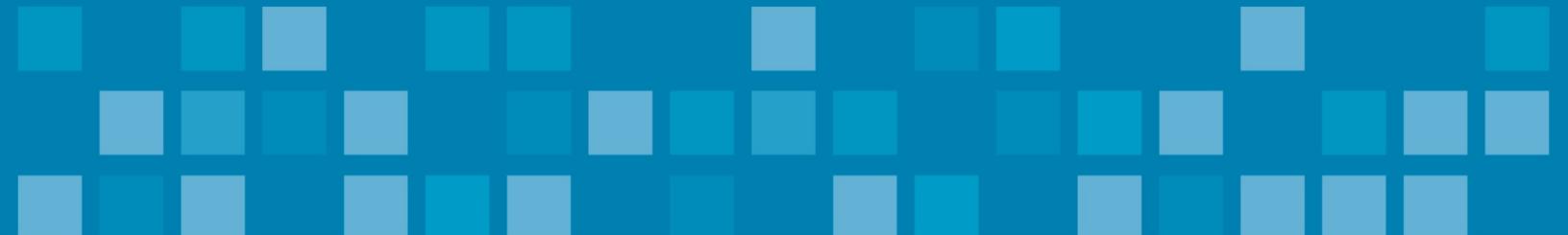


**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

Financial Audit  
For the Year Ended June 30, 2013

Performed as Special Assistant Auditors for the  
Auditor General, State of Illinois



**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**  
**Financial Audit**  
**For the Year Ended June 30, 2013**

**Table of Contents**

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	Page
Agency Officials	1
Financial Statement Report	
Summary	2
Independent Auditor's Report	3 – 4
Financial Statements	
Statement of Net Position	5 – 6
Statement of Revenues, Expenses, and Changes in Fund Net Position	7
Statement of Cash Flows	8 – 9
Notes to Financial Statements	10 – 24
Supplemental Information	
Schedule of Bonds Outstanding	25 - 26
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 - 28
Schedule of Findings	29 - 30
Prior Findings Not Repeated	31

**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

**Agency Officials**

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Executive Director	Eric Zarnikow
Chief Financial Officer	Shoba Nandhan
Deputy Chief Financial Officer	Brian Begrowicz
General Counsel	Annie Pike through October 11, 2013
Acting General Counsel	Karen Salas beginning October 12, 2013

Agency offices are located at:

1755 Lake Cook Road  
Deerfield, IL 60015-5209  
(847) 948-8500

**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

**Financial Statement Report**

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**Summary**

The audit of the accompanying financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission (IDAPP) was performed by McGladrey LLP.

Based on their audit, the auditors expressed an unmodified opinion on IDAPP's financial statements.

**Summary of Findings**

The auditors identified a matter involving IDAPP's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 29 – 30 of this report as finding 2013-002 (Inadequate Collateral Coverage).

The auditors also identified instances of noncompliance or other matters. The instances of noncompliance or other matters are described in the accompanying Schedule of Findings on pages 29 – 30 of this report as findings 2013-001 (Debt Covenant Violation) and 2013-002 (Inadequate Collateral Coverage).

**Exit Conference**

In correspondence received from Eric Zarnikow, Executive Director, on December 5, 2013, the Commission elected to waive a formal exit conference. The responses to the recommendations were provided by Brian Begrowicz, Deputy Chief Financial Officer, in correspondence dated December 9, 2013.



## Independent Auditor's Report

Honorable William G. Holland  
 Auditor General  
 State of Illinois, and

Ms. Kym Hubbard  
 Honorable Chair of the Governing Board  
 Illinois Student Assistance Commission

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

#### ***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 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 the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2013, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 2, the financial statements present only the Illinois Designated Account Purchase Program, and do not purport to, and do not present fairly the financial position of the State of Illinois or the Illinois Student Assistance Commission as of June 30, 2013, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information:***

Management has omitted management's discussion and analysis for the Illinois Designated Account Purchase Program that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not a required part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

#### ***Other Information:***

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission. The Supplemental Information, consisting of a Schedule of Bonds Outstanding, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Bonds Outstanding 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 Schedule of Bonds Outstanding 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 January 9, 2014 on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Designated Account Purchase Program and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Designated Account Purchase Program and its compliance.



Schaumburg, Illinois  
January 9, 2014

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Statement of Net Position**

**June 30, 2013**

---

**Assets**

Current assets - unrestricted	
Cash and cash equivalents	\$ 10,852,573
Investments	6,004,197
Total current assets - unrestricted	<u>16,856,770</u>
Current assets - restricted	
Cash and cash equivalents	21,927,423
Receivables	
Student loans, net of allowance of \$7,064,831	90,192,500
Accrued interest - loans	12,484,596
Accrued interest - investments	3,019
Other	19,434
Due from other ISAC funds	2,578
Total current assets - restricted	<u>124,629,550</u>
Noncurrent assets - restricted	
Receivables	
Student loans, net of allowance of \$43,398,249	554,039,643
Unamortized debt issuance costs	3,578,161
Total noncurrent assets - restricted	<u>557,617,804</u>
Total assets	<u>699,104,124</u>

(Continued)

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Statement of Net Position (Continued)**

**June 30, 2013**

---

**Liabilities**

**Current liabilities**

Accounts payable and accrued expenses	\$ 398,096
Accrued interest payable	940,397
Federal special allowance and interest subsidy	1,745,166
Due to other ISAC funds	2,419,749
Compensated absences	43,815
Revolving credit line	<u>240,606,827</u>
Total current liabilities	<u>246,154,050</u>

**Noncurrent liabilities**

Compensated absences	161,806
Notes payable, net	<u>429,388,187</u>
Total noncurrent liabilities	<u>429,549,993</u>
Total liabilities	<u>675,704,043</u>

**Net Position**

Restricted for debt service	9,566,777
Unrestricted	<u>13,833,304</u>
Total net position	<u>\$ 23,400,081</u>

See Notes to Financial Statements.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Year Ended June 30, 2013**

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Operating revenues	
Investment income	
Interest - student loans	\$ 29,517,869
Interest - investments	12,212
Fees	328,014
Total operating revenues	<u>29,858,095</u>
Operating expenses	
Interest and other student loan expenses	
Interest expense	
Student loan revenue bonds and notes	(37,177)
Amortization of loan premiums and fees	2,015,896
Other student loan fees	2,128,541
Provision for loan losses	8,684,824
Other operating expenses	
Salaries and employee benefits	1,985,059
External loan servicing	2,657,578
Occupancy	2,008
Management and professional services	1,274,886
Depreciation	3,721
Other	150,130
Total operating expenses	<u>18,865,466</u>
Operating income	10,992,629
Nonoperating expenses	
Federal special allowance and interest subsidy and excess interest expense (Note 5)	(7,434,299)
Loss on sale of loan portfolio (Note 14)	<u>(1,602,724)</u>
Change in net position	1,955,606
Net position, July 1, 2012	<u>21,444,475</u>
Net position, June 30, 2013	<u>\$ 23,400,081</u>

---

See Notes to Financial Statements.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Statement of Cash Flows**  
**Year Ended June 30, 2013**

Cash flows from operating activities	
Cash payments to suppliers for goods and services	\$ (6,402,634)
Cash payments to employees for services	(1,940,296)
Cash receipts from other operating activities (student loans and fees)	138,605,455
Cash payments for other operating activities (student loans)	(2,791,240)
Proceeds from sale of student loan portfolio	49,564,993
Expenses from sale of student loan portfolio	(319,758)
Net cash provided by operating activities	<u>176,716,520</u>
Cash flows from noncapital financing activities	
Principal paid on revenue bonds and other borrowings	(127,712,000)
Principal paid on early extinguishment of debt	(59,950,000)
Interest paid on revenue bonds and other borrowings	(7,445,156)
Federal special allowance and interest subsidy	(7,863,389)
Net cash used for noncapital financing activities	<u>(202,970,545)</u>
Cash flows from investing activities	
Interest received from investment securities	17,913
Purchase of investment securities	(5,003,241)
Proceeds from sale and maturities of investment securities	<u>5,991,000</u>
Net cash provided by investing activities	<u>1,005,672</u>
Net decrease in cash and cash equivalents	(25,248,353)
Cash and cash equivalents, July 1, 2012	<u>58,028,349</u>
Cash and cash equivalents, June 30, 2013	<u>\$ 32,779,996</u>
Reported as:	
Current - unrestricted	\$ 10,852,573
Current - restricted	<u>21,927,423</u>
	<u>\$ 32,779,996</u>

(Continued)

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Statement of Cash Flows (Continued)**

**Year Ended June 30, 2013**

---

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 10,992,629
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	3,721
Interest - investments	(12,212)
Interest expense	(37,177)
Provision for loan losses	8,684,824
Amortization of student loan premiums and fees	2,015,896
Change in assets and liabilities	
Accounts receivable	
Student loans	153,206,625
Accrued interest - loans and notes	2,723,864
Due from other ISAC funds	178,022
Other receivables	152,020
Accounts payable and accrued expenses	(218,469)
Due to other ISAC funds	(976,143)
Compensated absences	2,920
Net cash provided by operating activities	<u>\$ 176,716,520</u>
Supplemental disclosure of noncash transactions	
Net depreciation in fair value of investments	<u>\$ (4,675)</u>

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See Notes to Financial Statements.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 1. Description of Fund**

The Illinois Student Assistance Commission (ISAC) administers the nonshared proprietary fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Illinois Designated Account Purchase Program (IDAPP), a program of ISAC, was created through an Act of the State of Illinois General Assembly to increase participation of eligible lenders in ISAC's Student Loan Programs by purchasing guaranteed student loans from lenders in order to reduce the lenders' collection and administrative costs. IDAPP is also a servicer of student loans. As such, designation of the governing authority is determined by the Governor of the State. The State also maintains overall accountability for IDAPP's fiscal matters. Activities of IDAPP are subject to the authority of the Office of the Governor, the State's Chief Executive Officer, and other departments of the executive branch of government (such as the Department of Central Management Services and the State Comptroller's Office) as defined by the General Assembly.

The accompanying financial statements present the financial position, results of operations, and cash flows of IDAPP. IDAPP's financial statements are an integral part of the State's overall comprehensive annual financial report. IDAPP was initially funded by a state appropriation as of July 1977 and has operated on a self-sustaining basis beginning in fiscal year 1979 through the issuance of student loan revenue bonds and notes, collection of its student loans receivable and payments from various guarantors on defaulted loans. All IDAPP funds are held locally in various banks and financial institutions. The guaranteed student loans must be purchased from eligible lenders under the Illinois Student Assistance Law and the Federal Higher Education Act of 1965. IDAPP generally does not purchase student loans, which are more than 90 days delinquent. The reimbursement rates to lenders, such as IDAPP, in the Federal Family Education Loan Program (FFELP) are 100% for loans disbursed before October 1, 1993. For loans disbursed between October 1, 1993 and prior to July 1, 2006 the loans are reimbursed at 98%. Loans disbursed after July 1, 2006 are reimbursed at 97%.

**Note 2. Summary of Significant Accounting Policies**

The financial statements of IDAPP as administered by ISAC have been prepared in accordance with generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

**A. Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the organization's governing body and either (a) the primary government's ability to impose its will on that organization, or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or
- 2) Fiscal dependency on the primary government and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**A. Reporting Entity (Continued)**

Based upon the required criteria, IDAPP has no component units, nor is it a component unit of any other entity. However, because IDAPP is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

The financial statements present only IDAPP as administered by the State of Illinois and ISAC, and do not purport to, and do not, present fairly the financial position of the State of Illinois or ISAC as of June 30, 2013, and changes in their financial position and cash flows, where applicable, for the year then ended in conformity with GAAP.

**B. Basis of Presentation**

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. A proprietary fund type records cash and/or other resources together with all related liabilities, obligations, reserves, and equities (net position) which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A Statement of Net Position, Statement of Revenues, Expenses, and Changes in Fund Net Position, and Statement of Cash Flows have been presented for IDAPP.

Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Due to the nature of IDAPP activities, income from investments and interest expense are considered operating activities in the Statement of Revenues, Expenses, and Changes in Fund Net Position. Nonoperating revenues result from non-exchange transactions (e.g. grants (subsidy payments)), gains and losses from the sale of loan portfolios and ancillary activities.

**C. Basis of Accounting**

IDAPP is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

**D. Revenue Recognition**

Revenues from fees are recognized when earned. Uncollected interest income on student loans is accrued as revenue at June 30, 2013.

**E. Cash and Cash Equivalents**

Cash and cash equivalents consist principally of deposits held in banks for locally held funds and securities with maturities of less than 90 days at the date of purchase. Cash and cash equivalents also include deposits held in the State Treasury.

**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**F. Investments**

IDAPP presents investments in its Statement of Net Position at fair value. The net appreciation or depreciation in the fair value of investments is included as investment income in the Statement of Revenues, Expenses, and Changes in Fund Net Position.

**G. Student Loans Receivable/Premiums**

As a secondary lender, when IDAPP purchases loans from another lender, IDAPP may pay a premium on those loans. Premiums over \$50,000 (in the aggregate) are capitalized and amortized on a straight-line basis over the average remaining useful lives of the student loans. Premiums under \$50,000 (in the aggregate) are expensed.

**H. Allowance for Loan Losses**

The allowance for loan losses is an estimate of credit losses arising from the student loan portfolio. A provision for loan losses, which is shown as an operating expense, is added to bring the allowance to a level that, in management's judgment, is adequate to absorb losses in the portfolio. Management performs a monthly assessment of the loan portfolio in order to determine the appropriate level of the allowance. The factors in this evaluation include, but are not necessarily limited to, delinquencies over 120 days, loan servicing deficiencies and the amount of unguaranteed reimbursement from the United States Department of Education as discussed in Note 4.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions may be necessary based on future review of compliance with due diligence and contractual servicing requirements by IDAPP, and its outside loan servicers.

**I. Interfund Transactions**

IDAPP has the following type of interfund transactions with other funds of the State:

Loans - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds.

Services provided and used - sales and purchases of services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund Statement of Net Position.

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**J. Capital Assets**

Capital assets, which include equipment, are reported at cost. Capital assets are depreciated using the straight-line method over a period of five years. IDAPP capitalizes all equipment that has a cost or value greater than or equal to \$5,000. All capital assets are fully depreciated as of June 30, 2013.

**K. Restricted Assets**

Restricted assets represent those assets which are required to be held by the trustee as mandated by the debt indentures or are pledged as security in support of debt indentures.

**L. Compensated Absences**

The liability for compensated absences consists of unpaid, accumulated vacation and sick leave balances for IDAPP employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

**M. Debt Premiums, Discounts, Deferred Amounts on Refunding and Issuance Costs**

Notes payable are stated at face value net of premiums and discounts. These amounts, as well as issuance costs are deferred and amortized over the life of the debt using the straight-line method, which approximates the effective interest rate method. Deferred amounts on refunding represent a gain on refunding recognized with the issuance of the LIBOR Floating Rate Notes (see Note 8a). These amounts are amortized on a weighted basis over the life of the three tranches. Amortization expense is reported as a component of interest expense in the financial statements.

**N. Net Position**

Net investment in capital assets - this consists of capital assets, net of accumulated depreciation, less the outstanding balances, if any, of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - result when constraints placed on net position use are either externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation.

Unrestricted - consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Based on bond indentures, all IDAPP assets, except for assets relating to operations, are restricted for the benefit of bondholders until the bonds are retired. IDAPP first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**O. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

**Note 3. Deposits and Investments**

**A. Permitted Deposits and Investments**

Bond documents such as trust indentures place strict limitations on the type of investments that can be made by IDAPP. The limitations vary slightly from issue to issue, but in general they restrict investments to direct obligations of the federal government and government agencies, investment agreements, repurchase agreements, bank certificates of deposit, money market funds and highly rated commercial paper and municipal bonds.

The Public Funds Investment Act (Act) also restricts the investment of funds under the control of IDAPP. These restrictions apply to any funds, which are not restricted by the terms of a debt document. Permitted deposits and investments under the Act include (subject to various restrictions and limitations) direct federal obligations of the United States of America, federal guaranteed obligations, participation interests in federal obligations, federal affiliated institutions, certificates of deposit, time deposits, and other bank deposits which are fully insured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized, money market funds, repurchase agreements, investment agreements with financial institutions, commercial paper, state or municipal bonds, and bankers' acceptances. IDAPP's investment policy, which applies to all investments, is more restrictive than the Act in that investments in money market mutual funds are restricted to those with portfolio holdings of United States obligations including bonds, notes, certificates of indebtedness, treasury bills or other securities, which are guaranteed by the full faith and credit of the United States of America as to principal and interest, and direct United States obligations (bonds, notes, debentures or other similar obligations of the United States of America or its agencies).

**B. Deposits – Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. IDAPP has no policy that would further limit the requirements under the law. At June 30, 2013, IDAPP had \$5.5 million deposited with a bank that was uninsured and uncollateralized.

The State Treasurer is the custodian of the State's cash and cash equivalents for IDAPP maintained in the State Treasury. IDAPP independently manages cash and cash equivalents maintained outside the State Treasury. Amounts in the custody of the State Treasurer totaled \$1,731 at June 30, 2013. These funds are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Details on the nature of these deposits and investments, and the risks, are available within the State of Illinois' Comprehensive Annual Financial Report.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 3. Deposits and Investments (Continued)**

**C. Investments**

**Interest Rate Risk**

IDAPP invests its funds in a manner that meets its cash flow needs while conforming to state statutes governing the investment of funds, including without limitation the Investment Act and all requirements/limitations of the various documents applicable to bonds and other securities issued by ISAC. The portfolio's maturity characteristics at June 30, 2013 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Government Securities (U.S. Treasury Bills)	\$ 6,004,197	0.8

**Credit Risk**

IDAPP's investment policy limits the following types of investments to the top two ratings issued by nationally recognized credit rating organizations: commercial paper, state or municipal bonds, and bankers' acceptances. The investment policy places no further limitations on investment credit quality.

As of June 30, 2013, IDAPP's investments were subject to credit risk (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk) as follows:

Investment Type	Fair Value	Rating	
		Standard & Poor's	Moody's
Money Market Funds	\$ 23,055,119	AAAm	Aaa-mf

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, IDAPP will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The investment policy authorizes IDAPP to utilize a third party custodian (Trustee) to safe-keep the assets of the fund and to provide reports on a monthly basis to all necessary parties. The custodian is responsible for sweeping all interest and dividend payments and any other un-invested cash into a short-term government money market fund. IDAPP has no investments subject to custodial credit risk at June 30, 2013.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 3. Deposits and Investments (Continued)**

**C. Investments (Continued)**

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. IDAPP's investment policy requires IDAPP to diversify its investments by security type and institution. With the exception of the obligations set forth in the investment policy (direct federal obligations, federal guaranteed obligations, and federal affiliated institutions) or investments fully collateralized by these obligations, no more than 5% of IDAPP's total investment portfolio will be invested in the obligations of a single issuer.

As of June 30, 2013, there were no investments that exceed 5% or more of IDAPP's total investment portfolio.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. IDAPP is not exposed to foreign currency risk and IDAPP's investment policy does not address foreign currency risk.

**Note 4. Student Loans Receivable**

IDAPP's student loans receivable balance is comprised of two types of student loans: loans that were originated or purchased as part of the Federal Family Education Loan Program (FFELP) and loans that are originated as part of IDAPP's Alternative Loan Program. The FFEL Program was eliminated as of June 30, 2010 and as such IDAPP no longer originates FFELP loans.

All FFELP loans disbursed by IDAPP prior to October 1, 1993 are guaranteed at 100% by Guarantors in accordance with the Higher Education Act. For loans disbursed between October 1, 1993 and prior to July 1, 2006 the loans are guaranteed at 98%. Loans disbursed after July 1, 2006 are guaranteed at 97%. All guaranteed loans are reinsured by the United States Department of Education (DOE). DOE has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. For servicing contracts established with outside vendors, contractual provisions require the contractors to indemnify IDAPP for losses due to their negligence in loan servicing. Such recoveries will be recognized as income when received. There is \$1,015,894 of student loans receivable that IDAPP has classified as defaulted loans under the FFEL Program. Claims on these loans have been submitted to, but have not been reimbursed by, the guarantee agencies as of June 30, 2013.

Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by DOE. Alternative Loans are credit-based and a provision for loan loss is accrued for the amount of the loans estimated to be uncollectable. The total amount of Alternative Loans outstanding was \$237,985,420 at June 30, 2013. Of this amount, \$44,414,168 was recorded as a provision for loan losses.

Management has identified loans that may not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for loan losses totaling \$50,463,080 as of June 30, 2013. This amount includes the alternative loans addressed above.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 4. Student Loans Receivable (Continued)**

Included in the student loans receivable balance are premiums and other acquisition fees paid on the origination and purchase of certain student loans. These premiums and other acquisition fees are being amortized over the average life of the related loans. Premiums and other acquisition fees totaling less than \$50,000 paid to a particular party during a fiscal year are expensed. Other acquisition fees typically represent lender fees and insurance fees and are also being amortized over the average life of the related loans.

**Federal Student Loan Fund**

ISAC's Federal Student Loan Program maintains a fund that is on deposit with the State Treasurer, known as the Illinois Student Assistance Commission Federal Student Loan Fund. This fund is used to pay IDAPP's and other lender's defaulted loan claims. Receipts for this fund include reinsurance receipts from the DOE.

The cash balance in this fund as of June 30, 2013 as reported by ISAC was \$37,714,937. Restricted net position, which includes \$26,370,852 of claims in process, was \$40,288,710. If the federal reinsurance percentage were temporarily reduced from 97% to either 85% or 75% (for loans disbursed after October 1, 1998) due to excessive default claims and if the State's pledge of full faith and credit were found to be ineffective, then the full collectability of the non-federal reinsurance amount (i.e. 3% to 25%) of the IDAPP's net FFELP student loans receivable of \$456,709,804 at June 30, 2013 is subject to the adequacy of the annual appropriation from the Illinois Student Assistance Commission Federal Student Loan Fund and the reserve funds of the other Guarantors to pay defaulted loan claims. However, based on past loan default experience, management believes that material losses will not be incurred.

**Note 5. Federal Special Allowance and Interest Subsidy**

The Federal government pays IDAPP (interest subsidy) or IDAPP owes the federal government (excess interest) an interest amount on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest payable at June 30, 2013 was \$1,745,166.

IDAPP is also eligible to receive special allowance payments from the federal government that are paid to adjust for the low yield on student loans in comparison to other investment sources. In addition IDAPP owes the federal government excess interest on the portfolio.

Federal Interest Benefits	\$ 2,583,927
Special Allowance Payments (Interest Subsidy)	139,871
Excess Interest	<u>(10,158,097)</u>
Net Expense Incurred to DOE	<u>\$ (7,434,299)</u>

**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 6. Interfund Balances and Activity**

**Balances Due from/to Other Funds**

The following balance at June 30, 2013 represents amounts due from other ISAC funds.

Fund	Amount	Description/Purpose
Illinois Prepaid Tuition Program	\$ 990	Expense reimbursement - collection of these funds is anticipated in fiscal year 2014.
ISAC - College Access Challenge Grant	1,588	Program expense reimbursement
	<hr/> <u>\$ 2,578</u>	

**Note 7. Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Equipment	Accumulated Depreciation	Capital Assets, Net
Balance, July 1, 2012	\$ 431,920	\$ (428,199)	\$ 3,721
Additions	-	(3,721)	(3,721)
Deletions	(108,465)	108,465	-
Balance, June 30, 2013	<hr/> <u>\$ 323,455</u>	<hr/> <u>\$ (323,455)</u>	<hr/> <u>\$ -</u>

**Note 8. Long-Term Obligations Payable**

**A. Revenue Bonds and Notes Payable and Pledged Revenues**

On July 29, 2002, ISAC adopted a general resolution and adopted supplemental resolutions on July 29, 2002, September 19, 2003, April 2, 2004, and June 24, 2005 authorizing the issuance of Student Loan Revenue Bonds, Series I and II, Series III, IV and V, Series VI and VII, and Series VIII and IX, respectively. All bonds were at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues.

In connection with the issuance of the LIBOR Floating Rate Notes (LIBOR FRN) in October 2010 (described below) and by using existing cash in the trust \$849,950,000 of the Student Loan Revenue Bonds were redeemed. As a condition of the rating agency confirmation in connection with the purchase and cancellation of certain bonds issued under the 2002 resolution, IDAPP was required to retire \$11 million of the outstanding bonds at par plus accrued interest in November 2011. In addition IDAPP retired an additional \$4 million of the outstanding bonds at par plus accrued interest in November 2011.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 8. Long-Term Obligations Payable (Continued)**

**A. Revenue Bonds and Notes Payable and Pledged Revenues (Continued)**

The remaining balance of \$19,450,000 bonds outstanding were defeased on December 3, 2012 and redeemed on December 13, 2012 at par plus accrued interest.

On May 19, 2009, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell \$50,000,000 Student Loan Revenue Bonds, Series 2009 (State Guaranteed). The proceeds of the bonds were used to (a) fund eligible loans to the extent permitted under the indenture, (b) fund, together with certain funds provided by ISAC, a debt service reserve fund and (c) pay bond issuance costs.

The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2014. \$9,500,000 of the bonds were redeemed in fiscal year 2012. The remaining balance of \$40,500,000 bonds outstanding were redeemed on December 3, 2012 at par plus accrued interest.

On October 27, 2010, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell \$604,000,000 Student Loan Asset Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes). The Notes were issued in three tranches. The Class A-1 tranche is \$181,000,000 maturing April 25, 2017 with a rate of 3-Month LIBOR plus 0.48%, The Class A-2 tranche is \$269,000,000 maturing April 25, 2022 with a rate of 3-Month LIBOR plus 1.05% and the Class A-3 tranche is \$154,000,000 maturing July 25, 2045 with a rate of 3-Month LIBOR plus 0.90%. The variable interest rate for the debt is reset every quarter. The proceeds from the sale of the Notes were used to make the initial deposits to the Capitalized Interest Fund, the Reserve Fund, a portion of the initial deposit to the Loan Fund, and to pay acquisition costs. The remaining proceeds were transferred to the 2002 Resolution Trust (described above) and were used with cash from the Trust to purchase and cancel certain bonds outstanding thereunder. The FFELP loans released from the 2002 Resolution Trust were deposited into the Loan Fund.

The indenture has a provision that any excess cash in the Trust is used to pay down the principal amount of the Notes. The Class A-1 tranche has been paid off. \$40,164,000 of the Class A-2 tranche has been paid off leaving a balance of \$228,836,000. The total principal and interest remaining to be paid on the bonds is approximately \$465,825,000. IDAPP has until the stated maturity dates to retire the principal amounts owed on these bonds. As such, liabilities related to these bonds are reported as noncurrent. IDAPP however will pay principal amounts in advance of that date (without penalty) as collections on the resulting student loans are received into the trust. As of June 30, 2013 variable interest rates were 1.32560% and 1.17560% for the LIBOR FRN Class A-2 and A-3, respectively.

Annual principal and interest payments on the bonds are expected to require approximately 94 percent of the related student loan collections. Principal and interest paid for the current year were \$92,362,000 and \$5,662,515, respectively. Total related student loan principal and interest received were \$82,372,185 and \$11,481,529, respectively.

As a result of the issuance of the LIBOR Floating Rate Notes and the purchase and cancellation of certain of the 2002 bonds during fiscal year 2011, a deferred amount on refunding of \$70,320,074 was recorded. This amount is being amortized over the weighted average life of the LIBOR Floating Rate Notes of 16 years. The portion attributable to fiscal year 2013 is \$9,362,152. Amortization is included as a reduction of interest expense on the Statement of Revenues, Expenses, and Changes in Fund Net Position in fiscal year 2013, the amortization of the deferred gain on refunding exceeded interest paid, resulting in total interest expense of (\$37,177), a net credit.

**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 8. Long-Term Obligations Payable (Continued)**

**B. Changes in Long-Term Obligations Payable**

Changes in long-term obligations payable for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Compensated absences payable	\$ 202,700	\$ 121,228	\$ (118,307)	\$ 205,621	\$ 43,815
Revenue bonds/notes payable:					
Series 2002 1&2	100,000	-	(100,000)	-	-
Series 2005 VIII & IX	19,350,000	-	(19,350,000)	-	-
Series 2009	40,500,000	-	(40,500,000)	-	-
Series 2010, Class A-1	52,198,000	-	(52,198,000)	-	-
Series 2010, Class A-2	269,000,000	-	(40,164,000)	228,836,000	-
Series 2010, Class A-3	154,000,000	-	-	154,000,000	-
Unamortized discounts	(7,032,689)	-	358,480	(6,674,209)	-
Unamortized deferred amount on refunding	62,588,548	-	(9,362,152)	53,226,396	-
	<b>\$ 590,906,559</b>	<b>\$ 121,228</b>	<b>\$ (161,433,979)</b>	<b>\$ 429,593,808</b>	<b>\$ 43,815</b>

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 8. Long-Term Obligations Payable (Continued)**

**C. Future Maturities of Revenue Bonds and Notes Payable**

IDAPP issued notes to provide funds for student loan originations and purchases. IDAPP pledges the income derived from its assets to pay debt service. IDAPP's outstanding notes are comprised of variable rate debt. As such, the interest figures shown are calculated assuming the interest rate in effect on June 30, 2013. Actual interest paid in future years could be materially different. Annual debt service requirements to maturity for revenue bonds and notes are as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 4,844	\$ 4,844
2015	-	4,844	4,844
2016	-	4,844	4,844
2017	-	4,844	4,844
2018	-	4,844	4,844
2019-2023	228,836	20,630	249,466
2024-2028	-	9,052	9,052
2029-2033	-	9,052	9,052
2034-2038	-	9,052	9,052
2039-2043	-	9,052	9,052
2044-2045	154,000	1,931	155,931
	<hr/>	<hr/>	<hr/>
	382,836	\$ 82,989	\$ 465,825
Plus (minus):			
Unamortized discounts	(6,674)		
Unamortized deferred amount on refunding	<hr/>	53,226	
Net long-term principal outstanding	<hr/>	<hr/>	<hr/>
	\$ 429,388		

**Note 9. Mid-Term Credit Facility and Short Term Revolving Credit Line and Pledged Revenues**

On July 27, 2007, ISAC entered into a Three-Year Asset Backed Revolving Credit Facility (the Facility) through an affiliate of Citibank (the Lender) pursuant to which ISAC has borrowed funds for the purpose of purchasing certain student loans. Advances made under the Facility are secured by a portfolio of student loans, which loans were largely financed with proceeds of the advances (the Collateral). Amounts due under the Facility constitute limited obligations of ISAC, payable solely and only from the Collateral and the revenues derived therefrom. The costs of borrowing under the Program will not exceed Citibank's commercial paper rate. The rate at June 30, 2013 was 0.19378%.

On July 27, 2010, the Facility became due and payable. Due to conditions currently existing in the credit markets, ISAC has been unable to refinance this debt and is currently in default under the Facility. Citibank has reserved its rights to remedies in the Indenture. Conversations with Citibank are on-going but no resolution has been reached.

Under the terms of the agreement all revenues generated by the underlying student loan portfolio are transferred to a trust. The trust pays all expenses related to the debt service and student loan servicing costs (capped at 65 basis points of the outstanding average balance in the portfolio).

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 9. Mid-Term Credit Facility and Short Term Revolving Credit Line and Pledged Revenues (Continued)**

During fiscal year 2013 there was \$31,294,526 in principal and \$7,613,371 in interest collected all of which was transferred to the trust. During the same period the trust paid \$1,663,653 for interest expense and other professional fees and \$1,913,719 for servicing fees.

Changes in the revolving credit line is as follows:

	Balance, July 1, 2012	Borrowings	Repayments	Balance, June 30, 2013	Amounts Due Within One Year
Citibank	\$ 275,956,827	\$ -	\$ (35,350,000)	\$ 240,606,827	\$ 240,606,827

**Note 10. Pension Plan**

Substantially all of ISAC's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of SERS for fiscal year 2013 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. SERS issues a separate CAFR that may be obtained by writing to SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

IDAPP pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. IDAPP's required and actual contributions for fiscal years 2013, 2012 and 2011 were \$406,980, \$380,338 and \$474,235, respectively. For fiscal years 2013, 2012 and 2011, the employer contribution rate was 38.0%, 34.2% and 28.0%, respectively.

**Note 11. Post-Employment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits in accordance with Public Act 97-0695.

**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 11. Post-Employment Benefits (Continued)**

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis.

The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements, including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois 62763-3838.

**Note 12. Risk Management**

IDAPP, through the Commission, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission's risk management activities for workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2013.

**Note 13. New Governmental Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following statements:

Statement No. 65, *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The Commission is required to implement this Statement for the year ending June 30, 2014.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

**Notes to Financial Statements**

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**Note 13. New Governmental Accounting Standards (Continued)**

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* was established to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The Commission is required to implement this Statement for the year ending June 30, 2014.

Management has not yet completed its assessment of these Statements and the potential impact they will have on the overall financial statement presentation.

**Note 14. Loan Portfolio Sale**

During fiscal year 2013, the Illinois Student Assistance Commission sold IDAPP student loans receivable with a carrying amount of \$49,541,601 for \$48,871,963. The student loans receivable sold represented 5.9% of IDAPP's student loan portfolio at the beginning of the fiscal year.

The proceeds from the loan sale and available cash in the applicable trust were used to redeem/defease \$59,950,000 of outstanding bond issues.

The discount from the sale, expenses related to the sale and the write-off of unamortized premiums, origination fees, default fees, bond discounts and costs of issuance are reported as non-operating expense in the Statement of Revenues, Expenses and Changes in Fund Net Position.

The non-operating loss was determined as follows:

Sale of student loan portfolio:

Discount on the sale of loans	\$ (669,638)
Expenses related to sale of loans	(319,758)
Loss from loan sale including direct expenses	(989,396)
Write-off of capitalized premiums, origination, and default fees	(280,824)
Loss from sale of student loans	<u>(1,270,220)</u>

Early extinguishment of debt:

Write-off of unamortized discounts for bonds retired	(126,544)
Write-off of unamortized cost of issuance for bonds retired	(205,960)
Net loss related to early extinguishment of debt	<u>(332,504)</u>

Net loss

\$ (1,602,724)

**State of Illinois  
Illinois Student Assistance Commission  
Illinois Designated Account Purchase Program**

**Schedule of Bonds Outstanding  
June 30, 2013**

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A summary of bonds and notes outstanding at June 30, 2013 is presented as follows:

	Series 2002 I and Series 2002 II	Series 2005 VIII and 2005 IX	Series 2009
Original amount	\$ 250,000,000	\$ 600,000,000	\$ 50,000,000
Principal retirements	(250,000,000)	(600,000,000)	(50,000,000)
Unamortized Deferred Amount on Refunding	-	-	-
Unamortized discount	-	-	-
 Balance at June 30, 2013	 <hr/>	 <hr/>	 <hr/>
Effective interest rate (1)	Variable	Variable	Fixed
Date of bonds/notes	8/20/02	7/19/05 12/08/05	05/28/09
 Interest dates	 <hr/>	 <hr/>	 <hr/>
Paying agents	Bank of New York New York, NY	Bank of New York New York, NY	Wells Fargo Minneapolis, MN
 Optional call feature beginning:	 <hr/>	 <hr/>	 <hr/>
Taxable/Tax-exempt	At issuance 100%	At issuance 100%	05/01/10 100%
	Taxable	Taxable	Tax-exempt

(1) As of June 30, 2013 variable interest rates were 1.32560% and 1.17560%  
for the LIBOR FRN Class A-2 and A-3, respectively

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LIBOR FRN - 2010				
Class A-1	Class A-2	Class A-3		Total
\$ 181,000,000 (181,000,000)	\$ 269,000,000 (40,164,000)	\$ 154,000,000 - - 17,200,473 - -	Original amount Principal retirements Unamortized Deferred Amount on Refunding Unamortized discount	\$ 1,504,000,000 (1,121,164,000) 53,226,396 (6,674,209)
\$ -	\$ 246,036,473	\$ 183,351,714	Balance at June 30, 2013	\$ 429,388,187

Variable	Variable	Variable	Debt outstanding per Statement of Net Position
10/27/10	10/27/10	10/27/10	Current portion of :
			Revenue bonds payable
			Long-term revenue
			bonds/notes payable, net
			Total debt outstanding
Varies	Varies	Varies	\$ 429,388,187
			\$ 429,388,187

Wells Fargo      Wells Fargo      Wells Fargo  
Minneapolis, MN   Minneapolis, MN   Minneapolis, MN

At issuance 100%	At issuance 100%	At issuance 100%
Taxable	Taxable	Taxable



**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**

Honorable William G. Holland  
 Auditor General  
 State of Illinois, and

Ms. Kym Hubbard  
 Honorable Chair of the Governing Board  
 Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting (internal control) of the Illinois Designated Account Purchase Program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2013-002 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Student Assistance Commission, Illinois Designated Account Purchase Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2013-001 and 2013-002.

## **State of Illinois, Illinois Student Assistance Commission's Response to Findings**

The State of Illinois, Illinois Student Assistance Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Illinois Student Assistance Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **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 State of Illinois, Illinois Student Assistance Commission'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 State of Illinois, Illinois Student Assistance Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Schaumburg, Illinois  
January 9, 2014

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

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**Current Findings – *Government Auditing Standards***

**(Note: These findings are also presented in the Department-wide audit of the Illinois Student Assistance Commission)**

**Finding 2013-001      Debt Covenant Violation**

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) was not in compliance with two of the covenants relating to the agency's revolving line of credit agreement.

During our audits of the agency's June 30, 2009, 2010, 2011, and 2012 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%, while the ratio as of June 30, 2013 was 101.04%. Also per the agreement, the default ratio is set at a maximum of 6.25%, but at June 30, 2013 this ratio was 7.17%.

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 \$240,606,827 at June 30, 2013.

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.

As a result of the violation, the bank may have certain remedies under the terms of the loan agreements, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code Nos. 2013-001, 12-2, 11-10, 10-6, 09-1)

**Recommendation**

We recommend that IDAPP continue to monitor the loan covenant violations and continue seeking remedies from the lender involved.

**Commission Response**

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

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

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**Finding 2013-002      Inadequate Collateral Coverage**

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not properly collateralize excess funds over the Federal Deposit Insurance Company (FDIC) coverage amount, in certain of the Agency's depository accounts.

Prior to December 31, 2012, the FDIC insured all deposits in non-interest bearing accounts. Beginning January 1, 2013, the coverage was reduced to \$250,000, per depositor, per institution. IDAPP had funds invested in certain banks that exceed \$250,000. As a result, the agency began the process to collateralize these excess deposits. Per review of the provided collateral agreements, the agreements did not go into effect until August 5, 2013, leaving a balance of \$5,543,230 uncollateralized as of June 30, 2013.

As stated in Section 10 of IDAPP's FY13 Investment Policy under Collateralization: "*Collateralization will be required on cash deposits in any institution to the extent the deposit is not fully insured by the Federal Deposit Insurance Corporation or National Credit Unions Administration or other approved share insurer. In order to accommodate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. The type of investments which may be pledged as collateral shall be limited to cash and any classes of securities authorized by Section 6(d) of the Public Funds Investment Act,30 ILCS 235. Evidence of the pledge of collateral (safekeeping receipt) must be supplied to IDAPP. Collateral may be substituted by the depository institution provided the substituted collateral qualifies in all respects with the provisions of Section 7 (Authorized Financial Dealers and Institutions) of this Investment Policy.*"

According to Commission management, they assumed the bank went back to the pre-financial crisis method of collateralizing Commission accounts. When it was determined that they did not, the collateral agreement process was started, but was not finalized prior to year end.

While no loss took place, without adequate collateralization of funds, the funds could be susceptible to custodial credit risk losses in the event of a bank failure. (Finding Code No 2013-002)

**Recommendation**

We recommend that the Commission more closely monitor its collateral requirements to ensure that new agreements are approved timely to allow for proper collateralization of all deposits.

**Commission Response**

We agree with the recommendation. The existing collateral agreement will be in place until the accounts are closed. Collateral requirements will be reviewed on an annual basis.

**State of Illinois**  
**Illinois Student Assistance Commission**  
**Illinois Designated Account Purchase Program**

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**Prior Findings Not Repeated**

(Note: The prior finding not repeated "A" is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

**A. Budget Not Properly Approved**

The Illinois Student Assistance Commission (Commission) did not approve the fiscal year 2012 budget relating to the Commission's non-appropriated funds and did not deliberate and vote on budget requests submitted to the General Assembly for appropriations relating to the appropriated funds of the Commission. (Finding Code No. 12-1)

The Commission implemented corrective action. The fiscal year 2013 budget for the agency, including the budgets for the Illinois Prepaid Tuition Program and the Illinois Designated Account Purchase Program, were approved by the Commission at its meeting on June 25, 2012. The budget request to be submitted to the General Assembly for appropriation for fiscal year 2014 was presented to the Board of Commissioners for their approval.