

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: July 8, 2002

Recommended Actions:

- ISU Notes
1. Adopt the following resolutions, subject to receipt of acceptable bids:

A Resolution providing for the sale and award of \$7,000,000 Academic Building Revenue Project Notes, 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 \$7,000,000 Academic Building Revenue Project Notes, Series I.S.U. 2002, for the purpose of financing all or part of the cost of completion of the Engineering Teaching and Phase II Project on the campus of the Iowa State University of Science and Technology, and paying certain costs of issuance.

(ROLL CALL VOTE)
- SUI Facilities
Corporation Bonds
2. Adopt the following resolution:

A Resolution authorizing the Executive Director to take any and all action deemed necessary to effect the issuance of not to exceed \$25,000,000 University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Building), Series 2002A.

(ROLL CALL VOTE)
- Bond Associated
Contracts
3. Approve the annual renewal of the contracts with:
 - Ahlers Law Firm as bond counsel to the Board of Regents;
 - Springsted, Inc. as financial advisor to the Board of Regents; and
 - Berens-Tate Consulting Group for arbitrage rebate services.
 4. Accept the remainder of the report of the Banking Committee.
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Executive Summary:

- Approvals The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on July 18, 2002, the Banking Committee is scheduled to consider approval of:
- The minutes from the June 2002 Banking Committee meeting;
 - Resolutions for the Sale and Award of \$7,000,000 Academic Building Revenue Project Notes, Series I.S.U. 2002;
 - Resolution Authorizing the Executive Director to Effect the Issuance of up to \$25,000,000 University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Building), Series 2002A; and
 - Renewal of Bond Associated Contracts.
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- Reports The Banking Committee is scheduled to receive reports on:
- Internal Audit Plans;
 - State of Iowa Audit Reports;
 - State Auditor Reports;
 - Revenue Bond Funds Audits (UNI);
 - External Audit Report (Tri State); and
- Internal Audits and Status of Follow-up Audits.
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Background and Analysis:

- Minutes The minutes of the June 2002 Banking Committee meeting are included with the Banking Committee materials.
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- ISU Project Notes The Board is requested to adopt two resolutions related to the sale and award and issuance of \$7,000,000 Academic Building Revenue Project Notes, Series I.S.U. 2002.
- At its June 2002 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the Notes.

The Second Extraordinary Session of the 2002 General Assembly, which met in late May 2002, transferred \$7 million of the 1997 appropriation from the Rebuild Iowa Infrastructure Fund for the Engineering Teaching and Research, Phase II project at Iowa State University to the FY 2002 General Fund.

The legislation also authorizes the Board to issue Academic Building Revenue Bonds to complete the project and appropriates \$7 million from the Rebuild Iowa Infrastructure Fund for FY 2004 to repay the bonding.

The sale of Academic Building Revenue Project Notes would provide interim financing for the project, as permitted under Iowa Code §76.13.

SUI Facilities
Corporation Bonds

The Board is requested to adopt a resolution authorizing the Executive Director to take action needed for the issuance of not more than \$25,000,000 University of Iowa Facilities Corporation Revenue Bonds for the University of Iowa Carver College of Medicine Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).

The bonds would be sold to provide a portion of the funds needed to construct the facility.

The calendar year 2002 bond issuance schedule, approved by the Board in November 2001, included a sale by the University of Iowa Facilities Corporation in September 2002 to provide partial funding for the CBRB.

The bond structure for the University of Iowa Facilities Corporation bond issue differs from the structure used for Board of Regents bonds.

- The Corporation will issue the debt and lease the facility to the Board for use by the University during the terms of the bonds.
- Upon retirement of the bonds, the facility will be conveyed to the University.

The last maturity of the bonds to be issued would be June 1, 2023. Annual debt service of approximately \$1.9 million would be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.

Bond Associated
Contracts

Statutory provisions and Board policy require competitive for selection of professionals assisting with the Board's issuing of bonds and notes. In 2001, Requests for Proposals (RFP) were issued to solicit bond counsel, financial advisor, and arbitrage rebate services. In past years, the arbitrage rebate services had been included in services provided by the bond counsel or financial advisor.

The current contracts with the Board's bond counsel, financial advisor, and arbitrage services provider commenced on September 1, 2001, for a one-year initial period, with provision for annual renewal thereafter through August 31, 2006, subject to mutual consent of the parties.

The Board Office recommends that all terms of the contracts be extended through the annual renewal period ending August 31, 2003.

Internal Audit Plans

On an annual basis, the Regent universities compile and submit audit plans to the Banking Committee. In accordance with Board policy, these plans review past accomplishments and identify the next fiscal year's internal audit focus.

All three universities have internal auditors. The University of Iowa (SUI) provides audit coverage for the Iowa School for the Deaf and Iowa State University (ISU) provides audit coverage for the Iowa Braille and Sight Saving School. Costs related to coverage of the special schools are detailed in the plans.

The FY 2003 internal audit plans are based on known circumstances and certain areas needing routine audit coverage. The plans also include non-audit activities such as leave and professional development. Portions of the audit plans are unscheduled to allow the internal auditors flexibility to respond to events that transpire throughout the year.

State of Iowa Audit
Reports

Two State of Iowa audit reports are released on an annual basis that contain information regarding the five Regent institutions, the Board Office, and the rest of state government:

- The Comprehensive Annual Financial Report (CAFR), which presents the aggregated financial data for the state. In the FY 2001 report, the State Auditor noted that state appropriations from the Rebuild Iowa Infrastructure Fund were used for items inconsistent with the fund's legislatively established purpose; and
 - The Single Audit Report (SAR), which covers financial, compliance, and control aspects of federal programs administered by state agencies, institutions, and universities. The FY 2001 report did not contain any comments for the Regent institutions or for the Board Office.
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State Auditor
Reports

As part of the annual audit process, the State Auditor provides written reports on certain aspects concerning the Regent institutions and the Board Office for which they believe corrective action is necessary.

The State Auditor's reports for FY 2001 contained comments on findings related to internal control as well as statutory requirements and other matters. None were considered significant.

Corrective actions are being taken on all findings.

Regent Procedural Guide §7.05 requires that institutions consult with the Board Office regarding preliminary audit comments and proposed responses. At the July 2000 and July 2001 Banking Committee meetings, the institutions were requested to ensure that all comments and responses are transmitted in accordance with this procedure. None of the FY 2000 or FY 2001 preliminary comments or responses were shared with the Board Office.

The Banking Committee is begin requested to instruct:

1. The institutions to consult with the Board Office on preliminary auditor comments and responses.
2. ISU to formulate legislative proposals for Board consideration to eliminate obsolete statutory provisions.

Revenue Bond
Funds Audits (UNI)

Revenue Bond Fund audit reports are presented to the Banking Committee as required by Board policy.

The Academic Building and Residence System Revenue Bond Fund audit reports for the University of Northern 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.

Tri State Graduate
Center Audit

The audited financial statements of the Tri-State Graduate Center, one of the regional study centers, are included in the Simpco report.

The auditors concluded that the general purpose financial statements of Simpco for the fiscal year ended June 30, 2001, were presented fairly in all material respects. There were no reported findings.

Internal Audit
Reports

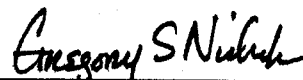
Completed institutional internal audit reports are presented to the Banking Committee, as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

Seven new SUI audits and three follow-up audit reports are presented.

The Status of Internal Audit Follow-Up Table identifies 18 internal audit reports, 16 of which require follow-up. The two University of Iowa and the one Iowa State University follow-up reports presented this month are closed.


Pamela M. Elliott

Approved:


Gregory S. Nichols