Date: Thursday, October 17, 2002

Place & Time: Campus Center Conference Chamber, Rm. 220
University of Hawai‘i at Mānoa 3:05 p.m.

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

Committee Member Excused: Regent Kawakami

Other Regents Present: Regents Ikawa
Lee
McElrath
Nunokawa
Poe

Others Present: Evan S. Dobelle, President, University of Hawai‘i
Walter S. Kirimitsu, Senior Vice President and
University General Counsel
James R. W. Sloane, Vice President for Administration
and Chief Financial Officer
Dexter Aoki, Third Party Monitor, Wachovia Securities
Ron Shiigi, Nishihama & Kishida, CPAs, Inc.
Peter Tanaka, Interim Dean, Outreach College
David Iha, Executive Administrator and Secretary of the
Board
Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

The minutes of meetings of the Regents’ Committee on Finance and Facilities held on September 10 and 11, 2002, were approved as circulated.
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Subjects:

1. Transfer of Endowment Funds to a Reserve Account

2. Financial Statement Audit, University of Hawai‘i at Mānoa Outreach College for Fiscal Year Ended June 30, 2001

3. Proposed Amendments to Chapter 20-12, Hawai‘i Administrative Rules, University of Hawai‘i at Mānoa Parking Regulations

4. Finance and Budget Briefing

Transfer of Endowment Funds to a Reserve Account

Mr. Aoki provided an update on the performance of the Endowment fund, indicating that growth managers were out performing value managers.

Vice President Sloane then requested that the Committee approve the transfer of $5 million from unrestricted funds of the Endowment fund to a reserve account to be invested in a stable and fixed market.

Regent Kurisu asked the Third Party Monitor if they had reviewed the request and at this time is such a move advised in light of the Board’s fiduciary responsibility. Mr. Aoki responded that this was a means to assure that monies would be available for foreseeable payouts in the next two years. However, he explained that there were various options and that the Committee would need to be presented with these options at another meeting.

Regent Yamasato asked if this was the most prudent thing to do at this time. Mr. Aoki stated that it was, in light of the volatility of the market at this point and the anticipated payouts, also to lower the equity exposure and place it in a more conservative market.

Regent Kurisu clarified that this transfer would be from unrestricted funds of the Endowment fund to a reserve account for the purpose of assuring that sufficient funds would be available in fiscal year 2003-2004 for scholarships and other commitments of the Endowment fund as stipulated in Board policy.

Regent Thurston moved to authorize a transfer of $5 million to a reserve fund with the understanding that the Finance Committee would be reviewing the various options as presented by the Third Party Monitor. The motion was seconded and unanimously carried.

Financial Statement Audit, University of Hawai‘i at Mānoa Outreach College for Fiscal Year Ended June 30, 2001
Mr. Shiigi reported that the audit of the financial statements of the University of Hawai‘i at Mānoa Outreach College for fiscal year ended June 30, 2001 was performed by Nishihama and Kishida CPAs. Inc. The audit was conducted in accordance with the University’s audit plan.

Following its evaluation the auditors issued three reports. The first was a two part report: 1) Financial Statements and Report of Independent Certified Public Accountants; and 2) Report on Internal Controls. Under the financial statements the auditors issued an unqualified opinion that the financial statements of the Outreach College as of June 30, 2001 in all material respects ended in conformity with accounting principles generally accepted in the auditing industry. The report on internal controls, however, concluded that there were seven reportable conditions in the internal control structure of the College and classified the finding related to the inconsistent recording of tuition and fees as a material weakness. The auditors determined that the errors in the accounting records and the lack of understanding of proper accounting and recording of transactions by the fiscal personnel to be significant deficiencies in the design or operation of the College’s internal control structure. These conditions adversely affected its ability to record, process, summarize, and report financial data and were not detected within a timely period.

The College prepared corrective action responses to the auditors’ recommendations. Upon review of the procedures, the Internal Auditor concluded that several audit recommendations were satisfactorily implemented. The Internal Auditor will continue to monitor the College’s efforts through progress reports to ensure compliance and implementation of the remaining recommendations.

Regent Lee asked if there were ways to prevent the reoccurrence of such errors. Mr. Shiigi stated that this was the College’s first audit so they did not know what the controls and accounting expectations were. However, they should be correcting most of their weaknesses and one would not expect reoccurrence of the same errors.

Regent Yamasato asked what would be the follow-up to an audit showing material weaknesses. Mr. Shiigi reported that the Internal Auditor had already followed up on some of the corrective measures. However, Regent Kurisu stated that it would be normal practice for the Committee to request that the auditors return in a about six months to see if everything was corrected.

Regent Thurston moved to receive the financial statements audit of the Outreach College, University of Hawai‘i at Mānoa for the fiscal year ending June 30, 2001 as performed by Nishihama and Kishida, with a follow up audit in six months. The motion was seconded and unanimously carried.
Chancellor Englert requested that the Committee authorize hearings to be held on proposed amendments to Chapter 20-12, Hawai’i Administrative Rules, governing parking at the University of Hawai’i at Mānoa (UHM) campus. The amendments would increase parking rates for each year over a five year period.

The proposed amendments are required to meet future budget requirements and to maintain UHM Parking Operations’ self-sustaining status. The amendments would increase parking permit rates each year over a five-year period. Employee parking permit rates would increase to $500 annually or by approximately 19.04% the first year and 7% the next four years. Executive appointments would pay an additional fee in the amount of 25% of established employee parking rates. The charge for a reserved parking space for executive appointments will remain as an additional fee of 50% of the established employee parking rates. Student parking permit rates would increase 2% each year for five years. In addition, the annual permit rates would be divided equally between the three semesters (fall, spring and summer).

Employee parking rates would be generally consistent with comparable employee parking in the Honolulu area. The rates for students are generally comparable to rates charged students at similar university campuses.

Parking rates were last amended last in 1993 with rate increases spread over a five-year period up until 1998. The current rates, however, will not generate sufficient revenues to meet projected future operating requirements.

Parking Operations plans to construct a 273-stall parking structure on the existing Hawaiian Studies gravel parking area. Planning and design is nearing completion and construction costs are projected at $3.8 million. This structure will provide additional parking for commuting students as well as dormitory students.

Funding for alternative transportation programs and improvements has been included in Parking Operations’ budget projections. These programs are intended to encourage the use of alternative modes of transportation and includes a bus pass program currently in the planning stage and more secure bicycle storage facilities.

Inflationary factors have increased operating expenditures for personnel costs and service contracts. Approved pay raises for employees have increased personnel costs. Service contract costs for shuttle bus services and contracted parking personnel services have also increased. Also, the total cost of Special Events traffic control has increased due to the required use of additional special duty Honolulu Police Department officers to
control traffic prior to major events.

Recently, the State restructured the payment schedule for the Series CS General Obligation Bonds which was used to finance the existing parking structure. The impact on parking operations will be higher debt service payments for FY 2003, FY2004, FY 2005, and FY 2006 from $646,822 to $1,004,000 annually.

Interim Vice Chancellor Sakaguchi added that the parking operation had a cash reserve built up over time in anticipation of the need for additional parking. However, recently the State restructured the payment schedule for the general obligation bonds used to finance the existing parking structure. The impact to parking operations is a higher debt service payment for the coming fiscal years.

Following a discussion Regent Dowling moved to authorize public hearings on proposed amendments to Chapter 20-12, Hawai‘i Administrative Rules, governing parking at University of Hawai‘i Mānoa campus, changing the annual employee parking to $500 instead of the recommended $462 commencing from FY 2004. The motion was seconded and unanimously carried.

Finance and Budget Briefing

Vice President Sloane provided a briefing on the budget and financing of the University. He informed that even with multiple initiatives during the year, the University closed the fiscal year 2002 with the budget balanced and without asking the Legislature for additional funds. The budget for the current fiscal year is in balance, again without seeking additional funding from the Legislature. The current fiscal situation after eleven years of budget reductions is tight and the University does not expect to be able to finance as many initiatives internally as it has in the past years. The administration will not propose unfunded initiatives to the Board and has committed ending the fiscal year with no deficit.

Following a discussion, the meeting was adjourned at 4:07 p.m.

Respectfully submitted,

David Iha, Secretary
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Dated: November 12, 2002

c: Chairperson Bert A. Kobayashi  
Members, Committee on Finance and Facilities  
President Evan S. Dobelle  
Vice President James R. W. Sloane  
Associate Vice President Allan Ah San