



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, 2018**

Release Date: May 23, 2019

FINDINGS THIS AUDIT: 1	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2009			18-01
Category 2:	0	0	0				
Category 3:	<u>0</u>	<u>1</u>	<u>1</u>				
TOTAL	0	1	0				
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, 2018 and for the year then ended. The Commission's compliance audit covering the two years ended June 30, 2019 will be released under separate cover.

SYNOPSIS

- (18-01) The Commission - IDAPP was not in compliance with one 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, 2018

STATEMENT OF NET POSITION (amounts in thousands)	2018	2017
Unrestricted assets		
Unexpended appropriations.....	\$ 1,539	\$ (4)
Cash and cash equivalents.....	134,048	142,213
Investments.....	802,738	883,769
Receivables.....	321,946	69,878
Securities lending collateral	40,094	31,172
Capital assets, net.....	11,457	12,240
Due from other State funds and component units.....	2,392	504
Recoverable taxes.....	-	156
Restricted assets		
Cash and cash equivalents.....	12,053	14,197
Student loan and other receivables, net.....	60,352	368,525
Total.....	<u>1,386,619</u>	<u>1,522,650</u>
Deferred Outflows of Resources		
Pension related amounts.....	44,157	46,450
OPEB related amounts.....	5,042	-
Total.....	<u>49,199</u>	<u>46,450</u>
Liabilities		
Accounts payable and accrued liabilities.....	12,483	13,414
Due to other State funds and component units.....	3,161	279
Securities lending collateral obligation.....	40,094	31,172
Line of credit.....	113,657	135,457
Revenue bonds payable.....	161,391	192,133
Tuition obligation.....	1,125,285	1,235,714
Other.....	173,040	116,280
Total.....	<u>1,629,111</u>	<u>1,724,449</u>
Deferred Inflows of Resources		
Unamortized deferred amount on refunding.....	33,014	37,056
Pension related amounts.....	41,505	33,262
Pension related amounts.....	19,086	-
Total.....	<u>93,605</u>	<u>70,318</u>
Net position		
Net investment in capital assets.....	11,457	12,240
Restricted.....	70,622	60,372
Unrestricted.....	(368,977)	(298,279)
Total.....	<u>\$ (286,898)</u>	<u>\$ (225,667)</u>

STATEMENT OF ACTIVITIES (amounts in thousands)	2018	2017
Expenses		
Scholarships, awards and grants.....	\$ 766,510	\$ 170,270
Student loan purchase program.....	5,264	10,030
Prepaid tuition.....	43,558	157,575
Loan guarantee program.....	145,577	154,100
Total.....	<u>960,909</u>	<u>491,975</u>
Program revenues		
Charges for services.....	45,791	67,104
Operating grants and contributions.....	168,107	201,559
Total.....	<u>213,898</u>	<u>268,663</u>
Net program revenues.....	<u>(747,011)</u>	<u>(223,312)</u>
General revenues		
Appropriations from State resources.....	412,746	539,532
Other.....	353,486	(382,170)
Total.....	<u>766,232</u>	<u>157,362</u>
Change in net position.....	<u>\$ 19,221</u>	<u>\$ (65,950)</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 a covenant relating to the agency's revolving line of credit agreement.

Default ratios were not maintained

During our audit of the fiscal year 2018 financial statements, we noted that IDAPP was in violation of a debt covenant 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 default ratio is set at a maximum three-month rolling average of 5.0% or a maximum of 6.25% for any settlement period. We reviewed monthly reports and noted 9 months fell above these ratios, ranging from 5.19% to 8.43% for the three-month average and 7.36% to 9.58% for the settlement period.

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 \$113,656,827 at June 30, 2018. (Finding 1, page 168) **This finding was first reported in 2009.**

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

Commission agrees with auditors

Commission officials accepted our recommendation and stated the loan covenants are reviewed monthly and we continue to talk to the bank about the portfolio. (*For the previous Commission response, see Digest Footnote #1.*)

AUDITOR'S OPINION

The auditors stated the financial statements of the Commission as of and for the year ended June 30, 2018 were fairly stated in all material respects. The auditors included a paragraph emphasizing that the Program has a deficit of \$280 million as of June 30, 2018.

This financial audit was conducted by Crowe LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JGR

DIGEST FOOTNOTES

#1 - DEBT COVENANT VIOLATION

2017 – We agree with the recommendation. The loan covenants are reviewed on a monthly basis. We continue to talk to Citibank about the portfolio.