

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: January 7, 2002

**Recommended
Actions:**

1. Asset Allocation Policy. Approve the following for the Regent endowment funds:
 - a. Retention of the current asset allocation policy of 63% domestic equities, 7% international equities, and 30% fixed income;
 - b. Addition of three additional fund managers for the Regent endowment portfolios; and
 - c. Adoption of specific investment asset allocations for fund managers.
 - d. Adoption of modified target ranges.
2. Selection of New Fund Managers. Approve the following to implement the new asset allocation policy for the Regent endowment funds:
 - a. Selection of a new small capitalization value fund manager;
 - b. Selection of a large capitalization index fund manager; and
 - c. Utilization of Reams Asset Management by the institutions as the second fixed income fund manager.
3. Sale of ISU Dormitory Bonds. Adopt the following resolutions, subject to the receipt of acceptable bids:

A Resolution providing for the sale and award of \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002, and approving and authorizing the agreement of such sale and award.

A Resolution authorizing and providing for the issuance and securing the payment of \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002, for the purpose of constructing and equipping a community center and related facilities and making other necessary improvements to existing residence halls and related facilities, all located on the campus of Iowa State University of Science and Technology, including funding the debt service reserve fund and paying costs of issuing the Bonds.

(ROLL CALL VOTE)
4. Set Date for Sale of SUI Utility Bonds. Adopt the following preliminary resolution:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$15,000,000 Utility System Revenue Bonds (The State University of Iowa), Series S.U.I. 2002.

(ROLL CALL VOTE)

5. Set Date for Sale of UNI Student Union Bonds. Adopt the following preliminary resolution:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$12,900,000 University of Northern Iowa Student Union Revenue Bonds, Series U.N.I. 2002.

(ROLL CALL VOTE)

6. Accept the Report of the Banking Committee.
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**Executive
Summary:**

The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on January 16, 2002, the Banking Committee is scheduled to consider approval of:

- The minutes from the November 2001 Banking Committee meeting;
- Asset Allocation Policy for Regent Endowment Funds;
- Selection of Fund Managers for the Regent Endowment Funds;
- Resolutions for the Sale and Award of \$14,980,000 Dormitory Revenue Bonds, Series ISU 2002;
- Preliminary Resolutions to:
 - Set the date for the sale of up to \$15,000,000 Utility System Revenue Bonds, Series SUI 2002; and
 - Set the date for the sale of up to \$12,900,000 Student Union Bonds, Series UNI 2002.

The Banking Committee is scheduled to receive reports on:

- Cost of Bond Issuance
 - External Audit Report – Quad Cities Graduate Study Center;
 - Revenue Bond Funds (SUI); and
 - Internal Audit Reports (SUI).
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Background:

Minutes

The minutes of the November 2001 Banking Committee meeting will be mailed at a later date.

Asset Allocation Policy

The Board has established an asset allocation policy to guide the institutional endowment investments to achieve desired results, balancing risk and reward. Periodically, the Board evaluates its policy as changes occur over time.

As of September 30, 2001, the institutional endowments totaled \$305.5 million. In November, the Board established an endowment for the expected significant proceeds pursuant to the Principal demutualization.

Wilshire Associates reviewed the Board's asset allocation policy and made specific recommendations identified in the Banking Committee memorandum.

Selection of Fund Managers

Wilshire Associates, the Board's investment advisor, completed a comprehensive review of the Board's investment policy in relation to its endowment and quasi-endowment portfolios. Those recommendations include adding:

- A small cap value manager;
- A large cap index manager; and
- A second fixed income manager.

A selection committee consisting of Banking Committee members, and representatives of the universities and the Board Office are scheduled to make recommendations to the Banking Committee for the small cap value manager and the large cap index manager.

Since the Board just recently hired Reams Asset Management to manage a portion of the fixed income assets of the University of Iowa Quasi II fund, Wilshire recommended that the Board utilized Reams as the second fixed income manager for its endowment portfolio.

**ISU Dormitory
Revenue Bonds**

The Board is requested to adopt two resolutions related to the sale and award and issuance of \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002.

At its November 2001 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to finance, in part, the construction of a new community center for the Union Drive Neighborhood Residential Community at Iowa State University.

Principal on the bonds would be repaid over a period of 25 years, with debt service of approximately \$1,090,500 to be paid from the net rents, profits and income from the operation of the residence system.

The University's residence system is a self-supporting operation and receives no state appropriations.

**SUI Utility System
Revenue Bonds**

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$15,000,000 Utility System Revenue Bonds, Series S.U.I. 2002.

The calendar year 2002 bond issuance schedule approved by the Board in November 2001 included this Utility System sale in February 2002.

The bonds would be sold to finance, in part, Utility System projects including improvements to steam and electrical distribution systems, chilled water systems, storm sewers and utilities relocation.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$1,183,400 annually to be paid from utility system charges and the proceeds of any utility system student fees which the Board may establish in the future. The University's Utility System is a self-supporting operation.

**UNI Student
Union Bonds**

The Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$12,900,000 University of Northern Iowa Student Union Revenue Bonds, Series U.N.I. 2002.

The calendar year 2002 bond issuance schedule approved by the Board in November 2001 included this Student Union Revenue Bond sale in March 2002.

The bonds would be sold to finance, in part, additions to and renovations of the Maucker Union.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$1,015,000 annually to be paid from mandatory Student Union fees and the net rents, profits and income of the Student Union.

Cost of Bond Issuance

The Banking Committee has requested reports identifying the costs associated with each bond issuance. The report provided to the Banking Committee in September 2001 included issuance costs for Iowa State University Academic Building Revenue Refunding Bonds sold in April 2001.

This month's report includes the issuance costs for the October 2001 sale of University of Iowa \$13,735,000 Dormitory Revenue Bonds. This bond issue is financing a number of residence system projects at the University of Iowa including the renovation of the former dining area in Currier Hall and fire protection upgrade projects.

External Audit Report – Quad-Cities Graduate Study Center

Doyle & Keenan, PC of Davenport, Iowa, conducted an audit of the Quad-Cities Graduate Study Center to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The audit report concluded that the financial statements presented fairly, in all material respects, the financial position of the Quad-Cities Graduate Center as of June 30, 2001 and 2000, and changes in its net assets and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

There were no reported findings.

Revenue Bond Funds

Bond covenants require independent audits for each fiscal year that bonds are outstanding. Presented this month are ten revenue bond fund audit reports for the University of Iowa.

The identified revenue bond fund audit reports of the University of Iowa for the year ended June 30, 2001, indicate that the financial statements of each of the revenue bond funds were presented fairly in all material respects.

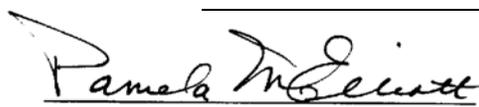
No findings were reported regarding financial or compliance issues with the revenue bond resolutions.

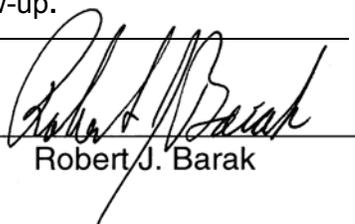
Internal Audit Reports

Completed institutional internal audit reports were presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

Thirteen new and eleven follow-up audit reports are presented.

The Status of Internal Audit Follow-Up report reflected the current status of the follow-up audits organized by university. The report identified 16 internal audit reports, six of which require follow-up.


Pamela M. Elliott

Approved: 
Robert J. Barak