STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STUDENT ASSISTANCE COMMISSION - ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM

FINANCIAL AUDIT
For the Year Ended: June 30, 2012

Release Date: February 21, 2013

INTRODUCTION

This report covers our financial audit of the Illinois Student Assistance Commission (Commission) - Illinois Designated Account Purchase Program (IDAPP) as of June 30, 2012 and for the year then ended.

SYNOPSIS

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

{Expenditures and Activity Measures are summarized on the reverse page.}

ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FINANCIAL AUDIT
For the Year Ended June 30, 2012 (in thousands)

STATEMENT OF NET ASSETS	**2012**	**2011**
Unrestricted assets		
Cash and investments	$ 16,352	$ 14,732
Capital assets, net	4	11
Restricted assets		
Cash and cash equivalents	48,672	56,638
Investments	-	19,606
Student loans receivable, net	809,410	939,850
Accrued interest	15,212	17,336
Other	6,367	6,883
Total	896,017	1,055,056
Liabilities		
Accounts payable and accrued liabilities	617	530
Accrued interest payable	1,523	1,518
Federal special allowance and interest subsidy	2,174	2,541
Revolving credit line	275,957	314,457
Revenue bonds payable	590,704	704,284
Due to other ISAC funds	3,396	4,551
Other	202	223
Total	874,573	1,028,104
Net Assets		
Invested in capital assets, net of related debt	4	11
Restricted	9,303	17,513
Unrestricted	12,137	9,428
Total	$ 21,444	$ 26,952

REVENUES, EXPENSE AND CHANGES IN NET ASSETS	**2012**	**2011**
Operating revenues		
Interest - student loans	$ 35,201	$ 41,428
Fees	717	1,281
Interest - investments	343	2,725
Total	36,261	45,434
Operating expenses		
Provision for loan losses	15,475	18,576
Interest on revenue bonds	6,097	9,123
Student loan costs and fees	5,016	5,398
External loan servicing	2,141	4,022
Salaries and employee benefits	1,806	2,481
Management and professional services	1,523	2,465
Other	288	2,282
Total	32,346	44,347
Operating income	3,915	1,087
Federal special allowance and excess interest	(9,422)	(10,714)
Change in net assets	$ (5,507)	$ (9,627)

AGENCY EXECUTIVE DIRECTOR
During Examination Period: Mr. Andrew Davis (through July 8, 2011); Mr. John Sinsheimer (Interim) (July 8, 2011 - February 21, 2012); Eric Zarnikow (beginning February 21, 2012)
Currently: Mr. Eric Zarnikow

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

DEBT COVENANT VIOLATIONS

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.

Minimum coverage condition ratio required

During the audit of the agency's June 30, 2009 financial statements, the Illinois Designated Account Purchase Program (IDAPP) management discovered that they had potentially violated one of the covenants relating to the agency's revolving credit line (loan) agreement with a bank. The noncompliance pertained to the "Coverage condition ratio" covenant. The minimum Coverage Condition ratio required by the line of credit agreement is 104% and the current ratio as of June 30, 2012 was 101.30%.

Maximum default ratio required

During our audits of the agency's June 30, 2010 and 2011 financial statements, we noted that IDAPP was in violation of the covenant noted above. In addition, the agency was in violation of another covenant, the "Default ratio." IDAPP is required to maintain a maximum Default ratio of 6.25%. As of June 30, 2012, IDAPP's Default ratio was 8.36%, resulting in noncompliance with the Default ratio by IDAPP.

Lender has right to call loan

Management believes the bank would have little incentive to call the loan

As a result of the violation, 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 has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. Management believes the bank would have little incentive to call the line of credit and begin servicing the student loans itself, particularly because IDAPP has made all of its required payments in a timely fashion. The balance of the line of credit with the bank was $275,956,827 at June 30, 2012.

According to Commission management, the coverage condition and default issues are due to the increased level of delinquent accounts in the portfolio. The level has increased due to the poor global economic conditions. (Finding 2, pages 34-35) **This finding was first reported in 2009.**

Commission agrees with auditors

Unable to refinance loan at this time

Commission officials accepted our finding and recommendation to continue to monitor the loan covenant violations and continue seeking remedies from the lender involved. Commission officials also indicated that due to the tight credit markets for student loans and the performance of the portfolio, neither the bank nor ISAC has been able to refinance the facility. (For the previous IDAPP response, see Digest Footnote #1.)

OTHER FINDING

The remaining finding for Illinois Designated Account Purchase Program pertains to the budget not being properly approved.

AUDITORS' OPINION

Emphasis of matter

Our auditors stated the financial statements of IDAPP are fairly presented in all material respects. Auditors included a paragraph emphasizing that IDAPP is in default of certain conditions of its Revolving Credit Facility.

WILLIAM G. HOLLAND
Auditor General

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SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were McGladrey LLP.

DIGEST FOOTNOTE

#1 - DEBT COVENANT VIOLATION

We accept the recommendation. IDAPP will continue to monitor these loan covenants. Commission management has been in constant communication with the lender and is working with them to resolve the violations and to refinance the facility.