



March 26, 2008

Representative Michael Magaoay, Chair,
Representative James Kunane Tokioka, Vice Chair and Members
Committee on Legislative Management
House of Representative
State Capitol
Honolulu, HI 96813

Dear Chair Magaoay, Vice Chair Tokioka and Members:

Subject: H.C.R. No. 43, H.D. 1, Relating to a management and financial audit of the University of Hawaii at Manoa's Athletic Department

I am Jim Donovan, Director of Athletics for the University of Hawaii at Manoa. My tenure as Director of Athletics began four days ago (March 24, 2008), however I previously served in a management capacity for University of Hawaii at Manoa athletics for 17 years, from 1985 until 2002.

While I believe I understand the intent and purpose of H.C.R. No. 43, H.D. 1, relating to a management and financial audit of the University of Hawaii at Manoa athletic department, I respectfully ask for your consideration to defer this resolution.

Without question, there has been significant turmoil surrounding University of Hawaii at Manoa athletics over the past few months – in some cases bringing negative publicity to our State and University. In addition, I understand the frustration some of you and your legislative colleagues have because of the belief that questions you have previously asked regarding University of Hawaii at Manoa athletics may not have been forthrightly answered.

I apologize for this turmoil and the perceived lack of transparency.

I can assure you that I understand your role in the oversight of all State departments, and how this recent turmoil involving University of Hawaii at Manoa athletics is concerning to you and your constituents.

That said, I believe a Legislative audit of the University of Hawaii at Manoa athletic department is not really necessary because we already undergo an annual financial audit. This financial audit is conducted by an independent auditing firm (following GASB rules and regulations), which is reviewed and approved by the University of Hawaii Board of Regents

and consolidated and forwarded to the National Collegiate Athletic Association for additional review.

In addition, the President of the University of Hawaii, has stated his clear intentions for an audit of the University of Hawaii at Manoa athletic department to “clear the air” and “establish a baseline” with a new Director of Athletics recently being hired.

I believe with these audits already being conducted, it is not necessary to also have a Legislative audit.

However, because I appreciate your position representing the people of Hawaii, I am glad to answer any questions regarding concerns you may have – today – or at any point in my tenure.

I ask you to please consider deferring H.C.R. No. 43, H.D. 1, Relating to a management and financial audit of the University of Hawaii at Manoa’s athletic department

Thank you for the opportunity to testify.

Sincerely,

Jim Donovan
Director of Athletics

**University of Hawai'i at Manoa
Intercollegiate Athletics
(Athletic Department)**

**Financial Statements and
Supplementary Information**

June 30, 2007

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Table of Contents**

	Page(s)
Report of Independent Auditors	
Management's Discussion and Analysis (Unaudited)	2-11
Financial Statements	
Statement of Net Assets (Deficit)	12
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	13
Statement of Cash Flows	14-15
Notes to Financial Statements	16-26
Supplementary Information (Unaudited)	
Combining Schedule of Assets, Liabilities and Net Assets (Deficit) June 30, 2007	28
Schedule of Revenues, Expenses and Changes in Net Assets (Deficit) Year Ended June 30, 2007	29
Schedule of Revenues and Expenses by Sport Year Ended June 30, 2007	30

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Report of Independent Auditors

To the Board of Regents
University of Hawai'i

We have audited the accompanying financial statements of the University of Hawai'i at Manoa Intercollegiate Athletics Department ("Athletic Department") as of and for the year ended June 30, 2007, as listed on the table of contents. These financial statements are the responsibility of the Athletic Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the assets, liabilities, revenues and expenses of the Athletic Department maintained by and reflected in the financial statements of the University of Hawai'i Foundation (the "Foundation"), which reflect total assets of \$5.3 million as of June 30, 2007 and total revenues of \$2.1 million for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying financial statements are intended to present the financial position and the changes in financial position and cash flows of the Athletic Department. They do not purport to, and do not, present fairly the financial position of the University of Hawai'i as of June 30, 2007, and the changes in financial position and cash flows of the University of Hawai'i for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Athletic Department as of June 30, 2007, and the results of its operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Athletic Department has restated its net deficit balance at June 30, 2006 from the amount previously reported. We have audited the adjustment described in Note 2 that was applied to restate the June 30, 2006 net deficit balance. In our opinion, such adjustment is appropriate and has been properly applied. As the prior period financial statements are not presented herein, the restatement has been effected as an adjustment to the July 1, 2006 net deficit balance.

The Management's Discussion and Analysis ("MD&A") for the year ended June 30, 2007 on pages 2 to 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and do not express any assurances on such information.

The supplementary information on pages 28 to 30 is not a required part of the basic financial statements, and we did not audit or apply limited procedures to such information and do not express any assurances on such information.

Honolulu, Hawai'i
_____, 2008

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**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Hawai'i at Manoa Intercollegiate Athletics Department ("Manoa Athletics" and/or the "Department") for the year ended June 30, 2007 with selected comparative information for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Established in the early 1920's, Manoa Athletics was created as a self-sustaining enterprise fund, administratively attached to the University of Hawai'i at Manoa campus. Manoa Athletics became a member of the National Collegiate Athletic Association ("NCAA") in 1946 and is classified as a Division I-A athletics program. Manoa Athletics became a member of the Western Athletic Conference ("WAC") in 1979. The WAC is comprised of nine (9) member athletics programs, providing student athletes with the opportunity to travel to scenic destinations and gain exposure to some of the nation's largest and most accessible media markets. In addition, WAC member programs are among the nation's highest ranking in terms of academics.

Fiscal 2007 Operational Highlights

Currently, Manoa Athletics recognizes nineteen (19) sports, of which five (5) men's and ten (10) women's sports are sponsored by the WAC. Manoa Athletics employs over 100 full-time employees, serving approximately 500 student athletes.

Manoa Athletics prides itself on the academic accomplishments of its student athletes. During the spring 2007 semester, approximately 51% of student athletes earned a grade point average ("GPA") of 3.0 or higher, and approximately 40% of student athletes maintained a cumulative GPA of 3.0 or higher. The mean cumulative GPA of Manoa Athletics student athletes was 2.94.

Some of the sporting accomplishments of Manoa Athletics during fiscal 2007 included:

- One Regional Coach of the Year
- Two Conference Coaches of the Year
- Five Conference Players of the Year
- One Conference Freshmen of the Year
- Eight National Academic Honorees
- 16 All-Americans
- 62 Academic All-Conference Honorees
- 57 All-Conference Honorees

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

Using the Financial Statements

The Department's financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles, which establish standards for external financial reporting for public colleges and universities. The financial statements are designed to provide readers with a broad overview of the Department's finances in a manner similar to a private-sector business. The Department's financial statements are comprised of the following components:

- **Statement of Net Assets** – The Statement of Net Assets presents information on the Department's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Department's financial condition is improving or deteriorating. Net assets increase when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, this is an indication of deteriorating financial condition.
- **Statement of Revenues, Expenses and Changes in Net Assets** – The Statement of Revenues, Expenses and Changes in Net Assets presents the Department's revenues and expenses and illustrate how current year activities improved or weakened the Department's financial condition. Changes in net assets are reported as soon as the underlying event occurs, which may differ from actual cash flows (accrual basis accounting). Thus, certain revenues and expenses reported in this statement may relate to cash flows of past or future periods (e.g., deferred revenues are revenues that will be recognized in future periods, while cash has already been received).
- **Statement of Cash Flows** – The Statement of Cash Flows presents the actual cash inflows and outflows used for operating, noncapital financing, capital and related financing, and investing activities.
- **Notes to Financial Statements** – The notes to financial statements provide additional information that is essential to a full understanding of the information presented in the financial statements.

Related Entities

The Department maintains close relationships with two other entities. Ahahui Koa Anuenue ("AKA"), a not-for-profit organization, performs fundraising activities for the benefit of Manoa Athletics and maintains a scholarship program for student athletes. The University of Hawai'i Foundation (the "Foundation"), another not-for-profit organization, also performs fundraising activities on behalf of the Department and provides investment management and custodial services.

Endowments and other investments held by the Foundation on behalf of the Department are reflected in the Department's financial statements.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

To conform to NCAA rules and regulations surrounding booster organization activities, Manoa Athletics has a memorandum of understanding with AKA and the Foundation, which gives AKA the sole right to sell a specified number of season tickets and parking passes for all Manoa Athletics sports and requires AKA to oversee all athletic booster organization activities. AKA contributions to Manoa Athletics represent a significant revenue source and have primarily been used to pay for scholarships, construction of athletic facilities and other operating expenses. Currently, the Athletic Director, Head Football Coach and the Manoa Chancellor sit on the AKA board of directors.

Fiscal 2007 Financial Highlights

Significant financial highlights for fiscal 2007 included:

- Change in net assets was \$148,325 in fiscal 2007, compared to (\$122,741) in fiscal 2006.
- Operating loss was \$8.7 million for fiscal 2007 compared to \$8.2 million for fiscal 2006.
- Total net deficit (excess of liabilities over assets) was approximately \$1,000,000 and \$1,148,000 at June 30, 2007 and 2006, respectively, a decrease of \$148,000 or 13%.
- Working capital deficit at June 30, 2007 and 2006 amounted to approximately \$4.4 million and \$4.2 million, respectively.
- Outstanding borrowings from the University in the form of notes and advances amounted to \$1.4 million and \$2.3 million at June 30, 2007 and 2006, respectively, a decrease of 39%.

Financial Position

The statement of net assets presents the financial position of the Department at the end of the fiscal year and displays all assets and liabilities of the Department. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the Department.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

The Department's assets, liabilities and net assets (deficit) at June 30, 2007 and 2006 are summarized in the following table (in thousands):

	2007	Percentage of Total Assets	2006 (Restated)	Percentage of Total Assets	FY 07 vs. 06 Change
Current assets					
Cash	\$ 1,663	21%	\$ 1,294	18%	\$ 369
Receivables, net	2,010	25%	1,975	27%	35
Other current assets	94	1%	95	2%	(1)
	<u>3,767</u>	47%	<u>3,364</u>	47%	<u>403</u>
Noncurrent assets					
Restricted cash	928	12%	986	14%	(58)
Capital assets, net	215	3%	232	3%	(17)
Investments held at University of Hawai'i Foundation	3,140	38%	2,647	36%	493
Total assets	<u>8,050</u>	100%	<u>7,229</u>	100%	<u>821</u>
Current liabilities					
Payables and accruals	2,141	26%	1,326	18%	815
Advance ticket sales	4,102	51%	3,574	49%	528
Payables to the University and other related parties	1,895	24%	2,630	37%	(735)
	<u>8,138</u>	101%	<u>7,530</u>	104%	<u>608</u>
Noncurrent liabilities					
Accrued vacation and benefits	912	11%	848	12%	64
Total liabilities	<u>9,050</u>	112%	<u>8,378</u>	116%	<u>672</u>
Net assets (deficit)					
Invested in capital assets, net of related debt	215	3%	232	3%	(17)
Restricted					
Nonexpendable	2,939	37%	2,548	35%	391
Expendable	247	3%	531	7%	(284)
Unrestricted	<u>(4,401)</u>	-55%	<u>(4,459)</u>	-61%	<u>58</u>
Net deficit	<u>\$ (1,000)</u>	-12%	<u>\$ (1,148)</u>	-16%	<u>\$ 148</u>

Current Assets and Liabilities

Working capital is a good measure of both the Department's efficiency and financial health. Positive working capital means that the Department has current assets in excess of current liabilities and is able to pay off its short-term obligations. A working capital deficit means that the Department is unable to meet its short-term obligations with its existing current assets (i.e., cash and accounts receivable).

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

Restricted nonexpendable net assets representing the Department's permanent endowment funds, which are required to be maintained in perpetuity, amounted to \$2.9 million and \$2.5 million at June 30, 2007 and 2006, respectively. The increases of \$0.4 million were primarily attributable to contributions.

Restricted expendable net assets, subject to externally imposed restrictions governing their use, amounted to \$0.2 million and \$0.5 million at June 30, 2007 and 2006, respectively.

Net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. At June 30, 2007 and 2006, the Department had an unrestricted net deficit of \$4.4 million and \$4.5 million, respectively. The unrestricted deficits are primarily attributable to losses incurred by the Department during fiscal years 2002 through 2006, which aggregated approximately \$4.9 million. While the unrestricted deficit decreased by \$0.1 million in fiscal 2007, the Department is still challenged with increasing its revenue base, carefully managing costs and monitoring liquidity to meet current and future needs.

Results of Operations

The statement of revenues, expenses and changes in net assets is a presentation of the Department's results of operations for the year. It indicates whether the financial condition of the Department improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts, and investment income, which are relied upon and budgeted for to support the Department's core operations, are required to be reported as nonoperating revenues.

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**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

At June 30, 2007 and 2006, the Department's working capital deficit amounted to \$4.4 million and \$4.2 million, respectively. The increase over the years has been attributable to the Department's inability to generate sufficient revenues to cover increasing operating expenses. Net losses over the past in prior years have resulted in the Department having to borrow funds from the University and others to finance its operations. At June 30, 2007 and 2006, amounts currently payable to the University and amounts held on behalf of others amounted to \$1.9 million and \$2.6 million, respectively. Although the Department was able to reduce its obligation to the University during fiscal years 2007 and 2006 through various cost cutting measures, it is anticipated that the Department will continue to rely on the University to support current operational needs. The Department has a rolling five-year recovery plan, which is discussed in the Looking Forward section of this discussion.

Endowment and Other Investments

The Department's endowment and other investments are held at the Foundation and amounted to \$3.1 million and \$2.6 million at June 30, 2007 and 2006, respectively. Investments increased by \$0.5 million or 19% to \$3.1 million at June 30, 2007. The increase is due to contributions made during the respective years and positive returns on the investments.

Capital and Debt Activities

The Department only reports equipment capital assets in its financial statements. Other capital assets, such as buildings, are reflected in the University's consolidated financial statements. At June 30, 2007, and 2006, total capital assets, net of accumulated depreciation amounted to \$215,000 and \$232,000, respectively.

The University loaned \$1 million to the Department in fiscal 2003. The loan is non-interest bearing and was to be repaid by 2006. However, due to liquidity issues, the University agreed to defer full repayment of the loan until fiscal 2007. In fiscal 2006, \$750,000 of the loan was repaid to the University. The remaining \$250,000 was paid by the Department in fiscal 2007.

Net Assets (Deficit)

Net assets (deficit) represent the residual interest in the Department's assets after liabilities are deducted, and is the most useful indicator of the Department's financial condition. At June 30, 2007 and 2006, the Department's total liabilities exceeded the Department's total assets by \$1,000,000 and \$1,148,000, respectively. The net deficit is reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

Net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, approximated to \$215,000 and \$232,000 at June 30, 2007 and 2006, respectively.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

The Department's results of operations for the years ended June 30, 2007 and 2006, summarized to match revenues supporting core activities with expenses associated with core activities, is as follows (in thousands):

	2007			2006 (Restated)			FY 07 vs. 06 Change
	Operating	Nonoperating	Total	Operating	Nonoperating	Total	
Revenues							
Sales and services	\$ 16,031	\$ -	\$ 16,031	\$ 14,930	\$ -	\$ 14,930	\$ 1,101
Private gifts	-	3,369	3,369	-	2,510	2,510	859
State appropriations	-	4,885	4,885	-	4,949	4,949	(64)
Investment income	-	583	583	-	644	644	(61)
Other revenue	1,920	-	1,920	1,145	-	1,145	775
	<u>17,951</u>	<u>8,837</u>	<u>26,788</u>	<u>16,075</u>	<u>8,103</u>	<u>24,178</u>	<u>2,610</u>
Expenses							
Compensation and benefits	11,488	-	11,488	10,333	-	10,333	1,155
Travel and subsistence	3,291	-	3,291	2,827	-	2,827	464
Scholarships	4,844	-	4,844	4,339	-	4,339	505
Materials and supplies	1,467	-	1,467	1,507	-	1,507	(40)
Guarantees	1,362	-	1,362	1,188	-	1,188	174
Other expense	4,188	-	4,188	4,106	-	4,106	82
	<u>26,640</u>	<u>-</u>	<u>26,640</u>	<u>24,300</u>	<u>-</u>	<u>24,300</u>	<u>2,340</u>
Increase (decrease) in net assets	(8,689)	8,837	148	(8,225)	8,103	(122)	270
Net assets (deficit)							
Beginning of year, restated			(1,148)			(1,026)	(122)
End of year			<u>\$ (1,000)</u>			<u>\$ (1,148)</u>	<u>\$ 148</u>

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

Revenues

The Department has a diverse stream of revenues to support its operations. Sales and services revenues are comprised primarily of ticket sales, NCAA & WAC distributions, and television, radio and advertising royalties. Other core components of the Department's revenue stream are private gifts, donations and state appropriations. Private gifts contribute toward the support of the Department's various sport programs and initiatives. State appropriations are primarily used to fund compensation costs.

Fiscal 2007 revenues increased by \$2.6 million. The fiscal 2007 increase was primarily due to increased ticket sales, television royalties, NCAA/WAC distributions, and private gifts.

The following table illustrates the trend and composition of revenues over the two-year period ended June 30, 2007 (in thousands):

	2007		2006 (Restated)	
	Amount	Percent	Amount	Percent
Revenues				
Sales and services	\$ 16,031	60%	\$ 14,930	62%
Private gifts	3,369	13%	2,510	10%
State appropriations	4,885	18%	4,949	20%
Investment income	583	2%	644	3%
Other revenue	1,920	7%	1,145	5%
	<u>\$ 26,788</u>	<u>100%</u>	<u>\$ 24,178</u>	<u>100%</u>

Over the past two years, the composition of sales and services revenues has stayed relatively level, as follows (in thousands):

	2007		2006 (Restated)	
	Amount	Percent	Amount	Percent
Sales and services revenues				
Ticket sales	\$ 7,934	49%	\$ 7,442	50%
Corporate sponsorships	2,020	13%	2,550	17%
NCAA / WAC distributions	2,447	15%	1,749	12%
Television and radio royalties	2,614	16%	2,264	15%
Other	1,016	7%	925	6%
	<u>\$ 16,031</u>	<u>100%</u>	<u>\$ 14,930</u>	<u>100%</u>

Ticket sales increased in 2007 due to a successful football season. In fiscal 2006, the Department successfully renegotiated guaranteed increases in its television and radio royalty agreements. Television and radio royalties increased from 2006 to 2007 due to a successful 2007 football season and an increased number of pay per view games purchased. The increase in NCAA / WAC distributions in fiscal 2007 was due to the football team participating in the Hawai'i Bowl and receiving an additional \$0.6 million from Boise State participating in a BCS game.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

Expenses

The costs of operating the Department are also diverse. Approximately 83% of total operating costs are related to compensation, travel, materials and supplies, guarantees and scholarships. Expenses increased by \$2.3 million or 10% to \$26.6 million in fiscal 2007. The following table illustrates the trend and composition of expenses for the two-year period ended June 30, 2007 (in thousands):

Expenses	2007		2006 (Restated)	
	Amount	Percent	Amount	Percent
Compensation and benefits	\$ 11,488	43%	\$ 10,333	42%
Travel and subsistence	3,291	12%	2,827	12%
Scholarships	4,844	18%	4,339	18%
Materials and supplies	1,467	5%	1,507	6%
Guarantees	1,362	5%	1,188	5%
Other expense	4,188	17%	4,106	17%
	<u>\$ 26,640</u>	<u>100%</u>	<u>\$ 24,300</u>	<u>100%</u>

Approximately 43% of the Department's expenses were related to compensation and benefits during fiscal 2007 compared to 42% in fiscal years 2006. The Department is committed to recruiting and retaining outstanding staff, and providing compensation equivalent to peer institutions and nonacademic employers. Compensation and benefits increased by \$1.2 million or 11% to \$11.5 million in fiscal 2007. The increase for fiscal 2007 is primarily attributable to increases in compensation for assistant coaches and scheduled pay rate increases under collective bargaining agreements.

Approximately 12% of the Department's expenses were related to travel and subsistence costs for athletics teams during fiscal 2007 and 2006. Travel costs increased by \$0.5 million or 16%, to \$3.3 million in fiscal 2007. The increase is primarily attributable to the football team's participation in the Hawaii Bowl in fiscal 2007.

Materials and supplies were \$1.5 million and \$1.5 million in fiscal 2007 and 2006.

Scholarships are payments of financial aid made directly to or on behalf of student athletes. Scholarships increased by \$0.5 million or 12% to \$4.8 million in fiscal 2007. The increase was primarily attributable to the increase in cost of student-athlete's tuition.

Guarantees are contest payments made to other intercollegiate athletic programs. Guarantees increased by \$0.2 million or 15% to \$1.4 million in fiscal 2007. The increase in fiscal 2007 was primarily attributable to one contest agreement made with a premier football team.

Other expense includes, among other things, rentals, outside services, dues and subscriptions, utilities, medical costs, publication costs, and bad debt expense. Other expense increased by \$0.1 or 2% to \$4.2 million during fiscal 2007.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Management's Discussion and Analysis (Unaudited)
June 30, 2007**

Cash Flows

The statement of cash flows presents the Department's significant sources and uses of cash and cash equivalents, including restricted cash balances. The Department's cash is comprised primarily of cash held with the University and the Foundation. A summary of the Department's cash flows for the years ended June 30, 2007 and 2006 is as follows:

	2007	2006 (Restated)	FY 07 vs. 06 Change
Cash received from operations	\$ 17,844	\$ 15,855	\$ 1,989
Cash payments for operations	(26,168)	(24,059)	(2,109)
Net cash used in operating activities	<u>(8,324)</u>	<u>(8,204)</u>	<u>(120)</u>
Net cash provided by noncapital financing activities	9,204	9,283	(79)
Net cash used in capital and related financing activities	(312)	(849)	537
Net cash used in investing activities	<u>(257)</u>	<u>(65)</u>	<u>(192)</u>
Net decrease in cash	311	165	146
Cash			
Beginning of year	<u>2,279</u>	<u>2,114</u>	<u>165</u>
End of year	<u>\$ 2,590</u>	<u>\$ 2,279</u>	<u>\$ 311</u>

During fiscal 2007, cash provided by noncapital financing activities covered cash used for operating activities. Noncapital financing activities include state appropriations and private gifts received for other than capital purposes, and are used to support the Department's operations.

Cash used in capital and related financing activities during fiscal 2007, decreased by \$0.5 million primarily due to the decreased amount of the remaining payment on the note.

Cash used in investing activities during fiscal years 2007 and 2006 amounted to \$0.3 million and \$0.1 million, respectively. The change was primarily attributable to the purchase of the Department's investments.

Looking Forward

The Department's financial performance has improved in line with the Department's five year fiscal plan, however, its financial condition is still fragile. Liquidity continues to be a concern for the Department and management closely monitors and adjusts its fiscal plan as necessary.

Management is making progress in the areas of cost containment and revenue enhancement in order to reduce the Department's dependence on fiscal support from other University units. However, as the goal of the Department is to run a quality program in compliance with Title IX, cost containment will continue to be a challenge in the future.

In closing, while the Department's financial condition is steadily improving, the Department continues to require support from the University to assist and monitor its fiscal recovery.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Statement of Net Assets (Deficit)
June 30, 2007**

Assets

Current assets

Cash held by the University	\$ 542,229
Cash held at University of Hawai'i Foundation	1,120,291
Travel advances	74,188
Receivables, net	2,010,118
Prepaid expenses	<u>20,262</u>
Total current assets	3,767,088

Restricted cash held by the University	645,758
Restricted cash held at University of Hawai'i Foundation	282,125
Investments held at University of Hawai'i Foundation	3,139,701
Capital assets, net	<u>215,462</u>
Total noncurrent assets	4,283,046
Total assets	<u>\$ 8,050,134</u>

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 882,637
Accrued payroll and fringe benefits	942,344
Accrued vacation, current	316,414
Advance ticket sales	4,102,140
Amounts held for others	498,239
Cash overdraft due to University	<u>1,396,338</u>
Total current liabilities	8,138,112

Accrued vacation and benefits, noncurrent	<u>912,118</u>
Total liabilities	<u>9,050,230</u>

Commitments and contingencies

Net assets (deficit)

Invested in capital assets	215,462
Restricted	
Nonexpendable	2,938,653
Expendable	246,857
Unrestricted	<u>(4,401,068)</u>
Total net deficit	<u>(1,000,096)</u>
Total liabilities and net deficit	<u>\$ 8,050,134</u>

The accompanying notes are an integral part of the financial statements.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
Year Ended June 30, 2007**

Operating revenues	
Sales and services	\$ 16,030,750
Guarantees	919,500
Sports camps and clinics	320,493
Other operating revenues	<u>680,466</u>
Total operating revenues	<u>17,951,209</u>
Operating expenses	
Personnel services	10,883,372
Scholarships	4,843,639
Travel and subsistence	3,290,794
Materials and supplies	1,467,402
Guarantees	1,361,660
Outside services	1,205,804
Foundation expenses	1,126,236
Student payroll	604,903
Dues and subscriptions	436,553
Bank service charges and transaction fees	265,879
Utilities	168,319
Printing and binding	167,952
Medical	162,082
Rentals	145,775
Insurance	104,486
Repairs and maintenance	87,989
Equipment expense	76,281
Depreciation	48,695
Loss on disposal of equipment	29,537
Computer software	19,031
Other operating expenses	<u>143,245</u>
Total operating expenses	<u>26,639,634</u>
Operating loss	(8,688,425)
Nonoperating revenues (expenses)	
Investment income, net	214,810
Private gifts	3,369,002
Stadium endowment	367,920
State appropriations	<u>4,885,018</u>
Total nonoperating revenues	<u>8,836,750</u>
Net increase in net assets	148,325
Total net deficit	
Beginning of year, restated	<u>(1,148,421)</u>
End of year	<u>\$ (1,000,096)</u>

The accompanying notes are an integral part of the financial statements.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Statement of Cash Flows
Year Ended June 30, 2007**

Cash flows from operating activities	
Sales and services	\$ 17,844,132
Payments to employees	(11,283,161)
Payments to suppliers	(10,041,073)
Scholarships to students	(4,843,639)
Net cash used in operating activities	<u>(8,323,741)</u>
Cash flows from noncapital financing activities	
State appropriations	4,885,018
Private gifts	3,968,461
Stadium endowment	367,920
Interest paid on noncapital borrowings	(17,531)
Net cash provided by noncapital financing activities	<u>9,203,868</u>
Cash flows from capital and related financing activities	
Payment on note payable to University	(250,000)
Purchase of capital assets	(61,757)
Net cash used in capital and related financing activities	<u>(311,757)</u>
Cash flows from investing activities	
Payments for the purchase of investments	(257,188)
Net cash used in investing activities	<u>(257,188)</u>
Net increase in cash	311,182
Cash	
Beginning of year, restated	<u>2,279,221</u>
End of year	<u>\$ 2,590,403</u>
Cash presented in the accompanying statement of net assets	
Cash held by the University	\$ 542,229
Cash held at University of Hawai'i Foundation	1,120,291
Restricted cash held by the University	645,758
Restricted cash held at University of Hawai'i Foundation	282,125
	<u>\$ 2,590,403</u>

The accompanying notes are an integral part of the financial statements.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Statements of Cash Flows
Year Ended June 30, 2007**

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$ (8,688,425)
Adjustments to reconcile operating loss to net cash used in operating activities	
Loss on disposal of equipment	29,537
Depreciation	48,695
Bad debt expense	755
Changes in operating assets and liabilities	
Travel advances	(5,948)
Receivables	(635,550)
Prepaid expenses	4,268
Accounts payable	676,012
Accrued payroll and fringe benefits	122,305
Accrued vacation	82,809
Advance ticket sales	528,473
Amounts held for others	205,255
Due to University and other units	<u>(691,927)</u>
Total adjustments	<u>364,684</u>
Net cash used in operating activities	<u>\$ (8,323,741)</u>

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The accompanying notes are an integral part of the financial statements.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

1. Organization and Significant Accounting Policies

Financial Reporting Entity

The University of Hawai'i at Manoa Intercollegiate Athletics ("Athletic Department") is organized and conducted as an integral part of the total educational process of the University of Hawai'i at Manoa, and is administered in accordance with Federal, State of Hawai'i ("State"), University of Hawai'i ("University"), National Collegiate Athletic Association ("NCAA"), Western Athletic Conference ("WAC"), and Athletic Department rules, regulations, policies and procedures.

The Athletic Department's goal is to provide a comprehensive and competitive program of intercollegiate athletics for the students and the community. The Athletic Department encompasses men's and women's sports, sailing and support services such as the rally squad and band. Intramural activities and physical education are not part of the Athletic Department.

The Athletic Department is an entity established within the University and its financial statements reflect only its activities. The University maintains the central accounts for all University funds and publishes a financial report for the University, which includes the Athletic Department's financial activities.

Basis of Presentation

The Athletic Department follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in Governmental Accounting Standards Board ("GASB") Statement No. 35. The financial statements of the Athletic Department are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with standards for governmental colleges and universities. Accordingly, the Athletic Department has adopted all GASB pronouncements and all Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, which do not contradict or conflict with existing GASB pronouncements.

Scope of Financial Statements

In addition to the accounts maintained by the University for the Athletic Department, the accompanying financial statements also include the accounts maintained by the University of Hawai'i Foundation ("Foundation") for the Athletic Department and booster organizations that are not organized separately under Internal Revenue Code Section 501(c)(3). The financial statements do not include the assets, liabilities, net assets and revenues and expenses of the various individuals and separate 501(c)(3) booster organizations which may have financially assisted the Athletic Department and/or its student athletes.

The accompanying financial statements also do not include buildings and certain other physical facilities, such as the Stan Sheriff Center, used by the Athletic Department in its administrative and program activities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

Revenue Recognition and Classification

Operating revenues of the Athletic Department result primarily from ticket sales for athletic events and WAC and NCAA distributions. Ticket sale revenues are recognized when the athletic event occurs.

Nonoperating revenues of the Athletic Department are normally generated through nonexchange transactions such as state appropriations, gifts, and investment income.

- State appropriations to the Athletic Department are allocated by the University on an annual basis. Revenue is recognized by the Athletic Department based on total expenses and commitments made in the year that the funds are available.
- Gift revenue and contributions receivable are recognized net of estimated uncollectible amounts when all eligibility requirements are met.
- Investment income (or loss) is comprised of unrealized and realized gains and losses, interest and dividends, net of investment fees allocated by the University and Foundation investment pools.

Cash

All Athletic Department cash is held either by the State Treasury or pooled with other University and Foundation cash balances.

The Department's cash is pooled with other University units and invested by the University's Treasury Office in time certificates of deposit or other legally authorized investments. The Department earns interest based on its average daily cash balance. Hawai'i Revised Statutes require that the depository banks pledge collateral based on the daily available bank balances. The University met insurance and collateral requirements at June 30, 2007.

Cash held at the Foundation is maintained in a pool consisting of cash and cash equivalents at two Hawai'i-based financial institutions. Insurance up to \$100,000 for cash and cash equivalents is provided by the Federal Deposit Insurance Corporation. At June 30, 2007, substantially all of the cash and cash equivalents held by the Foundation were uninsured and uncollateralized.

Accounts Receivable

Accounts receivable consists primarily of amounts due to the Athletic Department from booster organizations and private sources. Accounts receivable are reported net of estimated uncollectible amounts.

The Athletic Department uses the specific identification method to record its allowance for doubtful accounts.

Capital Assets

Capital assets are recorded at cost on the date of acquisition, or if donated, at appraised value on the date of donation. The Athletic Department's policy is to capitalize tangible non-expendable personal property having an estimated useful life of more than one year and an acquisition cost of \$5,000 or more per item. The costs of items with acquisition costs under \$5,000 are reflected as equipment expense on the statement of revenues, expenses, and changes in net assets. Depreciation on the Athletic Department's capital assets is computed using the straight-line method over the estimated useful lives of the assets. The Athletic Department's capital assets are mainly composed of furniture, fixtures, and equipment with useful lives ranging from 3 to 18 years. Capital assets retired or otherwise disposed of, including transfers between the Athletic Department and

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

other University units, are removed from the appropriate asset and related accumulated depreciation accounts.

The land and buildings on which the facilities of the Athletic Department are located and related infrastructure assets are not reflected in the financial statements of the Athletic Department but are reported in the consolidated financial statements of the University.

Advance Ticket Sales

Advance ticket sales are reported as liabilities on the statement of net assets and include amounts received for ticket sales that have not yet been earned as of year end.

Amounts Held for Others

Amounts held for others represent premium seat donations collected by the Athletic Department in conjunction with advance ticket sales. These amounts will be paid to a booster organization upon the completion of the advance ticket sale period.

Due to University and Other Units

Amounts due to University and other units represent negative cash balances. As the Department's cash is pooled with other University units, the Department is assessed an interest penalty equivalent to the investment income that would have been earned on the cash balance.

Accrued Vacation

Employees earn vacation at the rate of one and three-quarters working days for each month of service. Employees may accumulate up to a maximum 90 days of vacation. Any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Upon termination of employment, all unused vacation benefits not exceeding 90 days, are paid to employees.

Net Assets

The Athletic Department's net assets are classified as follows:

Invested in Capital Assets

This component of net assets represents the Athletic Department's total investment in capital assets, net of accumulated depreciation related to those capital assets.

Restricted Net Assets – Nonexpendable

Nonexpendable restricted net assets include endowments and similar type assets that are subject to externally-imposed constraints and required to be maintained in perpetuity.

Restricted Net Assets – Expendable

Expendable restricted net assets include resources whose use is legally or contractually subject to externally-imposed constraints.

Unrestricted Net Assets

Unrestricted net assets represent all other net assets not classified as restricted or invested in capital assets. These resources are derived primarily from ticket sales, state appropriations, and gifts.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, resources are generally applied proportionate to the benefit realized. For instances in which such a determination is not feasible or if there are cost compliance issues, unrestricted resources are applied first.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

Internal Activities

All amounts and account balances resulting from activities occurring between the Athletic Department and Foundation have been eliminated from the accompanying financial statements.

2. Restatement to the Net Deficit Balance

The Athletic Department has restated its June 30, 2006 net deficit balance in order to correctly consolidate booster organization accounts maintained by the Foundation that are not organized as separate 501(c)(3) organizations and to accrue for an unrecorded liability. As a result of the correction, the Athletic Department made the following adjustment to its opening net deficit balance.

Net deficit at June 30, 2006, as previously reported	\$ (876,592)
Adjustment for consolidation of booster accounts	<u>(271,829)</u>
Net deficit at June 30, 2006, as restated	\$ (1,148,421)

As the prior period financial statements have not been presented herein, the restatement has been effected as an adjustment to the opening net deficit balance. The adjustment was audited in connection with the audit of the June 30, 2007 financial statements.

3. Cash Held by the University and Cash and Investments Held at University of Hawai'i Foundation

The Department's cash is pooled with other University units and invested by the University's Treasury Office in time certificates of deposit or other legally authorized investments. At June 30, 2007, the University's investment pool was comprised of the following investment types:

Cash and cash equivalents	46%
Fixed income securities	19%
U.S. government agencies	13%
Auction rate securities	12%
Time certificates of deposit	<u>10%</u>
	<u>100%</u>

At June 30, 2007, Athletic Department investments with fair value of \$3,139,701, including endowment investments of \$2,819,118, respectively, were held in an investment pool at the Foundation. Specific information about the type of investments that comprise the Athletic Department's endowment investment balance is not available. At June 30, 2007, the Foundation's endowment investment pool was comprised of the following investment types:

Domestic common stocks	32%
Fixed income securities	25%
Foreign common stocks	22%
Cash and cash equivalents	3%
Mutual funds	2%
Other	<u>16%</u>
	<u>100%</u>

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

The University's investment strategy incorporates certain financial instruments, which involve to varying degrees, elements of market and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for change in the values of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forward, futures, and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the underlying contract. Refer to the University's consolidated financial statements for additional information on investment risks associated with the University's and Foundation's investments.

4. Accounts Receivable

The composition of accounts receivable at June 30, 2007 are summarized as follows:

Ahahui Koa Anuenue	\$ 518,030
Private sources	
National Collegiate Athletics Association	780,585
Radio station receivable (KKEA)	225,167
Endowment	119,535
Other	389,790
	<u>2,033,107</u>
Less: Allowance for doubtful accounts	<u>(22,989)</u>
	<u>\$ 2,010,118</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets	\$ 793,262	\$ 61,757	\$ (160,282)	\$ 694,737
Less: Accumulated depreciation	(561,325)	(48,695)	130,745	(479,275)
Capital assets, net	<u>\$ 231,937</u>	<u>\$ 13,062</u>	<u>\$ (29,537)</u>	<u>\$ 215,462</u>

6. Scholarship and Medical Expenses

The Athletic Department received restricted contributions primarily for athletic scholarships and medical expenses from various corporations and organizations. Such contributions are included in the statement of revenues, expenses and changes in net deficit as private gifts and includes the following:

Contributor	
Ahahui Koa Anuenue	\$ 2,100,000
Other	154,452
	<u>\$ 2,254,452</u>

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

The following is a schedule of scholarship and medical expenses paid for the year ended June 30, 2007:

	<u>Scholarship</u>	<u>Medical</u>	<u>Total</u>
Men's sports			
Football	\$ 1,393,200	\$ 35,324	\$ 1,428,524
Basketball	289,664	6,272	295,936
Baseball	265,834	4,462	270,296
Swimming and diving	220,688	2,025	222,713
Volleyball	115,122	4,335	119,457
Tennis	110,042	-	110,042
Golf	101,769	498	102,267
	<u>2,496,319</u>	<u>52,916</u>	<u>2,549,235</u>
Women's sports			
Cross country and track	290,833	9,533	300,366
Basketball	259,703	6,591	266,294
Volleyball	219,638	14,187	233,825
Softball	212,827	1,555	214,382
Soccer	194,809	13,395	208,204
Swimming and diving	306,394	6,412	312,806
Tennis	105,086	635	105,721
Water polo	141,729	4,542	146,271
Golf	84,882	112	84,994
	<u>1,815,901</u>	<u>56,962</u>	<u>1,872,863</u>
Other programs			
Administrative/support service	431,763	50,492	482,255
Rally squad	99,656	1,712	101,368
	<u>531,419</u>	<u>52,204</u>	<u>583,623</u>
	<u>\$ 4,843,639</u>	<u>\$ 162,082</u>	<u>\$ 5,005,721</u>

7. Employee Benefits

Employees' Retirement System

Substantially all eligible employees of the Athletic Department are members of the Employees' Retirement System of the State of Hawai'i ("ERS"), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS is composed of a contributory retirement option and a noncontributory retirement option. Prior to July 1, 1984, the ERS consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that were allowed to continue under the contributory option or to elect the new noncontributory option and receive a

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). The AFC is the average salary earned during the five highest paid years of service including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003, is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump sum vacation payment, or highest three school contract years, or last 36 credited months or last 60 credited months plus lump sum vacation payment. Contributions for employees of the Department are paid from the State General Fund and are included as part of the non-imposed fringe benefit costs discussed below.

Most covered employees of the contributory option are required to contribute 7.8 percent of their salary. The funding method used to calculate the total employer contribution requirement is the entry age normal actuarial cost method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the remaining period of 29 years from July 1, 2000.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with five years of credited service or age 55 and 30 years of credited service. Members will receive a benefit multiplier of two percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Most of the new employees hired after July 1, 2006 will be required to join the hybrid plan.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits, and other aspects of the ERS, is also not available on a departmental or agency basis.

ERS issues a CAFR that includes financial statements and required supplementary information which may be obtained from the following address:

Employee's Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

Non-Imposed Fringe Benefits

Non-imposed fringe benefits consist of those amounts paid by the State of Hawai'i General Fund on behalf of the University for the employer's portion of such benefits of the retirement system and for social security taxes. Based on the Athletic Department's portion of the total amount of University payroll to which the non-imposed fringe benefits are attributable, approximately \$531,000 was allocable to the Athletic Department for the year ended June 30, 2007. Accordingly, this amount is included in the State appropriations nonoperating revenues and in personnel services expense on the statement of revenues, expenses and changes in net assets.

Deferred Compensation Arrangements

University regular employees may enter into deferred compensation arrangements directly with authorized insurance companies or agencies through a payroll deduction plan. Accordingly, the Athletic Department has no deferred compensation or withholding payable.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

Vacation Leave

All regular employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year. Accumulated vacation leave, earned but not taken, is reflected as an accrual in the accompanying financial statements. Earned vacation that management estimates will be used during the year ended June 30, 2007 is recorded as current accrued vacation on the statement of net assets. The remaining balance is classified as noncurrent accrued vacation. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

The Athletic Department accrues vacation pay in the period earned. Allocation of funds has not been appropriated by the State for such accrued vacation.

8. Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all eligible employees who retire from the Athletic Department on or after age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory option and age 55 with at least 5 years of service under the contributory option. Retirees credited with at least 10 years of service, excluding sick leave credit, qualify for free medical insurance premiums; however, retirees with less than 10 years must assume a portion of the monthly premiums. All disability retirees who retired after June 30, 1984 with less than 10 years of service also qualify for free medical insurance premiums. Free life insurance coverage and dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The Athletic Department's share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 2007 was approximately \$388,000.

9. Commitments and Contingencies

Workers' Compensation and Other Insurance

The Athletic Department participates in the University's self insurance program for unemployment and workers' compensation claims. The Athletic Department is assessed a premium for covered employees. In return, the University assumes the risk of loss for all current and future claims by Athletic Department employees. Accordingly, no liability for unpaid claims has been recorded in the accompanying financial statements. For general liability claims exceeding \$2 million, the University is covered by excess liability insurance through the State of Hawai'i.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each full month of service without limit, but may be taken only in the event of an illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2007, Athletic Department accumulated sick leave approximated \$4,120,000.

Encumbrances

An encumbrance system is used by the Athletic Department to record outstanding purchase orders and other commitments. This system is used for budget control purposes and no expenses or

University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007

liabilities are recorded in the Athletic Department's financial statements until the related goods or services have been received. At June 30, 2007, approximately \$426,000 was reserved in the Athletic Department's encumbrance system for commitments. To the extent that state appropriated funds are not encumbered at year end or are encumbered but not paid by a specified period of time after year end, these funds generally lapse and are returned to the State. Lapsed funds are not expected to be material.

Contest Guarantees

The Athletic Department has entered into contest agreements to financially compensate other intercollegiate athletic programs to travel to Hawai'i for the purposes of athletic competition. Conversely, the Athletic Department has also entered into agreements with other intercollegiate athletic programs that will financially compensate the University for traveling to those respective sites for the purposes of athletic competition.

At June 30, 2007, aggregate contest guarantees under agreements with other intercollegiate athletic programs are as follows:

Year ending June 30,	Guarantee Expense	Guarantee Revenue
2008	\$ 833,000	\$ 215,000
2009	418,000	830,000
2010	29,000	500,000
2011	200,000	-
2012	300,000	200,000
2013	200,000	-
	<u>\$ 1,980,000</u>	<u>\$ 1,745,000</u>

Contest guarantee agreements may also require the Athletic Department to reimburse the other intercollegiate athletic programs for travel and lodging expenses incurred.

10. Related Party Transactions

The University and State provide certain accounting and general administrative services and facilities to the Athletic Department. The costs of some of these services and facilities are not reflected in the accompanying financial statements.

The Athletic Department has a contract with the State of Hawai'i Stadium Authority ("Stadium Authority") for the use of the Aloha Stadium. Total gate receipts for tickets sold at the Stadium for Athletic Department events was approximately \$1,275,000 for the year ended June 30, 2007, respectively, and total expenses for these events, which were deducted by the Stadium Authority were approximately \$618,000 for the year ended June 30, 2007.

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

11. Post-Season Tournaments

During the year ended June 30, 2007, the University hosted or participated in Post-Season Tournaments, which resulted in the following receipts and disbursements. These receipts and disbursements are reflected in the consolidated statement of revenues, expenses and changes in net assets as operating revenues and expenses.

	Receipts	Disbursements
Football – Hawaii Bowl Game	\$ 430,361	\$ 276,376
Women's Volleyball – NCAA Regional Finals, NCAA Regional Semifinals, NCAA First and Second Round, WAC Post Season	64,546	64,711
Women's Softball – NCAA Super Regional, NCAA Regional, WAC Post Season	46,870	92,604
Men's Volleyball – MPSF Tournament	16,091	15,988
Women's Swimming and Diving – NCAA Championship WAC Post Season	2,200	44,402
Women's Cross Country – NCAA West Regional, WAC Post Season	2,145	60,075
Men's Swimming and Diving – NCAA Championships C-USA Post Season	1,650	36,462
Men's Tennis – WAC Post Season	1,545	10,970
Men's Baseball – WAC Post Season	-	39,033
Women's Water Polo – MPSF Tournament, MPSF Tournament	-	20,807
Men's Basketball – WAC Post Season	-	47,155
Women's Basketball – WAC Post Season	-	23,437
Women's Soccer – WAC Post Season	-	18,468
Women's Golf – NCAA West Regional, WAC Post Season	-	13,243
Women's Tennis – WAC Post Season	-	10,611
Men's Golf – WAC Post Season	-	6,755

12. New Accounting Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other post-employment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the University, this will result in increased expenses and a related liability which will likely be significant. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 48 requires that transactions in which immediate cash payments are exchanged for an interest in expected future cash flows from revenue or receivable collections be classified as a collateralized borrowing unless the criteria of

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Notes to Financial Statements
June 30, 2007**

a sale are met. The Statement also includes a provision which disallows the revaluing of assets transferred between financial reporting entities. The University is currently evaluating the effect that Statement No. 48 will have on its financial statements.

In May 2007, The GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27*. This Statement is to amend note disclosure and required supplementary information ("RSI") standards of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with applicable changes adopted in Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The provisions of this Statement are effective for the fiscal year beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. The University is currently evaluating the effect that Statement No. 50 will have on its financial statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held As Investments by Endowments*, effective for the University's fiscal year beginning July 1, 2008. Statement No. 52 requires that land and other real estate held as investments by endowments be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income. The University is currently evaluating the effect that Statement No. 52 will have on its financial statements.

DRAFT

**Supplementary Information
(Unaudited)**

DRAFT

**University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Combining Schedule of Assets, Liabilities and Net Assets (Deficit) (Unaudited)
June 30, 2007**

Supplementary Schedule I

	UH Only	UHF	Total	Eliminating Entry	Consolidated Total
Assets					
Current assets					
Cash held by the University	\$ 542,229	\$ -	\$ 542,229	\$ -	\$ 542,229
Cash held at University of Hawai'i Foundation	-	1,120,291	1,120,291	-	1,120,291
Travel advances	74,188	-	74,188	-	74,188
Receivables, less allowance for doubtful receivables of \$22,989 in 2007 and \$14,842 in 2006	1,759,000	730,777	2,489,777	(479,659)	2,010,118
Prepaid expenses	20,262	-	20,262	-	20,262
Accrued interest	-	-	-	-	-
Total current assets	<u>2,395,679</u>	<u>1,851,068</u>	<u>4,246,747</u>	<u>(479,659)</u>	<u>3,767,088</u>
Restricted cash held by the University	645,758	-	645,758	-	645,758
Restricted cash held at University of Hawai'i Foundation	-	282,125	282,125	-	282,125
Investments held at University of Hawai'i Foundation	-	3,139,701	3,139,701	-	3,139,701
Capital assets, net	215,462	-	215,462	-	215,462
Total non current assets	<u>861,220</u>	<u>3,421,826</u>	<u>4,283,046</u>	<u>-</u>	<u>4,283,046</u>
Total assets	<u>\$ 3,256,899</u>	<u>\$ 5,272,894</u>	<u>\$ 8,529,793</u>	<u>\$ (479,659)</u>	<u>\$ 8,050,134</u>
Liabilities and Net Assets (Deficit)					
Current liabilities					
Accounts payable	\$ 803,264	\$ 91,408	\$ 894,672	\$ (12,035)	\$ 882,637
Accrued payroll and fringe benefits	742,344	200,000	942,344	-	942,344
Accrued vacation, current	316,414	-	316,414	-	316,414
Advance ticket sales	4,102,140	-	4,102,140	-	4,102,140
Amounts held for others	498,239	-	498,239	-	498,239
Note payable to University	-	-	-	-	-
Cash overdraft due to University	1,396,338	-	1,396,338	-	1,396,338
Total current liabilities	<u>7,858,739</u>	<u>291,408</u>	<u>8,150,147</u>	<u>(12,035)</u>	<u>8,138,112</u>
Accrued vacation and benefits, noncurrent	912,118	-	912,118	-	912,118
Total liabilities	<u>8,770,857</u>	<u>291,408</u>	<u>9,062,265</u>	<u>(12,035)</u>	<u>9,050,230</u>
Contingencies and commitments					
Net assets (deficit)					
Invested in capital assets	215,462	-	215,462	-	215,462
Restricted					
Nonexpendable	-	2,938,653	2,938,653	-	2,938,653
Expendable	(374,874)	621,731	246,857	-	246,857
Unrestricted	<u>(5,354,546)</u>	<u>1,421,102</u>	<u>(3,933,444)</u>	<u>(467,624)</u>	<u>(4,401,068)</u>
Total net assets (deficit)	<u>(5,513,958)</u>	<u>4,981,486</u>	<u>(532,472)</u>	<u>(467,624)</u>	<u>(1,000,096)</u>
Total liabilities and net assets (deficit)	<u>\$ 3,256,899</u>	<u>\$ 5,272,894</u>	<u>\$ 8,529,793</u>	<u>\$ (479,659)</u>	<u>\$ 8,050,134</u>

University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)

Schedule of Revenues, Expenses and Changes in Net Assets (Deficit) (Unaudited)
Year Ended June 30, 2007

Supplementary Schedule II

	UH Only	UHF	Total	Eliminating Entry	Consolidated Total
Operating revenues					
Sales and services	\$ 16,038,244	\$ -	\$ 16,038,244	\$ (7,494)	\$ 16,030,750
Guarantees	919,500	-	919,500	-	919,500
Sports camps and clinics	320,493	-	320,493	-	320,493
Other operating revenues	192,411	569,531	761,942	(81,476)	680,466
Total operating revenues	17,470,648	569,531	18,040,179	(88,970)	17,951,209
Operating expenses					
Personnel services	10,843,372	40,000	10,883,372	-	10,883,372
Scholarships	4,843,639	-	4,843,639	-	4,843,639
Travel and subsistence	3,290,794	-	3,290,794	-	3,290,794
Materials and supplies	1,470,859	-	1,470,859	(3,457)	1,467,402
Guarantees	1,361,660	-	1,361,660	-	1,361,660
Outside services	1,205,804	-	1,205,804	-	1,205,804
Foundation expenses	(1,200)	1,587,087	1,585,887	(459,651)	1,126,236
Student payroll	604,903	-	604,903	-	604,903
Dues and subscriptions	436,553	-	436,553	-	436,553
Bank service charges and transaction fees	265,879	-	265,879	-	265,879
Utilities	168,319	-	168,319	-	168,319
Printing and binding	167,952	-	167,952	-	167,952
Medical	162,082	-	162,082	-	162,082
Rentals	145,775	-	145,775	-	145,775
Insurance	104,486	-	104,486	-	104,486
Repairs and maintenance	87,989	-	87,989	-	87,989
Equipment expense	76,281	-	76,281	-	76,281
Depreciation	48,695	-	48,695	-	48,695
Loss on disposal of equipment	29,537	-	29,537	-	29,537
Computer software	19,031	-	19,031	-	19,031
Other operating expenses	142,845	-	142,845	400	143,245
Total operating expenses	25,475,255	1,627,087	27,102,342	(462,708)	26,639,634
Operating loss	(8,004,607)	(1,057,556)	(9,062,163)	373,738	(8,688,425)
Nonoperating revenues (expenses)					
Investment income, net	(140,600)	355,410	214,810	-	214,810
Private gifts	2,505,701	1,159,172	3,664,873	(295,871)	3,369,002
Stadium endowment	367,920	-	367,920	-	367,920
State appropriations	4,885,018	-	4,885,018	-	4,885,018
Total nonoperating revenues, net	7,618,039	1,514,582	9,132,621	(295,871)	8,836,750
Net increase (decrease) in net assets (deficit)	(386,568)	457,026	70,458	77,867	148,325
Total net assets (deficit)					
Beginning of year, restated	(5,127,389)	4,524,459	(602,930)	(545,491)	(1,148,421)
End of year	\$ (5,513,957)	\$ 4,981,485	\$ (532,472)	\$ (467,624)	\$ (1,000,096)

University of Hawai'i at Manoa Intercollegiate Athletics
(Athletic Department)
Schedule of Revenues and Expenses by Sport (Unaudited)
Year Ended June 30, 2007

Supplementary Schedule III

	Men's Sports					Women's Sports				Total
	Football	Basketball	Baseball	Volleyball	Other	Volleyball	Basketball	Softball	Other	
Program revenues (Note 1)	\$ 7,473,042	\$ 1,409,306	\$ 621,833	\$ 439,368	\$ 327,598	\$ 1,258,037	\$ 174,706	\$ 174,524	\$ 822,049	\$ 12,700,463
Program expenses (Note 1)	7,069,269	1,990,173	1,196,795	606,122	1,084,837	914,273	959,823	698,742	3,084,356	17,604,390
Net program income (loss)	\$ 403,773	\$ (580,867)	\$ (574,962)	\$ (166,754)	\$ (757,239)	\$ 343,764	\$ (785,117)	\$ (524,218)	\$ (2,262,307)	(4,903,927)
Departmental revenues (Note 2)										14,087,496
Departmental expenses (Note 2)										(9,035,244)
Change in net assets										\$ 148,325

Note 1: Program revenues are principally comprised of ticket sales, away game subsidies from other universities, sports camp revenues, television royalties, and other revenues directly generated by the sport. Program expenses are principally comprised of coaching salaries, scholarships, subsidies paid to other universities, travel, equipment expense, facilities costs and other costs directly related to the sport.

Note 2: Departmental revenues are principally comprised of corporate sponsorships, NCAA / WAC distributions, private gifts, radio royalties and state appropriations. Departmental expenses are principally comprised of support staff salaries, facilities maintenance, and other administrative and support costs.

Difference Between 2008 Budget 2/29/08 and 6/20/07

Updated 2/29/08 by TK

	2008 as of 2/29/08	2008 as of 7/1/07	Difference	Explanation for Changes
Revenue Stream				
AKA Donation	2,300,000	2,000,000	300,000	Increase per Vince 1/2008
Football ticket sales	5,900,000	5,500,000	400,000	Increased attendance
Men's basketball ticket sales	1,000,000	1,200,000	(200,000)	Decreased attendance
Women's volleyball ticket sales	800,000	950,000	(150,000)	Decreased attendance
Men's volleyball ticket sales	275,000	325,000	(50,000)	Decreased attendance
Baseball ticket sales	250,000	300,000	(50,000)	Decreased attendance
Women's basketball ticket sales	30,000	50,000	(20,000)	Decreased attendance
Concessions	350,000	450,000	(100,000)	Decreased attendance
Corporate Partnerships	2,200,000	2,400,000	(200,000)	Overestimate
TV Contract	2,581,500	2,250,000	331,500	Increased pay per view
Radio contract	350,000	350,000	-	
WAC Distribution	3,066,570	800,000	2,266,570	Sugar Bowl net offset by decrease in WAC payout
Guarantees	215,000	800,000	(585,000)	Overestimate
NCAA Distribution	716,000	850,000	(134,000)	Updated estimate based on 2007 payout
MBNA contract			-	
Rainbow fever	70,000	90,000	(20,000)	Updated based on 2007 payout and market performance
Licensing	200,000	50,000	150,000	
Stadium endowment	378,380	400,000	(21,620)	
Rentals	600,000	600,000	-	
G Funds	1,500,000	1,500,000	-	
Dedicated Fundraising - Foundation		400,000	(400,000)	Updated due to spending of foundation boosters
Scholarship Endowments	480,000	150,000	330,000	Updated due to new endowments
Etickethawaii		50,000	(50,000)	Decreased due to actuals being included in ticket sales
Court Side Seats	130,000	120,000	10,000	Increased per Vince 1/2008
Post Season revenues			-	
Camps and Clinics/Tournaments	20,000	20,000	-	
Interest Income	(100,000)		(100,000)	Updated per 2007 amounts
Other Sources	14,900		14,900	Updated per actuals
Parking	5,000		5,000	Updated per actuals
Away Game ticket sales			-	
Reimbursements	50,838		50,838	Updated per actuals
University Support	780,904		780,904	
Total Revenues	24,164,092	21,605,000	2,559,092	
Total Expenses	(23,429,725)	(22,487,609)	(942,116)	
Projected Net Income	<u>734,367</u>	<u>(882,609)</u>	<u>1,616,976</u>	

FY 2008-2009 Budgeted Revenues

updated 3/25/08 by TK

	Projected 2009
Revenues	
AKA Donation	2,400,000
Football ticket sales	6,200,000
Men's basketball ticket sales	1,100,000
Women's volleyball ticket sales	900,000
Men's volleyball ticket sales	300,000
Baseball ticket sales	300,000
Women's basketball ticket sales	40,000
Concessions	400,000
Corporate Partnerships	2,400,000
TV Contract	2,500,000
Radio contract	365,000
WAC Distribution	800,000
Guarantees	830,000
NCAA Distribution	725,000
MBNA contract	200,000
Rainbow fever	75,000
Licensing	150,000
Stadium endowment	380,000
Rentals	100,000
G Funds	1,525,000
Dedicated Fundraising - Foundation	
Scholarship Endowments	400,000
Court Side Seats	130,000
Post Season revenues	
Camps and Clinics/Tournaments	20,000
Interest Income	
Other Sources	
Parking	
Away Game ticket sales	
Reimbursements	
University Support	
Total Revenues	22,240,000

Total Expenses (23,928,060)

Projected Net Income/(Loss) (1,688,060)