LUTHER COLLEGE

POLICIES AND PROCEDURES

Department:	Administrative Services
Subject:	Debt Financing Policy
Date Issued:	April 20, 2009
Approved By:	Resources and Facilities Committee

I. Policy/Procedure

This policy is established to govern the issuance and use of debt for the purpose of financing capital projects of Luther College. The purpose of this policy is to provide a framework for prudent approval of debt financing and to provide guidance for securing debt as cost effectively as possible. Debt and other liability transactions are approved by the Board of Regents upon recommendations from the Resources and Facilities Committee.

II. Scope

This policy applies to the Board of Regents, the officers of the administration of the College, the Resources and Facilities Committee of the Board of Regents, and all Financial Services personnel.

III. Terms and Definitions

- The College – Luther College
- Capital projects – those projects that include construction of new buildings, real estate acquisitions, major building renovations or capital improvements and major equipment acquisitions.
- Debt – obligations or liabilities incurred for the purpose of capital projects, acquisitions or refinancing.
- Debt Capacity – the amount of outstanding debt that the college wants to support as an institution which is based on the amount of debt currently outstanding, the mix of debt types and maturities desired.
- Debt Covenant Ratio – a comparison of debt to equity requiring that a minimum level of working capital be kept available.
- Board of Regents – elected members who oversee the management of the business affairs of the College and who supervise the College's curriculum and instruction and policies.
- Officers of the administration of the College – President, Vice Presidents of Academic Affairs and Dean of the College, Vice President of Development, Vice President and Dean for Student Life, Vice President for Finance and Administration and Vice President for Enrollment Management.
- Resources and Facilities Committee – a committee of the Board of Regents.
- Financial Services personnel – all persons working with or authorized to handle financial transactions; members of the Office for Financial Services, Controller, Assistant Controller, Director of Budgeting and Internal Control.

IV. Procedures and Guidelines

A. Luther College is committed to maximizing and protecting its financial resources. This policy supports the institutional mission by providing guidance in securing capital financing through efficient and low-cost access to the appropriate debt markets.
   - Sources of debt include external sources such as tax exempt financing, tax exempt bonds, bank loans, capital leases and lines of credit.
   - Sources of debt include internal financing such as operating fund investments.

B. Approval by the Board of Regents is required for both external debt financing and internal debt financing of any amount. The Board must also approve lease financing for which the value of lease payments is $100,000 or greater.

C. The administration of Luther College will manage the College's overall debt strategy to include obtaining financing, executing agreements, evaluating and selecting debt instruments.
   - The administration will evaluate the institution's debt capacity.
   - The administration will seek legal, accounting or other professional advice as needed.
   - The administration will seek the lowest expected long-term cost of capital for each financing.
   - Sponsorship, bond counsel, underwriting services, letter of credit providers and bond trustees should be acquired recognizing both price and quality.
   - The administration may also make recommendations to the Board of Regents to use financial derivative products, such as swaps, for the purpose of managing an interest rate or similar risk that arises in connection with, or incidental to, the issuance, carrying or securing of debt obligations. It is important that the Administration and the Board of Regents understand the terms, conditions and implications of these products under various economic scenarios before purchasing them. It is also important to consider the concentration and diversification related to the lender. Board of Regents approval is required before entering into these agreements.

D. The administration of Luther College will make recommendations for debt financing to the Resources and Facilities Committee. These recommendations should include the following information:
   - The purpose or type of project being financed
   - The current debt capacity of the College to include both external and internal financing and mix of debt type
   - The amount of the debt required for the project(s)
   - The interest rate being charged to the College
   - The time frame for repayment of the debt
   - The conditions surrounding early retirement or refinancing of the debt.

E. Once the recommendation has been made, the approval process is as follows:
   - The Resources and Facilities Committee must approve the recommendation and authorize a resolution for debt financing to present to the Board of Regents.
   - The Board of Regents must approve all debt resolutions (internal or external).
   - The debt agreement must be signed by the President and the Vice President for Finance and Administration.
   - Proper communication must be made to the Director of Budgeting and Internal Control for the purpose of incorporating debt service obligations into the annual budget.
   - Proper communication must be made to the Controller to ensure that he/she is aware of the timing of the transaction and have the information needed to properly record, repay and report it.

- All external debt is recorded in the general ledger as a liability.
- The private property of the Board of Regents, committee members to the Board of Regents and officers of Luther College are not liable for any of the debts of the College.

F. Debt covenant ratios are
- Provided to the letter of credit provider.
- Reported to and reviewed by the Audit Committee annually.
- Reported to and reviewed by the Resources and Facilities Committee annually.
- Reviewed by the outside auditor at the annual audit.

G. Repayment of debt includes making payments on a regular basis. Amortization schedules must be reviewed monthly by the Controller to ensure that all applicable interest and principle payments are paid in a timely manner.
- These schedules will be reviewed on a quarterly basis by the Vice President for Finance and Administration and the Director of Budgeting and Internal Control.
- The schedules will be reviewed annually by the Resources and Facilities Committee.
- These schedules will be reviewed by the outside auditor at the annual audit.
- Early retirement of debt requires the approval of the Resources and Facilities Committee.

H. Other Sources of Repayment
- If a facility (or project) is financed with tax-exempt bonds, and the College receives a gift restricted for the same facility, the gift must be used to pay unpaid costs of the facility or to pay the outstanding debt at the earliest permissible date.
- If the debt cannot be currently paid, the gift amount needs to be restricted until it can be used to pay the debt.
- Bond counsel should be consulted to ensure that the College is meeting these requirements.

I. The following practices are adopted for post-issuance compliance:
- For loan agreements with the Iowa Higher Education Loan Authority, the outside auditor will review the debt agreements of the College for default or conditions of default. A debt letter will be issued to the College which verifies that they have reviewed the loan agreements and the performance of any covenant or condition imposed on the borrower as defined by section 9.1 of the Loan Agreement with the Higher Education Loan Authority.
- For loan agreements with the City of Decorah and other municipalities, the outside auditor will review the debt agreements for default. A debt letter will be issued to the College which verifies the status of their findings.
- The College will engage professional services to review arbitrage.
- The administration will provide periodic financial data and bond covenant requirements as directed by the financing documents or as otherwise required.

V. Confidentiality and Record

All original bond and loan agreements are kept in the vault of the Office for Financial Services. Bond certificates are numbered and controlled. The certificates are held with the trustee until they are paid in full at which time they are effectively cancelled.