

Minutes
BOR Committee on University Audits Meeting

February 19, 2009
Bachman 110
UH Mānoa
Honolulu Hawai'i

Call to Order

The meeting was called to order at 2:10 pm.

Regents in attendance: Jim Haynes, Howard Karr. Excused: Ron Migita

Others in attendance: President David McClain, VP Howard Todo, David Sakamoto, Elaine Chun, James Donovan, Carl Clapp, Tiffany Kuraoka, Cory Kubota, Jamie Asato, Presley Pang, Ferd Lewis.

Approval of Meeting Minutes of May 16, 2008

Minutes of the meeting of the Audit Committee of May 16, 2008, were approved contingent upon any changes requested by Regent Migita and Cory Kubota, with Accuity LLP. [Secretary's note. Both Regent Migita and Cory Kubota subsequently informed the Secretary that neither had any corrections to the draft minutes. Accordingly, the Minutes for the meeting of May 16, 2008, are approved.]

ITEMS FOR ACTION

Acceptance of Various Reports related to the Audit of the University of Hawai'i at Mānoa Intercollegiate Athletics for Year Ending June 30, 2008

Cory Kubota, a principal with the certified public accounting firm, Accuity LLP, audited the financial statements of the Athletic Department of the University of Hawai'i at Mānoa for the year ended June 30, 2008. Mr. Kubota reviewed the four sections of his submission to the Regents.

Section I. Presentation and Required Communication. Accuity was able to report that its audit procedures did not detect any material misstatements in the Athletic Department's financial position at June 30, 2008 or its results of operations for the year ended June 30, 2008.

Mr. Kubota reviewed the Required Communications, as more fully set forth in the Accuity reports, pages 1-7. He noted the “over accrual of vacation” amounting to \$82,000 which were identified and corrected by management. Mr. Kubota noted that vacation accrual in the Athletic Department is unique because each athletic coach has an individual employment contract.

With respect to unadjusted differences, Mr. Kubota noted an under accrual of ticket revenues in the amount of \$12,000 that was receivable from the Aloha Stadium at June 30, 2009, which was not received due to a timing problem. Mr. Kubota also noted an adjustment to record \$15,000 in expenses related to student housing cancellation fees that were payable at June 30, 2008.

Section II. Financial Statements and Supplementary Information. Mr. Kubota noted that the financial statements are draft because certain values and statements have not been received from the University Foundation. This Section II has three parts: a Report of the Auditor; a Management Discussion and Analysis (“MD&A”); and the Financial Statements.

Accuity is prepared to issue a “clean and unqualified opinion” subject to reliance on a final audit of the UH Foundation. Certain assets and revenues of the Athletic Department are maintained by and reflected in the financial statements of the UH Foundation.

With respect to the MD&A, Mr. Kubota pointed out at page 6, the asterisk note, that the Department had a positive net asset of \$1.3 million in 2008 compared with a negative net deficit position of \$1 million in 2007. The proceeds from the Sugar Bowl contributed significantly to the increase in net assets. In essence, the Athletic Department made \$2.3 million this year to overcome last year’s \$1 million deficit and end the year with a net positive \$1.3 million.

Regent Karr observed that \$8.1 million in current liabilities compared to \$5.2 million in current assets is not healthy from a cash flow perspective. AD Director Jim Donovan agreed. The negative operating position is also bigger than shown at page 12 if the net cash received from the Sugar Bowl and the Ching donation were excluded.

It was also pointed out that cash provided by noncapital financing activities, including state appropriations, University support, and private gifts, were used to pay for operating expenses. It was noted that most NCAA Division I programs receive state or private gift support. Only 5 or 6 programs Division I programs in the nation are self supporting.

Regent Karr asked how many booster clubs are 501(c)(3) designated. The Athletic Department estimated that nearly 30 do not have 501(c)(3) status, and the primary entity that has 501(c)(3) status is Ahahui Koa Anuenue (“AKA”).

Mr. Kubota noted that the schedule at page 20 regarding the cash held by the University and cash and investments held at the Foundation will be revised once the amounts are supplied by the Foundation. The draft schedule shows the composition of the investment funds in 2007, including 12% then held as auction rate securities.

Section III. Report on Agreed Upon Procedures. This report is required by the NCAA. For item designated as letter “H,” Mr. Kubota pointed out that in FY 2008 the Athletics Department spent \$28,000 more than the original institutional support received from the University. This will be resolved by a subsequent reduction to the FY 2009 allocation. Mr. Kubota also pointed out as item designated letter “P” a salary overpayment to an employee in the amount of \$3,814. This overpayment was refunded to the Department in fiscal 2009. In Mr. Kubota’s view, these are not significant issues. The Agreed Upon Procedures report has been issued pursuant to the NCAA deadlines.

Section IV. Internal Control and Business Issues Report. Mr. Kubota noted the accuracy of the accrued vacation accrual (significant deficiency); salary overpayment (control deficiency), and monitoring the availability of general funds (control deficiency).

Regarding the overall financial condition as noted on page 3 of the status of Prior Year Comments and Observations, Mr. Kubota characterized the overall of the financial situation of the Athletics Department as fragile and needing close attention. Even though the Athletics Department may have funds held by the University Foundation, those funds have various restrictions on their use. The report notes that Mānoa Athletics implemented a long-term fiscal recovery plan and has been providing periodic updates to the Board of Regents.

Mr. Donovan noted that the Department overestimated revenue from season ticket sales. The Department may not break even this year, and relies on general University support. Prior to “9/11” the Department had a rainy day fund, then was operating at a deficit until the Sugar Bowl.

Mr. Donovan also observed that the University is one of the few schools that does not assess a mandatory “student athletic fee” but that the Department does try to encourage student participation and attendance at athletic events by giving student discounts. The purpose of student discounts is to encourage participation and build a fan base for the future. Mr. Donovan indicated that the proposal to assess an athletic fee was raised with some student representatives, but the student representatives rejected the proposal. Mr. Donovan also noted that the University does not receive a portion of the concession or merchandising revenue from Aloha Stadium. He noted that most WAC members own their own stadium.

With respect to Title IX mandates for women’s sports, Mr. Donovan noted that it is the right thing to do and the women alumni have been very successful in sports such as diving, water polo, track and volleyball. Mr. Donovan noted that if he must reduce costs, he has discretion to cut only one men’s sport and still retain Division I A status.

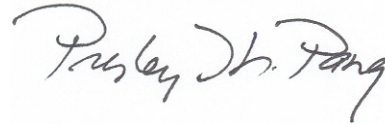
He does not have much discretion in his budget and is currently leaving unfilled positions vacant.

With respect to revenue from national and local television contracts, Mr. Donovan noted that while attendance drops, the revenues from television increases. He projects \$2.6 million in television revenues for this year. Mr. Donovan noted that he prefers filling seats at events rather than increasing the television audience.

Chair Haynes concluded that the reports remain in draft until the figures from the UH Foundation are folded in. The Committee acknowledged and accepted the reports as draft reports.

There being no further business, the Committee meeting adjourned at 3:40 pm.

Submitted by

A handwritten signature in cursive script that reads "Presley H. Pang".

Presley Pang
Interim Secretary
Board of Regents