Summary Report to the Committee on Independent Audit

Date: February 5, 2015

Auditee:
H-Zone (located at Ward Center) operated by the University of Hawai‘i at Mānoa Athletics Department (UHMAD).

Description of audit:
The Office of Internal Audit (Internal Audit) examined the Schedule of Gross Sales (as defined in the lease agreement and amendments between the University of Hawai‘i and Victoria Ward Center, L.L.C.) of the H-Zone located at Ward Center for the period May 1, 2014 (commencement of operations) through December 31, 2014 in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The H-Zone is obligated to pay Victoria Ward Center, L.L.C. monthly minimum rent ($4,395) in addition to percentage rent (8%) if gross sales exceed the monthly break point ($68,430). The H-Zone’s lease term expires on June 30, 2017.

Type of audit:
Financial (Sales Audit)

Period under audit:
May 1, 2014 (commencement of operations) to December 31, 2014

Summary of audit results and recommendations:
The Schedule of Gross Sales presents, in all material respects, the gross sales of the H-Zone located at Ward Center for the period from May 1, 2014 (commencement of operations) through December 31, 2014, as defined in the lease agreement noted above.

Risk rating (include quantitative and qualitative reasons for a rating of Low, Medium or High for the following categories if applicable - financial, compliance, operational):
Low – impact of undetected errors would be only 8% of gross sales that exceed the breaker point for the respective month.

Auditee’s responses/corrective action plan:
Internal Audit has identified and discussed certain operational improvement opportunities with UHMAD personnel with respect to sales processing, inventory management and their knowledge of the functionality and capabilities of H-Zones’s point-of-sale system. Additional discussions and correspondence will be provided to UHMAD management personnel.
University of Hawai‘i  
(dba H-Zone)  

Schedule of Gross Sales  

Period from May 1, 2014 (Commencement of Operations)  
through December 31, 2014
University of Hawai‘i
(dba H-Zone)

Schedule of Gross Sales
Period from May 1, 2014 (Commencement of Operations) through December 31, 2014

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Independent Accountant’s Report

To the Management of
University of Hawai‘i (dba H-Zone)
and Victoria Ward Center, L.L.C.

We have examined the accompanying Schedule of Gross Sales (as defined in the lease agreement effective September 1, 2008, and amendments dated December 17, 2013, May 1, 2014, and July 11, 2014 between Victoria Ward Center, L.L.C., as landlord, and University of Hawai‘i, as tenant) of the H-Zone located at Ward Center for the period May 1, 2014 (commencement of operations) through December 31, 2014. The Schedule of Gross Sales is the responsibility of H-Zone’s management. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Schedule of Gross Sales and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Schedule of Gross Sales referred to above presents fairly, in all material respects, the gross sales of the H-Zone located at Ward Center for the period from May 1, 2014 (commencement of operations) through December 31, 2014, as defined in the lease agreement referred to in the first paragraph.

This report is intended solely for the information and use of the management of the University of Hawai‘i (dba H-Zone) and Victoria Ward Center, L.L.C. and is not intended to be and should not be used by anyone other than these specified parties.

Glenn Shizumura
Director

February xx, 2015
### University of Hawai‘i (dba H-Zone)

Schedule of Gross Sales

Period from May 1, 2014 (Commencement of Operations) through December 31, 2014

The accompanying notes are an integral part of this schedule.
University of Hawaiʻi (dba H-Zone)
Notes to Schedule of Gross Sales
Period from May 1, 2014 (Commencement of Operations) through December 31, 2014

1. Background

The Schedule of Gross Sales has been prepared in accordance with the lease (the Lease) effective September 1, 2008 and amendments dated December 17, 2013, May 1, 2014, and July 11, 2014 between Victoria Ward Center, L.L.C. (Victoria Ward or Landlord) and the University of Hawaiʻi (University or Tenant). The University of Hawaiʻi at Mānoa (UHM) Office of Campus Services operated a retail store at Ward Center (Rainbowtique) selling University insignia merchandise pursuant to the September 2008 lease and the December 2013 and May 2014 lease amendments. The Rainbowtique ceased retail operations at Ward Center on June 22, 2014.

On May 1, 2014 and pursuant to the July 2014 lease amendment, the University of Hawaiʻi at Mānoa Athletics Department (UHAD) established the H-Zone at Ward Center to sell University insignia merchandise. The H-Zone did not purchase the Rainbowtique’s unsold merchandise inventory but did acquire certain fixtures (e.g., shelving, clothes racks) to install at the H-Zone’s new store site. The H-Zone commenced retail operations on July 1, 2014. The July 2014 lease amendment (effective on May 1, 2014 and expiring on June 30, 2017) did not require lease rent for May and June 2014 and modified certain terms and conditions contained in the prior leases with respect to monthly minimum rent, monthly break point, the University’s proportionate share of operating expenses and taxes. Payment to the Ward Center Promotional Fund was deleted due to the University’s commitment to enter into a Corporate Partnership Agreement (Agreement) with Victoria Ward and/or Victoria Ward’s designee. The Agreement commits the UHAD to provide game tickets and to promote and advertise the Howard Hughes Corporation (parent company of Victoria Ward) at UHAD sporting events and venues through June 30, 2015.

The H-Zone’s minimum rent (due on the first day of each month) obligation is as follows:

<table>
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<th>For the period</th>
<th>Monthly</th>
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<tbody>
<tr>
<td>July 1, 2014 to June 30, 2015</td>
<td>$4,395</td>
</tr>
<tr>
<td>July 1, 2015 to June 30, 2016</td>
<td>$4,468</td>
</tr>
<tr>
<td>July 1, 2016 to June 30, 2017</td>
<td>$4,542</td>
</tr>
</tbody>
</table>

The H-Zone must pay percentage rent equal to 8% of all Gross Sales in excess of the monthly break point of $68,430. Percentage rent is generally due within 41 days of month end.
2. Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Gross Sales has been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of the Schedule of Gross Sales requires management to make estimates and assumptions that affect the amounts reported. Such estimates could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

Gross Sales Subject to Percentage Rent

The University is obligated to pay Victoria Ward monthly minimum rent in addition to percentage rent if Gross Sales exceed the monthly break point. Gross Sales subject to percentage rent includes all sales of merchandise less cash or credit refunds applicable to sales originating at the Ward Center location. Online sales are excluded from Gross Sales.

The University prepares the accompanying Schedule of Gross Sales to true-up actual monthly gross sales to the amounts reported on the percentage rent reports submitted to Victoria Ward on a monthly basis. The December 2014 percentage rent owed to Victoria Ward was paid in January 2015.