



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STUDENT ASSISTANCE COMMISSION

**Financial Audit
 For the Year Ended June 30, 2016**

Release Date: January 24, 2017

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2009			16-01
Category 2:	0	0	0				
Category 3:	<u>0</u>	<u>1</u>	<u>1</u>				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

The Illinois Student Assistance Commission's (Commission) financial audit report consists of two sets of financial statements which are the financial statements of the Illinois Student Assistance Commission and the financial statements of the Illinois Prepaid Tuition Program (Program), a major fund of the Commission. Included in the financial statements of the Illinois Student Assistance Commission is the major fund for the Illinois Designated Account Purchase Program (IDAPP). This report covers our financial audit of the Commission as of June 30, 2016 and for the year then ended.

SYNOPSIS

- (16-01) The Commission - IDAPP was not in compliance with two of the covenants relating to the Commission's revolving line of credit agreement.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page}

ILLINOIS STUDENT ASSISTANCE COMMISSION
FINANCIAL AUDIT
For the Year Ended June 30, 2016 (in thousands)

STATEMENT OF NET POSITION	2016	2015
Unrestricted assets		
Unexpended appropriations.....	\$ 839	\$ 357
Cash and cash equivalents.....	109,985	105,192
Investments.....	965,454	1,023,598
Receivables.....	81,555	89,775
Securities lending collateral	23,638	34,827
Capital assets, net.....	13,020	13,743
Due from other State funds and component units.....	330	333
Restricted assets		
Cash and cash equivalents.....	16,709	19,492
Student loan and other receivables, net.....	423,955	492,615
Total.....	<u>1,635,485</u>	<u>1,779,932</u>
Deferred Outflows of Resources		
Pension related amounts.....	42,725	12,876
Total.....	<u>42,725</u>	<u>12,876</u>
Liabilities		
Accounts payable and accrued liabilities.....	15,318	17,571
Due to other State funds and component units.....	778	690
Securities lending collateral obligation.....	23,638	34,827
Line of credit.....	158,257	183,557
Revenue bonds payable.....	226,761	270,397
Tuition obligation.....	1,230,799	1,320,202
Other.....	100,056	112,869
Total.....	<u>1,755,607</u>	<u>1,940,113</u>
Deferred Inflows of Resources		
Unamortized deferred amount on refunding.....	41,099	45,141
Pension related amounts.....	41,221	7,728
Total.....	<u>82,320</u>	<u>52,869</u>
Net position		
Net investment in capital assets.....	13,020	13,743
Restricted.....	52,958	50,020
Unrestricted.....	(225,695)	(263,937)
Total.....	<u>\$ (159,717)</u>	<u>\$ (200,174)</u>

STATEMENT OF ACTIVITIES	2016	2015
Expenses		
Scholarships, awards and grants.....	\$ 181,968	\$ 376,283
Student loan purchase program.....	13,960	14,821
Prepaid tuition.....	57,776	27,930
Loan guarantee program.....	150,121	159,977
Total.....	<u>403,825</u>	<u>579,011</u>
Program revenues		
Charges for services.....	75,196	84,508
Operating grants and contributions.....	174,954	174,553
Total.....	<u>250,150</u>	<u>259,061</u>
Net program revenues.....	<u>(153,675)</u>	<u>(319,950)</u>
General revenues		
Appropriations from State resources.....	177,790	376,730
Other.....	(1,434)	(3,134)
Total.....	<u>176,356</u>	<u>373,596</u>
Change in net position.....	<u>\$ 22,681</u>	<u>\$ 53,646</u>

AGENCY EXECUTIVE DIRECTOR

During Audit Period: Mr. Eric Zarnikow
Currently: Mr. Eric Zarnikow

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

DEBT COVENANT VIOLATION

Noncompliance with debt covenants The Commission - IDAPP was not in compliance with two of the covenants relating to the agency's revolving line of credit agreement.

Coverage condition and default ratios were not maintained During our audits of the fiscal year 2009 through 2016 financial statements, we noted that IDAPP was in violation of one or more debt covenants related to the agency's revolving credit (loan) agreement. In addition, the facility matured on July 27, 2010 and has not been repaid. Per the agreement, the minimum required coverage condition ratio is 104%. We reviewed monthly reports and noted that 9 months fell under this ratio, ranging from 103.24% to 103.91%. Also per the agreement, the default ratio is set at a maximum of 6.25%. We reviewed monthly reports and noted 9 months fell above this ratio, ranging from 8.04% to 11.02%.

Lender has right to call loan but has not communicated any intent to exercise remedies available As a result of the debt covenant violation and the maturity of the facility, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the event of default and the maturity of the loan and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. The balance of the line of credit with the bank was \$158,256,827 at June 30, 2016.

According to Commission management, the coverage condition and default issues are due to the poor performance of the portfolio. The portfolio continues to experience a high level of delinquent accounts. The line of credit has not been refinanced because of the conditions in the private loan credit market. (Finding 1, page 149) **This finding was first reported in 2009.**

Commission agrees with auditors Commission officials accepted our recommendation to continue to monitor the loan covenant violations and continue seeking remedies from the lender involved. (*For the previous Commission response, see Digest Footnote #1.*)

AUDITOR'S OPINION

Our auditors stated the financial statements of the Commission as of June 30, 2016 and for the year then ended are fairly presented in all material respects. Auditors included a paragraph emphasizing that the Program has a deficit of \$215 million as of June 30, 2016.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:CSW

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were RSM US LLP.

DIGEST FOOTNOTES

#1 - DEBT COVENANT VIOLATION

2015 – We agree with the recommendation. The loan covenants are reviewed on a monthly basis. We continue to talk to Citibank about the portfolio.