student Loan Corporation

Schedule of Findings and Questioned Costs

June 30, 2020

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? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

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

Type of auditor's report issued on compliance for major federal programs: Disclaimer

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance? Yes (See Section III.)
 No

Identification of major federal programs:

<u>CFDA No.</u>	<u>Program / Cluster Name</u>
84.032	Federal Family Education Loan Program (Lenders)

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II. Financial Statement Findings

None reported

South Carolina Student Loan Corporation

Schedule of Findings and Questioned Costs

June 30, 2020

Section III. Federal Award Findings and Questioned Costs

Item 2020-001: United States Department of Education, Federal Family Education Loan Program - Lenders - CFDA No. 84.032, For the Fiscal Year Ended June 30, 2020

Condition: The Corporation elected to use a third-party servicer organization to service its Federal Family Education Loan Program - Lenders ("FFEL Program") loan portfolio and perform the corresponding lender functions. As such, we issued a disclaimer of opinion related to the Corporation's compliance with requirements one through nine of the FFEL Program's Special Tests and Provisions as reflected in the *OMB Compliance Supplement* as a result of the scope limitation.

Criteria: The FFEL Program's Special Tests and Provisions are as follows: Individual Record Review; Interest Benefits; Special Allowance Payments, Loan Sales, Purchases, and Transfers; Enrollment Reports; Payment Processing; Due Diligence in Collection of Delinquent Loans; Timely Claim Filings; and Curing Due Diligence and Timely Filing Violations.

Context: Part 4-84.032-L of the *OMB Compliance Supplement* allows auditors of lenders to exclude coverage of compliance requirements performed by a third-party servicer, provided that the auditor has determined that the third-party servicer has obtained an audit under the January 2011 *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* ("Lender Servicer Audit Guide") for the entire audit period of the lender. If the third-party servicer has a different audit period, the auditor of the lender must determine that the most recently required audit of the third-party servicer under the Lender Servicer Audit Guide has been completed timely, and must obtain representation from the third-party servicer that it has engaged (or will engage) an auditor to perform the required audit under the Lender Servicer Audit Guide for the immediate subsequent period. The auditor of the lender must confirm that the audit period of the prior third-party servicer audit, covers the entire audit period of the lender's audit. If the auditor excludes coverage of the requirements performed by a third-party servicer, the *Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance* must clearly describe the compliance requirements for which coverage has been excluded, name the third-party servicer that performed those compliance requirements, state that the third-party servicer has obtained an audit performed under the Lender Servicer Audit Guide issued by the United States Department of Education and specify the period of that audit.

Cause: The Special Tests and Provisions requirements are performed by a third-party servicer organization.

Effect: The Special Tests and Provisions requirements were not tested by the Corporation's external auditor for the fiscal year ended June 30, 2020 since such requirements are performed by the third-party servicer organization.

Recommendation: Management should continue to monitor the third-party servicer's audit reports to ensure the Special Tests and Provisions requirements are audited each year and that the audits are performed timely.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this recommendation and will continue to monitor the third-party servicer's audit reports.

South Carolina Student Loan Corporation

Summary Schedule of Prior Audit Findings

June 30, 2020

Item 2019-001: United States Department of Education, Federal Family Education Loan Program - Lenders - CFDA No. 84.032, For the Fiscal Year Ended June 30, 2019

Condition: The Corporation elected to use a third-party servicer organization to service its Federal Family Education Loan Program - Lenders (“FFEL Program”) loan portfolio and perform the corresponding lender functions. As such, we issued a disclaimer of opinion related to the Corporation’s compliance with requirements one through nine of the FFEL Program’s Special Tests and Provisions as reflected in the *OMB Compliance Supplement* as a result of the scope limitation.

Recommendation: We recommended that management should continue to monitor the third-party servicer’s audit reports to ensure the Special Tests and Provisions requirements are audited each year and that the audits are performed timely.

Current Status: The third-party servicer’s compliance with the Special Tests and Provisions requirements was audited for the year ended December 31, 2019 and completed on February 17, 2020. The third-party servicer confirmed that it has engaged an audit firm to perform the audit under the January 2011 *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* for the year ending December 31, 2020. Management elected to continue to use a third-party servicer to service the Corporation’s FFEL Program loan portfolio and perform the corresponding lender function. See Item 2020-001 within the Schedule of Findings and Questioned Costs.