MINUTES OF THE REGENTS’ COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, March 14, 2002

Place & Time: Campus Center Rooms 306-307
University of Hawai‘i at Hilo
3:07 p.m.

Committee Members Present: Regents
Kobayashi (presiding)
Dowling
Kurisu
Thurston
Ikawa (ex-officio)

Committee Member Excused: Regent
Kawakami

Other Regents Present: Regents
Bergin
Lee
McElrath
Nunokawa
Poe
Weiner

Others Present: Walter S. Kirimitsu, Senior Vice President and University General Counsel
James R. W. Sloane, Vice President for Administration and Chief Financial Officer
Doris M. Ching, Vice President for Student Affairs
Karl E. Kim, Interim Vice Chancellor for Academic Affairs
Allan Yasue, PricewaterhouseCoopers, LLP
David Iha, Secretary of the Board
Carl Makino, Administrative Officer, BOR

Approval of Committee Meeting Minutes

The minutes of meetings of the Regents’ Joint Committees on Finance and Facilities and Budget and Long-Range Planning held on January 17, 2002, and minutes of the Committee on Finance and Facilities held on February 21, 2002, were approved as circulated.
Subjects:

1. Lease Agreement with MW Commercial Realty, Inc.

2. OMB Circular A-133 Audit of the University of Hawai’i for Fiscal Year Ended June 30, 2001

Lease Agreement with MW Commercial Realty, Inc.

Interim Vice Chancellor Kim requested that the Committee authorize the administration to enter into a six-year lease agreement with the MW Commercial Realty, Inc., for the lease of approximately 2,300 square feet of office and training space at Pioneer Plaza in downtown Honolulu for use in the non-credit training programs offered by Outreach College. He explained that the proposed six-year lease would permit Outreach College to expand its digital training educational programming in downtown Honolulu.

A digital training lab located in the downtown Honolulu area would be accessible to the wide range of businesses and industries in close proximity to downtown. It would be managed by the College’s Pacific New Media program (PNM), and would consist of twenty Macintosh computers, G-4 models, all equipped with virtual PC, enabling the computers to act as either a Macintosh or a PC, and the necessary scanning, printing and projection equipment. A flexible conference room/classroom with computer projection equipment will also be located at this site.

The PNM Program provides instruction and training in the fast growing fields of film, video and multimedia, taught by outstanding professionals from both Hawai’i and the U.S. mainland. These experts, designers, and innovators help to stimulate and enhance the work of our own community and offer significant educational programs not available elsewhere in the State. Digital technologies such as page design, imaging and video, web design and development, typography and multi-media are becoming increasingly important to numerous industries and businesses within Hawai’i.

Through use of this downtown location, Outreach College would tailor its programs and offerings to meet the stated needs of the following industries which have been and will continue to be surveyed:

- the growing number of high-technology businesses located in Honolulu
- graphic design and graphic arts
- architects and engineers
- advertising and public relations
- State and county offices and departments
- medical and law offices and facilities
- military personnel
the small business community, including retail, restaurants and services

A highly visible and accessible downtown location would be a promotional tool for the University and Outreach College, and would serve to meet the following program objectives:

• To attract a new pool of students to the existing Multimedia Lab on the M~noa campus

• To create a digital training lab in downtown Honolulu, preferably in a highly visible and accessible location, to greater serve the needs of the Hawai‘i professional community in multi-media training

• To expand the course offerings, deepen the curriculum, and upgrade the level of courses offered through customized specific training to individual industries and companies

• To maintain a visible presence in the midst of the developing center of high-technology industries in Hawai‘i. To attract students, faculty, equipment and support from this rapidly growing industry

• To support Outreach College’s mission and objectives in serving the educational needs of the Hawai‘i community

• To stay competitive and current within the national and regional technology training network and to attract support and educational resources from software and hardware vendors

The gross lease rent (inclusive of building operating expenses) for approximately 2,300 rentable square feet of space would be as follows:

<table>
<thead>
<tr>
<th>Date of lease through</th>
<th>Rent per s.f.</th>
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<tbody>
<tr>
<td>12/31/02</td>
<td>$1.00</td>
</tr>
<tr>
<td>1/1/03 to 12/31/03</td>
<td>$2.10</td>
</tr>
<tr>
<td>1/1/04 to 12/31/04</td>
<td>$2.14</td>
</tr>
<tr>
<td>1/1/05 to 12/31/05</td>
<td>$2.18</td>
</tr>
<tr>
<td>1/1/06 to 12/31/06</td>
<td>$2.23</td>
</tr>
<tr>
<td>1/1/07 to 12/31/07</td>
<td>$2.27</td>
</tr>
</tbody>
</table>

The low rent in the first year is made possible by subleasing the space from an existing tenant whose lease expires at the end of this year. Starting from January 1, 2003, the lease goes to fair market rental value and then increases by 2% in each subsequent year. Over the course of the six-year term, the average rent will be less than $2.00 per rentable square foot. A commercial leasing agent who specializes in the downtown
Honolulu market was consulted and he advised that the foregoing rental rates were reasonable.

The lease would also provide for the following concessions and privileges in favor of the University:

- Rent abatement for the first three months of 2003, during which the University would be responsible only for building operating expenses (projected to be $.92 per s.f.)
- An improvement allowance of at least $35,000 for the space
- An option to extend the term of the lease for an additional six years at fair market rent
- A right of first refusal to lease additional adjoining space as it becomes available
- Fiber optic cable to be made available to the premises by mid-2002. In the meantime, a high-speed DSL connection is available for use.

Although the basic expenses for day-to-day maintenance of the laboratory will depend on revenues generated by the PNM Program, the facility will also serve other Outreach College programs especially those that assist such Mānoa academic units as the College of Business Administration, Department of Information and Computer Sciences (in the College of Natural Sciences) in their outreach instruction. User fees will be charged to all units that utilize the facility to be self-supporting and maintained in top condition.

Interim Chancellor Neubauer had agreed to advance Outreach College $154,000 for the start-up costs for this downtown facility.

Regent McElrath expressed concerns over being located in downtown Honolulu after hours, wondering about security, especially for women. Interim Vice Chancellor Kim informed that the space being considered would be a relatively safer part of downtown Honolulu. He added that even after hours there would be people traffic. He clarified that this would be a non-credit course offering and therefore, not in the same market as Hawai‘i Pacific University.

Regent Dowling moved to authorize the administration to enter into a six-year lease agreement with the MW Commercial Realty, Inc., for the lease of approximately 2,300 square feet of office and training space at Pioneer Plaza in downtown Honolulu for use in the non-credit training programs offered by Outreach College. The motion was seconded.
Vice President Sloane provided introductory remarks regarding the OMB Circular A-133 audit as performed by PricewaterhouseCoopers. He informed the Committee that he would follow up with the departments on all corrective actions and that there will be consequences if the same errors appeared again in subsequent audits.

Mr. Yasue reported that PricewaterhouseCoopers LLP conducted an OMB Circular A-133 audit of the University of Hawai‘i. Essentially, the Circular requires the auditor to determine and report whether the University’s financial statements present fairly the financial position and results of operations of the University in accordance with generally accepted accounting principles; whether the internal control structure provides reasonable assurance of compliance with federal and other laws and regulations; and if the University had complied with specific terms and conditions of its major federal assistance programs, including grants, contracts, cooperative agreements, property, interest subsidies, insurance, direct appropriations, and other non-cash assistance.

Mr. Yasue reported that the audit determined that the University’s financial statements present fairly the financial position and results of operations of the University in conformity with generally accepted accounting principles. The audit report disclosed no internal control findings for the University of Hawai‘i and the Research Corporation.

The audit report on compliance disclosed a total of 13 audit findings, one pertained to Mānoa research operations and 12 pertained to Systemwide Student Financial Assistance. Additionally, the auditor commented on the status of one previous Mānoa research operation finding with a similar finding noted in the current year and six previous Student Financial Assistance findings with similar findings noted in the current year.

In a separate management letter the auditor cited 18 immaterial findings in student financial aid, information technology, and RCUH. The auditor also commented on the status of 5 prior year findings for University Operations with 3 similar findings noted in the current year in addition to 2 recommendations for continued effort, and 3 prior year findings on Information Technology that are still unresolved.

Corrective actions and follow-up responses, according to Mr. Yasue, were developed to address each of these findings.

Regent McElrath inquired about the recovery rate of loans. Vice President Ching informed that the default rate is currently approximately 3.5% which she characterized as
very good in comparison to other institutions, some of which are running high default rates of approximately 25%.

Regent Dowling moved to receive the OMB Circular A-133 audit of the University of Hawai‘i for the fiscal year ended June 30, 2001 as performed by PricewaterhouseCoopers. The motion was seconded and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 4:07 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: April 5, 2002

c: Chairperson Allan K. Ikawa
Members, Committee on Finance and Facilities
President Evan S. Dobelle
Senior Vice President and University General Counsel Walter S. Kirimitsu
Vice President James R. W. Sloane
Interim Vice Chancellor Rodney Sakaguchi