



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, 2017**

**Release Date: March 1, 2018**

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2009			17-01
Category 2:	0	0	0				
Category 3:	<u>0</u>	<u>1</u>	<u>1</u>				
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>1</b>				
<b>FINDINGS LAST AUDIT: 1</b>							

**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, 2017 and for the year then ended.

**GOLDEN APPLE SCHOLARS OF ILLINOIS PROGRAM**

Pursuant to the Higher Education Student Assistance Act, the Commission administers the Golden Apple Scholars of Illinois Program which is managed by the Golden Apple Foundation for Excellence in Teaching. During procedures performed, the auditors identified instances of noncompliance related to the Golden Apple Scholars of Illinois Program which is described in a separate agreed-upon procedures report.

**SYNOPSIS**

- (17-01) The Commission - IDAPP was not in compliance with a covenant 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, 2017 (in thousands)**

<b>STATEMENT OF NET POSITION</b>	<b>2017</b>	<b>2016</b>
<b>Unrestricted assets</b>		
Unexpended appropriations.....	\$ (4)	\$ 839
Cash and cash equivalents.....	142,213	109,985
Investments.....	883,769	965,454
Receivables.....	69,878	81,555
Securities lending collateral .....	31,172	23,638
Capital assets, net.....	12,240	13,020
Due from other State funds and component units.....	504	330
Recoverable taxes.....	156	-
<b>Restricted assets</b>		
Cash and cash equivalents.....	14,197	16,709
Student loan and other receivables, net.....	368,525	423,955
Total.....	1,522,650	1,635,485
<b>Deferred Outflows of Resources</b>		
Pension related amounts.....	46,450	42,725
Total.....	46,450	42,725
<b>Liabilities</b>		
Accounts payable and accrued liabilities.....	13,414	15,318
Due to other State funds and component units.....	279	778
Securities lending collateral obligation.....	31,172	23,638
Line of credit.....	135,457	158,257
Revenue bonds payable.....	192,133	226,761
Tuition obligation.....	1,235,714	1,230,799
Other.....	116,280	100,056
Total.....	1,724,449	1,755,607
<b>Deferred Inflows of Resources</b>		
Unamortized deferred amount on refunding.....	37,056	41,099
Pension related amounts.....	33,262	41,221
Total.....	70,318	82,320
<b>Net position</b>		
Net investment in capital assets.....	12,240	13,020
Restricted.....	60,372	52,958
Unrestricted.....	(298,279)	(225,695)
Total.....	\$ (225,667)	\$ (159,717)

<b>STATEMENT OF ACTIVITIES</b>	<b>2017</b>	<b>2016</b>
<b>Expenses</b>		
Scholarships, awards and grants.....	\$ 170,270	\$ 181,968
Student loan purchase program.....	10,030	13,960
Prepaid tuition.....	157,575	57,776
Loan guarantee program.....	154,100	150,121
Total.....	491,975	403,825
<b>Program revenues</b>		
Charges for services.....	67,104	75,196
Operating grants and contributions.....	201,559	174,954
Total.....	268,663	250,150
Net program revenues.....	(223,312)	(153,675)
<b>General revenues</b>		
Appropriations from State resources.....	539,532	177,790
Other.....	(382,170)	(1,434)
Total.....	157,362	176,356
Change in net position.....	\$ (65,950)	\$ 22,681

**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 Illinois Student Assistance Commission (Commission) – Illinois Designated Account Purchase Program (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 2017 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 8 months fell above these ratios, ranging from 5.54% to 7.88% for the three-month average and 6.48% to 9.73% 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 default ratio issues 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 \$135,456,827 at June 30, 2017.

According to Commission management, the default ratio 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 160) **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 agreed with auditors**

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

## **AUDITOR'S OPINION**

The auditors stated the financial statements of the Commission as of and for the year ended June 30, 2017 are fairly stated in all material respects. The auditors included a paragraph emphasizing that the Program has a deficit of \$286 million as of June 30, 2017.

This financial audit was conducted by Crowe Horwath 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**

2016 – We agree with the recommendation. The loan covenants are reviewed on a monthly basis. We continue to talk to Citibank about the portfolio.