



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

**ILLINOIS STUDENT ASSISTANCE COMMISSION -
 ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM**

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 26, 2016

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2009	15-1		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This report covers our financial audit of the Illinois Student Assistance Commission (Commission) - Illinois Designated Account Purchase Program (IDAPP) as of June 30, 2015 and for the year then ended.

SYNOPSIS

- **(15-1)** IDAPP was not in compliance with two of the covenants relating to the Commission's revolving line of credit agreement.

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| <p>Category 1: Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).</p> <p>Category 2: Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.</p> <p>Category 3: Findings that have no internal control issues but are in noncompliance with State laws and regulations.</p> |
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{Financial information is summarized on next page.}

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FINANCIAL AUDIT
For the Year Ended June 30, 2015**

STATEMENT OF NET POSITION	2015
Unrestricted assets	
Cash and cash equivalents.....	\$ 14,697,805
Investments.....	4,017,698
Restricted assets	
Cash and cash equivalents.....	19,492,422
Student loans receivable, net.....	479,840,433
Accrued interest.....	12,758,919
Other.....	14,689
Total.....	530,821,966
Deferred Outflows of Resources	
Pension related amounts.....	560,885
Total.....	560,885
Liabilities	
Accounts payable and accrued expenses.....	270,248
Accrued interest payable.....	649,306
Federal special allowance and interest subsidy.....	1,272,626
Revolving credit line.....	183,556,827
Notes payable, net.....	270,396,754
Net pension liability.....	4,038,424
Due to State and other ISAC funds.....	2,305,245
Compensated absences.....	56,622
Total.....	462,546,052
Deferred Inflows of Resources	
Unamortized deferred amount on refunding.....	45,141,374
Pension related amounts.....	4,459,706
Total.....	49,601,080
Net Position	
Restricted for debt service.....	11,650,461
Unrestricted.....	7,585,258
Total.....	\$ 19,235,719

REVENUES, EXPENSES AND CHANGES IN NET POSITION	2015
Operating revenues	
Interest - student loans.....	\$ 22,059,122
Fees.....	187,483
Interest - investments.....	6,229
Total.....	22,252,834
Operating expenses	
Provision for loan losses.....	3,182,722
Interest on revenue bonds.....	219,050
Student loan costs and fees.....	3,151,956
External loan servicing.....	2,060,800
Salaries and employee benefits.....	537,002
Pension.....	(788,986)
Management and professional services.....	908,074
Other.....	50,184
Total.....	9,320,802
Operating income	
	12,932,032
Federal special allowance and excess interest.....	(5,499,954)
Change in net position.....	\$ 7,432,078

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

DEBT COVENANT VIOLATION

Noncompliance with debt covenants

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.

Coverage condition and default ratios were not maintained

During our audits of the agency's June 30, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 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%. Reviewed monthly reports noted that all 12 months fell under this ratio, ranging from 101.90% to 103.23%. Also per the agreement, the default ratio is set at a maximum of 6.25%. Reviewed monthly reports noted 5 months fell above this ratio, ranging from 6.45% to 12.84%.

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 \$183,556,827 at June 30, 2015.

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 34) **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 IDAPP response, see Digest Footnote #1.*)

AUDITOR’S OPINION

The auditors stated the financial statements of the Illinois Designated Account Purchase Program of the Illinois Student Assistance Commission as of and for the year ended June 30, 2015, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JGR

SPECIAL ASSISTANT AUDITORS

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

DIGEST FOOTNOTES

#1 - DEBT COVENANT VIOLATION

2014 – We agree with the recommendation. The loan covenants are reviewed on a monthly basis. We continue to talk to Citibank about the portfolio.