2001

Annual Report

The Research Corporation of the University of Hawaii

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Letter to the Governor

January 3, 2002

The Honorable Benjamin Cayetano Governor, State of Hawaii Executive Chambers Honolulu, HI 96813

Dear Governor Cayetano:

We are pleased to submit the Annual Report of The Research Corporation of the University of Hawaii (RCUH) for the fiscal year ended June 30, 2001, as required by Chapter 307, Hawaii Revised Statutes.

We experienced a milestone year, with a volume of business of \$108.5 million, a 24% increase over the previous year! This was due to increased activity on University projects, as the decision was made by the University to service order all procurement activities related to extramural sponsored research projects to RCUH. Our non-University business also increased slightly. So, it was another busy year for RCUH, but technology (in the form of our Web systems) made life much easier and efficient for us.

The value of RCUH is its ability to meet the unique demands of research . . . reacting quickly, being flexible, and cutting through bureaucracy. We are committed to providing the best customer service we can.

Evan S. Dobelle

Nas Beell

President

Harold S. Masumoto Executive Director

The Research Corporation of the University of Hawaii

Its creation . . .

CUH is a State agency, established by the Legislature in 1965, and is attached to the University of Hawaii for administrative purposes. Its enabling legislation is codified as Chapter 307 of the Hawaii Revised Statutes.

Its mission . . .

he fundamental mission of RCUH is to support the research and training programs of the University of Hawaii and to enhance research, development, and training generally in Hawaii.

Its need . . .

... the rapid and extensive entry of the University of Hawaii into basic and applied research programs sponsored by the federal government, and into applied research programs which couple University capability with that of private industry, requires a much more flexible and streamlined method of operation than is permitted the usual operations of state agencies. In short, the University must be able to function in research activities more like a business . . Standing Committee Report 809, House Committee on Higher Education, 1965

. . . Increasingly, research contracts accepted by the University require rapidity of action and flexibility in operational and financial activities more characteristic of business firms than of governmental agencies. State

regulations of many types which control the University's normal functioning do not provide the expeditious managerial environment needed to function in the highly competitive area of sciencerelated activities now involving universities, federal government and private industry.

Standing Committee Report 836, Senate Committee on Ways & Means, 1965

Although penned more than thirty years ago, these words still hold true today. In fact, these words are even more profound today. The University has made tremendous strides in the highly competitive world of externally-funded research, and today, it stands alongside the great research universities. We believe RCUH's role in facilitating research activities has contributed to this achievement.

Its function . . .

CUH is akin to a service bureau. Its services fall in the areas of accounting, human resources, and procurement. Because of its exemption from state statutes relating to special fund reimbursements to the state general fund, advertising for bids. purchases in Hawaii when public moneys are expended, civil service. compensation, public employment, and the retirement system, RCUH has the flexibility to function more like a business. Accordingly, RCUH has its own personnel, payroll, accounting, and disbursing systems, independent of the state and University systems. This makes it possible for RCUH to process transactions expeditiously, which in turn

makes it possible for the researchers to focus more of their efforts on research rather than administrative activities.

While most of the projects handled by RCUH are in the State of Hawaii, many transcend the boundaries of the state into different parts of the world. Because of the unique nature of research activities, RCUH must remain flexible to meet the needs of projects, while at the same time adhere to the rules and regulations attached to projects by sponsoring agencies.

Its relationship with the UH. . .

CUH is attached to the UH for administrative purposes. The Internal Agreement between the UH and RCUH defines the basic responsibilities of each party and the financial arrangement to pay for the cost of services rendered by each party.

Its funding . . .

ike a business, RCUH must be self-supporting. It receives no state funds and operates entirely on fees charged for its services.

For University of Hawaii projects (referred to as 'service order' projects), the University currently pays RCUH a fee for its services based on an agreed-upon amount.

'Direct' projects (typically non-University projects), such as those of other state agencies and private organizations, are also charged a fee to cover RCUH's administrative costs. These fees are individually negotiated and are based on the scope and volume of services provided.

Its governance . . .

he affairs of the Corporation are under the general management and control of a Board of Directors. The Board consists of ten members -- 5 appointed by the Governor and confirmed by the Senate and 5 members of the UH Board of Regents selected by the Board of Regents.

The President of the UH also serves as President of RCUH.

The day-to-day affairs of the Corporation are managed by an Executive Director, who has the delegated authority to enforce and execute all policies, rules, regulations, etc., necessary to conduct the business of the Corporation.

Its employees . . .

he "core" staff of RCUH consists of approximately 26 employees, spread across the departments of accounting, disbursing, human resources, procurement, project management, and the executive director's office. Operational expenses totalled \$3.1 million in 2000-01. The core staff is housed at Sakamaki Hall on the UH campus and at the Manoa Innovation Center on Woodlawn Drive in Manoa.

At any given time, there are on average 1,500 project personnel on RCUH's payroll.

EEO/AA Policy

CUH is an equal employment opportunity/affirmative action employer. It is the policy of RCUH to afford equal employment opportunity to all individuals without regard to race, color, religion, sex, national origin, age, arrest and court record, handicap, marital status, or status as a disabled veteran or veteran of the Vietnam era. RCUH's Affirmative Action Plan describes the programs/procedures developed to ensure employment opportunities for women, minorities, handicapped, disabled, and Vietnam era veterans. The Plan is available for inspection at the RCUH Human Resources Department.

The Year in Review

record year . . . a milestone year . . . definitely a busy year! RCUH surpassed the \$100 million mark in volume of business - \$108.5 million! This was due in large part to the University of Hawaii service ordering all procurement activities for extramural sponsored research projects to RCUH (previously only selected transactions were service ordered). We were able to handle this increased volume with relative ease because of our electronic systems – the establishment of new projects were done via an electronic feed from the University to RCUH, therefore eliminating the manual processing of paper hard copies. What a timesaver!

RCUH's use of technology to streamline its business operations has resulted in increased efficiencies and has allowed us to enhance our level of service to our projects. Consequently, we continue to earmark resources to improve our Web systems. Throughout the past year, much effort was devoted to eliminating more of the time-intensive manual processing of documents and adding new functions to make our systems more user-friendly and efficient. More on-line features were introduced for both our financial and human resources applications, and there's definitely more to come in the new fiscal year as software upgrades take place.

Our Hilo Office, which was established last year, continues to grow, and we believe it is making an impact as far as increased activity for UH Hilo and its sponsored research activities. The first year of operation was naturally at the stage of "getting to know you" and defining RCUH's role. Hopefully those projects which are being serviced by our Hilo Office are more than satisfied with

the service and are finding this resource to be an important element in their quest for research funding. We have the utmost confidence in our Hilo Office staff (as we do in our Honolulu staff) that our Big Island operations will grow and thrive.

During the year, Executive Director Masumoto continued to provide administrative oversight responsibility for OTTED (Office of Technology Transfer and Economic Development) and assist in the reorganization of that office. With the assistance of a consultant, the objectives of the office were clearly defined, staff reorganized, and appropriate policies and procedures put in place. The recruitment of a Technology Licensing Manager remained pending as the year drew to a close and would remain a top priority for the new year.

We thank our projects for the opportunity to be of service to them and look forward to working with them in the years to come.

Board Activities

ur thanks to our Board of
Directors for their leadership,
vision, and support! As
mentioned in other parts of this
report, the fiscal year ending June 30,
2001 was a banner year for RCUH, and
the Board played a critical role in
RCUH's achievement of this milestone.
Bert Kobayashi and Brian Tamamoto,
Chairman and Vice Chairman,
respectively, ably led the charge this
year.

The business activity of \$108.5 million speaks for itself . . . there is no question that RCUH provides a valuable service in assisting the University of Hawaii and the State of Hawaii in its research activities. The Board continues to be supportive of RCUH "spreading its wings" to venture into often uncharted areas to carry out its mission of supporting research and training. A prime example was the effort to bid for the operations and management of the Maui High Performance Computing Center. Through the leadership provided by Executive Director Masumoto and the Board's commitment of financial resources, the University and RCUH team emerged as the successful bidder for this lucrative contract (potential of \$181 million over a ten-year period), the largest single contract award in the University's history. This contract provides the University with unlimited opportunities to showcase Hawaii's 'home-grown' talent and look for opportunities to diversify our state's economic base. This was definitely a very significant happening for the University, RCUH, and the State of Hawaii, and the Board's support was critical to the successful outcome of the

endeavor.

During the year, the Board also approved the amendment to the UH/RCUH Internal Agreement and the provision related to the management fee paid to RCUH. The fee was reduced to 3.5% (from the previous graduated scale of 2% to 5%), with a cap of \$1.9 million. The Board also approved an addendum whereby the University may designate that certain employees (although on the RCUH system) are University employees.

As the year came to a close, we bid farewell to Board members Donald Kim and Lynn Kinney and subsequently Allan Ikawa because of his election as Chair of the UH Board of Regents. Our sincerest thanks and appreciation to our outgoing Board members for their dedicated service.

Board of Directors

(as of 6/30/01)



Bert Kobayashi Chairman & Director



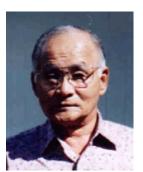
Allan Ikawa Director



Donald Kim Director



Walter Nunokawa Director



Shigeo Iwamoto Director



Lynn Kinney Director (thru 5/31/01)



Herbert Segawa Director



Charles Kawakami Director

Photo Not Available

Chris Kobayashi Director



Brian Tamamoto Director

Project Review

We are pleased to highlight the following three projects:

A "UH Service Ordered" Project

Active Hyperspectral Imaging (AHI) Sensors Program

This research is currently being performed to establish the basis for the development of advanced, active hyperspectral imaging sensors with the capability to detect nuclear debris injected into the atmosphere by clandestine nuclear tests, and a significantly improved remote detection capability for other weapons of mass destruction and their air-breathing and ballistic missile delivery systems. This research will also contribute to the technology base for the development of transportable high power free electron lasers and their optical systems for civilian and defense applications.

The program has three basic phases.

1) The laboratory research phase will verify the physical principles of the detection mechanism and determine the required laser wavelength and power levels.

2) The second phase will develop the laser, optical, and detector technology at the University of Hawaii at Manoa, and TREX Enterprises on Kauai.

3) Finally, the commissioning phase will consist of installation, operation, and evaluation of the integrated system at the Pacific Missile Range Facility on Kauai.

This research has been undertaken by a team of academic and industrial researchers with facilities on Oahu and Kauai. The team members, the University of Hawaii at Manoa and TREX Enterprises of Kauai, have each made major prior contributions to the development of the laser, optical, remote sensing and Hyperspectral imaging technology required to support this research. Key elements of the advanced accelerator and laser technology required for this research have been contributed to the University of Hawaii by Rocketdyne (now Boeing North American) in Canoga Park, California. The academic departments at the University of Hawaii directing this research are the Department of Physics and Astronomy and the Hawaii Institute of Geophysics and Planetology/SOEST.

A "Direct" Project

Hawaii Birth Defects Program

Did you know that in Hawaii:

- around one in five (20%) of all pregnancies result in a spontaneous miscarriage,
- about 1,000 (5%) of all Hawaii babies are born each year with a recognizable congenital abnormality,
- birth defects are the leading cause of childhood disability and infant mortality, with over 900 fetal deaths and over 100 infant deaths occurring annually, and
- approximately 30% of all admissions of pediatric hospitals are caused by problems directly associated with birth defects.

Birth defects are therefore a significant public health concern for Hawaii.

A birth defect is defined as any structural, functional or biochemical abnormality that originates before birth and is detectable at birth or shortly thereafter. These abnormalities may be genetic, caused by environmental hazards or lifestyle effects, but often are of unknown origin.

Although some causes of birth defects are not currently known, a fair number are preventable, and the cost of both medical care and treatment and lifelong special care, rehabilitation, and special education can be staggering. Average costs to the community of treating just one of these children can easily exceed a half a million dollars in a lifetime. And.

there is also the incalculable heartache and lifetime of care required of family members.

Thus, responding to an outcry for better information from the community, the Hawaii Birth Defects program (HBDP) was begun in August 1988 in response to an Invitational Roundtable recommendation to the Governor to establish a statewide Birth Defects and Adverse Reproductive Outcomes Surveillance System for the State. The HBDP derives its statutory authority from Executive Chamber rulings by the Governor through the Hawaii Revised Statues.

The HBDP is a population based, multiple ascertainment source, active surveillance system serving all of Hawaii. The purpose of the HBDP is to be a reliable, valid and timely information source for ascertaining the number of pregnancies resulting in adverse reproductive outcomes, the number of infants under one year of age with specific disabilities, and the effectiveness of control programs aimed at reducing the number of birth defects and other adverse pregnancy outcomes in the State.

Data are collected at 33 participating facilities statewide, with a strong emphasis on maintaining strict quality control procedures and the absolute confidentiality of affected families. About 125 pieces of demographic and diagnostic information are collected for each case, and include over 1,000 different birth defect diagnoses. The HBDP database currently has over 15,000 cases covering fourteen years of data collection (1986-1999).

The Program also monitors birth defects for trends and changes over time. It has

participated in a number of local geographic cluster investigations to address concerns of community members who thought they may be experiencing a higher than expected rate of birth defects (none were). At the national level, the HBDP was invited by the Centers for Disease Control and Prevention to serve as the pilot site and then participate with five other high military population States in Phase II studies with the U.S. Navy's California Naval Health Research Center Gulf War Syndrome Study Project. The outcomes of these intensive investigations were published in professional journals and reported on Capitol Hill.

To date, the Program has fourteen years of complete, continuous, statewide data and has accumulated a sizable database of information on birth defects. This information is used to develop public awareness education programs about birth defects and their causes and to pinpoint areas where focused educational and outreach efforts need to be made. Since 1989, the HBDP has responded to over 1,680 inquiries for data from lay and professional requesters, has given 123 presentations with special emphasis on students and physicians, and lastly, has published 102 articles at the local, national and international levels. including twelve articles accepted for publication in professional peerreviewed journals.

The most important aspect of getting data back to the community, however, is the preparation and distribution of the HBDP's 130+ page annual statewide data surveillance book showing the actual numbers of birth defects cases, prevalence rates, and time trend analyses. In summary, the HBDP acts as an early warning system and

resource for the State Department of Health and local health care providers for the proper planning and development of statewide and community level services and preventive strategies in this important public health area of birth defects in Hawaii.

A "Revolving Fund" Project

University of Hawaii at Hilo Conference Center

The University of Hawaii at Hilo Conference Center, dedicated to promoting Hawaii as an outstanding venue for international meetings and educational and cultural travel, initiated their operation in 1990 and is affiliated with the UH at Hilo College of Continuing Education and Community Service and the Office of University Relations. The Conference Center's Hawaiian EDventure travel program has twice been the recipient of the state's Kahili Award and was also distinguished as the "Best of Show" by the Hawaii Visitors and Convention Bureau in 1999. The Center also received international recognition for "Institutional Achievement in Event Management", a 1999 award presented by the International Association of Event Managers.

Some of the Center's noteworthy accomplishments include:

- Developed state's leading travel education program, the Hawaiian EDventure Program.
- Designed brochures on travel education in English, Japanese, Korean and Chinese.
- Produced and directed travel education videos on the following subjects:

"E Ho'i Mai E Ke Kumu..Going Back to Our Roots" - A comprehensive look at travel education for students (national and international) "E Pulama I Ka Ko Honua Nei" (Reaching Across Cultures" - A Japanese student, educational travel program

"Aloha Kupuna" - A video on cultural and travel educational programs directed at the 50+ demographic

"Aloha Ohana" - A video on travel education directed at the intergenerational market

- Directed, coordinated and implemented over 500 conferences and professional meetings during the past 10 years.
- Directed scientific conferences in the areas of physics, photopathology, orthoptory, mycology, psychology, theoretical and biological mathematics, ethnobotany, chemistry, science education, cultural anthropology and numerous other disciplines.
- Hosted visiting scientists, researchers and academicians from over 60 different countries.
- Generated over 300,000 visitor days from conferences and educational travel programs.
- Hosted the largest scientific conference ever held at UH Hilo in conjunction with the Society of Conservation Biology (over 1,200 attendees and 300+ guests).
- Secured extramural funding from the Hawaii Tourism Authority to promote, develop and market educational and cultural travel study programs to Hawaii (\$100,000 for FY 2001-02).
- Developed over 100 partnerships with educational institutes, eco-

tourism operators, local businesses and cultural resources in a collaborative effort to promote and implement educational travel programs to Hawaii.

- Secured, in partnership with the Hawaii Island Economic Development Board, a grant to promote Hawaii as a 'Business Destination". The goal will be to develop a refined marketing vision for Hawaii that promotes Hawaii as a professional and technically sophisticated conference and business destination.
- Established on-going collaboration with the Gemini Observatory to provide astronomy education throughout the Big Island. Gemini uses the Hawaiian EDventure portable Starlab, which is their primary teaching tool.
- Served as a working laboratory and internship site for students interested in communication, business, journalism, political science and the visitor industry.
- Participated in over 50 national and international trade shows promoting UH at Hilo and educational travel. Promoting Hawaii as the "greatest outdoor classroom in the world" has been a very effective marketing campaign.

Outstanding Employee of the Year Awards

outstanding (out-stan'ding) adj.
standing out among others of its kind;
prominent; superior to others of its kind;
distinguished; excellent.

"Outstanding", per the dictionary definition, ably describes the individuals we recognize for this year's RCUH Outstanding Employee of the Year awards. Employees are the heart and soul of an organization and RCUH is no exception in having its share of outstanding employees.

Established in 1987 by the RCUH Board of Directors, the Outstanding Employee of the Year Awards program encourages, recognizes, and rewards RCUH employees who have made demonstrable, significant and outstanding contributions to their project during the previous year. It is open to all regular employees or groups of employees of the RCUH.

This year, there were 18 nominees and three winners. The first place winner received \$1,000.00 and the two (there was a tie this year) second place winners received \$500.00 each.

We are pleased to introduce our winners.

Second Place

 David Byrne, Manager of the Visitor Information Station (VIS), Mauna Kea Observatories Support Services

David's accomplishments for the year 2000 include expanding the VIS program to every day and night

(previously it was only 5 days and 3 nights per week) and establishing a bookstore, a volunteer program, and three monthly event nights. To fulfill the manpower needs of maintaining the expanded VIS operation, the staff not only doubled, but David also started a volunteer program that currently has over 40 volunteers. The First Light Bookstore, started in 1999 with a modest line of t-shirts, is now stocked with over 100 different items, many of them unique to Mauna Kea, and generates close to \$.5 million in revenues. This bookstore has not only played a very important role in the VIS expansion, but it also helps pay for the expenses of the increased labor force and the volunteer and Saturday evening programs.

The three monthly night events are:
1) "The Universe Tonight" lecture series (on the first Saturday of each month). The first



event attracted an amazing 300 people. 2) The University of Hawaii at Hilo Astronomy Club assisting with the stargazing program in exchange for use of the telescopes for their observations (on the second Saturday of the month). 3) "Malalo I Ka Lani Po" (Under the Night's Sky) program that educates the public about the historical and present day cultural significance of Mauna Kea (on the third Saturday of the month).

As if all of this was not enough to

keep David busy, he takes on the responsibility of checking the summit road conditions during inclement weather and makes the decision to close the road if ice and snow make conditions hazardous. He also communicates this to the public by leaving a message on the snow report answering machine.

 Diane Tokumura, Secretary, Institute for Astronomy (IfA)

Diane's nomination was endorsed by seven others whom she either works for or with, and all had one thing in common to say -- that



she is full of dedication and efficient. Diane serves as a secretary to six Principal Investigators and has over 20 years of useful information that she does not hesitate to share with others. She has ingeniously created and maintains her own web page called "Ask Diane". This is an internal IfA web site which includes a variety of useful information that helps Diane achieve the level of efficiency that amazes those around her. Her efficiency is so amazing that she is known as the IfA travel expert who mastered the art of completing the most complicated travel documents. Diane's completed forms have been used as examples of properly prepared forms by the University of Hawaii Disbursing Office for its training session. When new travel object codes for various classes of

employees were developed, Diane created a table for everyone's use as a quick reference. She also developed a spreadsheet that delineated information for travel requests and completions.

Diane's initiative and independence are exemplified in her willingness to go the extra mile to ensure that things go smoothly. Some examples of this are: volunteering to be at the airport early one Saturday morning to ensure that some students were properly checked in for their flights and to answer any questions their parents had; dropping off rush express mail packages after work, even though it is often out of her way; and even driving to a faculty member's home (since he wasn't reachable by phone) to remind him of an exam that morning.

First Place

 Susan Kanagawa, Assistant Director, Center for International Business Education and Research (CIBER)

> Susan's nomination was based on her accomplishments outside the scope of her job. In March of 2000, funding was made available for 6 State-level grants in the amount of \$10.5 million each (\$2.1 million per

year for 5
years).
Although
her
workload
was as
heavy as
ever, Susan
jumped at
this
opportunity
to make a



notable contribution to not only the CIBER project, but to the community as well. Her commitment of working towards the goals of the CIBER project was clearly demonstrated in her willingness to take on a task outside of her defined scope of responsibility. The tasks she accomplished included arranging video conferences and teleconferences to gain input for the proposal and driving all over the island gathering data and networking with people throughout the community, including the Hawaii Community Foundation, Queen Liliuokalani Children's Centers. Kamehameha Schools, College Connections Hawaii, the Department of Education, and UH Manoa, to gain their support. Her technological contribution included developing a website to post drafts for all to review.

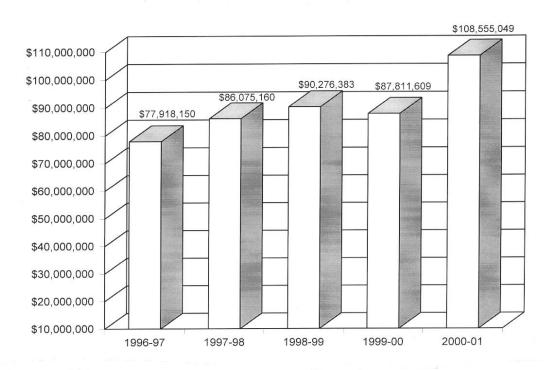
> Her most remarkable contribution is probably her ability to form consensus among people with different views and interests. As the deadline neared for the proposal submission, the level of her commitment was evident in her preparations of budget worksheets, proposal exhibits, charts and figures necessary to clarify the proposal and objectives. To qualify for the federal funds, Susan also secured the required letters of inkind commitments totaling over \$10 million. She also assisted in drafting and obtaining over a dozen letters of support from groups throughout Hawaii. To emphasize the level of commitment she put forth in this proposal, two days prior to the due date, she worked until 10 p.m. and got up the next morning at 3 a.m. to call the grants officer in Washington D.C. to get additional technical information. Her hard work, commitment, dedication, passion, and

technological ingenuity was rewarded with the Hawaii State GEAR Up project being funded for \$1.85 million this year and a total of \$10+ million over the next 5 years. Thanks to Susan, \$4 million of the funding will provide scholarships for low-income students throughout Hawaii who have participated in the college preparation programs provided by GEAR UP. Astonishingly, Susan accomplished all of this in four months while still juggling her regular duties as the Assistant Director of CIBER.

Our congratulations to David, Diane, and Susan for being this year's Outstanding Employees of the Year! Keep up the GREAT work!

Statistical Data - Fiscal Years 1997-2001

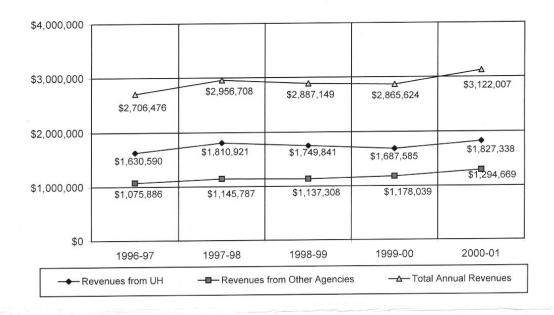
Dollar Volume of Project Administration



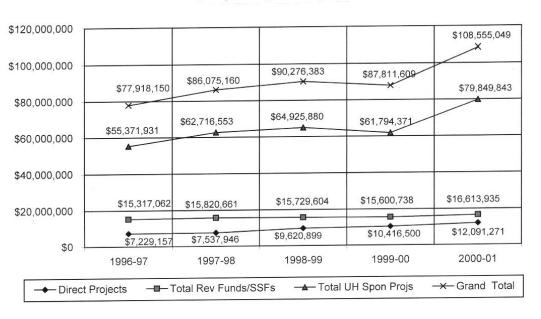
Distribution of Awards by Project Disciplines

	1997	1998	1999	2000	2001
Agriculture	\$ 1,771,916	\$ 3,623,723	\$ 6,504,725	\$ 5,864,154	\$ 5,765,112
Astronomy	7,267,603	9,988,779	9,707,733	10,991,189	16,489,668
Biomedicine	13,217,976	12,606,305	13,555,607	18,931,690	19,912,680
Energy Research	1,283,978	831,713	416,117	374,393	1,599,511
Environmental	4,740,886	5,515,644	6,377,954	6,978,092	8,744,993
Fisheries & Aquacul	731,835	898,492	1,600,011	1,517,608	3,128,072
Marine Programs	18,533,978	20,996,370	23,811,056	16,642,833	19,436,392
Publcns/Ed Materials	5,670,445	5,312,797	2,982,726	2,092,514	4,196,119
Revolving Funds	15,317,063	15,820,662	15,729,604	15,718,255	16,605,734
Social Sciences	6,893,007	8,743,092	8,932,803	8,680,895	12,618,511
UH Miscell	2,489,463	1,737,583	658,047	19,986	58,257
Total	\$77,918,150	\$86,075,160	\$90,276,383	\$87,811,609	\$108,555,049

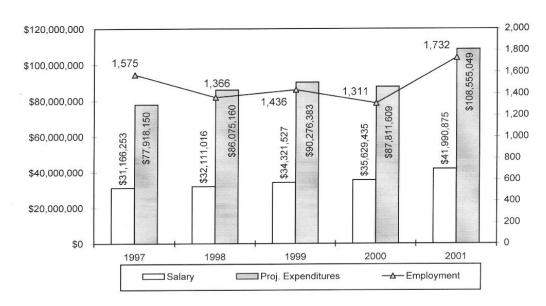
Operating Revenues Summary



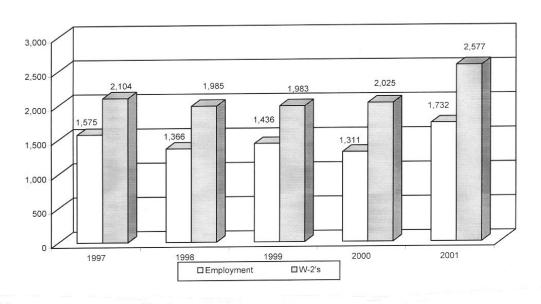
Project Expenditures



RCUH Employment/Salaries/Project Expenditures



RCUH Employment vs. Total W-2's



Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	1997	%	1998	%	1999	%	2000	%	2001	%
FEDERAL	provide the									
Dept of Health and Human Services	11,585,399	14.87	11,127,931	12.93	10,971,298	12.15	10,362,196	11.80	12,956,111	11.94
	8,820,197	11.32	8,358,674	9.71	7,163,037	7.94	5,506,494	6.27	6,607,200	6.0
Dept of Commerce	4,312,148		6,353,439	7.38	6,507,167	7.21	4,834,609	5.51	6,981,894	6.43
National Science Foundation										4.2
Dept of Agriculture	3,132,563	4.02	3,733,068	4.34	5,154,618	5.71	3,904,449	4.45	4,637,651	
Dept of Interior	3,695,354	4.74	4,184,009	4.86	5,203,259	5.76	4,928,886	5.61	5,620,943	5.18
Dept of Energy	1,369,515	1.76	1,248,790	1.45	913,462	1.01	595,160	0.68	692,347	0.64
Dept of Defense	3,796,023	4.87	5,394,565	6.27	3,271,235	3.62	2,350,763	2.68	5,250,187	4.84
Dept of Education	1,896,217	2.43	1,554,757	1.81	1,283,572	1.42	1,231,692	1.40	4,251,257	3.92
Natl Aeronautics & Space Adminis	1,118,362	1.44	1,251,060	1.45	2,284,777	2.53	2,004,425	2.28	3,867,868	3.56
	402,701	0,52	1,817,081	2.11	2,950,956	3.27	3,323,168	3.78	2,922,028	2.69
Dept of State										2.09
Other Miscellaneous Federal UH FEDERAL PROJECTS	3,129,461 43,257,940	4.02 55.52	2,370,394 47,393,768	2.75 55.06	1,458,630 47,162,011	1.62 52.24	1,622,099 40,663,941	1.85 46.31	2,265,350 56,052,836	51.65
NON-FEDERAL										
STATE & COUNTY GOVERNMENTS										
University of Hawaii:						The State of the S				
Miscellaneous UH P.O. Transactions	2,489,463	3.19	1,737,583	2.02	658,047	0.73	19,986	0.02	58,257	0.05
Sch of Ocean & Earth Sci and Tchnlgy	1,667,414	2.14	1,563,198	1.82	1,841,667	2.04	1,729,385	1.97	1,499,125	1.38
	1,172,343	1.50	1,115,789	1.30	1,487,475	1.65	1,429,883	1.63	2,902,380	2.67
Institute for Astronomy						0.74		1.82	1,422,423	1.31
Ofc of Tchnlgy Transfer & Econ Dev	445,118	0.57	466,392	0.54	671,112		1,599,402			
Cancer Research Center of Hawaii	869,812	1.12	929,617	1.08	1,111,597	1.23	1,056,259	1.20	804,064	0.74
UH-Other	-	-	1,301,142	1.51	1,679,601	1.86	7,163,715	8.16	5,187,721	4.78
Dept of Bus, Econ Devel & Tourism	28,452	0.04	51,932	0.06			90,255	0.10	37,037	0.03
	588,969	0.76	938,837	1.09	458,628	0.51	134,840	0.15	2,542,488	2.34
Dept of Health									889,018	0.82
Dept of Land & Natural Resources	713,631	0.92	1,120,801	1.30	875,283	0.97	991,366	1.13		
Dept of Social Services & Housing	142,604	0.18	-	-	33,645	0.04	53,754	0.06	54,321	0.05
Dept of Education	309,304	0.40	377,921	0.44	362,213	0.40	74,043	0.09	54,737	0.05
Dept of Defense	-	-	107,212	0.12	484,576	0.54	730,307	0.83	659,745	0.61
County Government	405,693	0.52	410,230	0.48	197,457	0.22	482,182	0.55	152,498	0.14
OTHER SPONSORS	3,281,188	4.21	5,202,131	6.04	7,902,568	8.75	5,575,053	6.35	7,533,193	6.94
			15,322,785	17.80	17,763,869	19.68	21,130,430	24.06	23,797,007	21.91
UH NON-FEDERAL PROJECTS	12,113,991	15.55	15,322,785	17.80				0.0000000000000000000000000000000000000		
TOTAL UH PROJECTS	55,371,931	71.07	62,716,553	72.86	64,925,880	71.92	61,794,371	70.37	79,849,843	73.56
DIRECT PROJECTS	1997	%	1998	%	1999	%	2000	%	2001	%
							0.10.1.15		1 001 000	0.00
FEDERAL PROJECTS	187,502	0.24	119,056	0.14	203,823	0.23	349,115	0.40	1,061,822	0.98
NON FEDERAL								1		
NON-FEDERAL						-		- 1		
STATE & COUNTY GOVERNMENTS:										
Dept of Health	1,264,310	1.62	1,540,831	1.79	1,421,750	1.58	1,145,081	1.30	1,368,640	1.26
Dept of Bus, Econ Devel &Tourism	71,068	0.09	37,514	0.04	-	20-2	508,254	0.58	241,746	0.22
Dept of Land & Natural Resources	639,103	0.82	774,974	0.90	980,993	1.09	1,084,711	1.24	1,205,167	1.11
Dept of Education	322,321	0.41	279,343	0.33	816,021	0.90	463,049	0.53	104,059	0.10
OTHERS:	6									
OTHERS:			0 444 77:	0.05	0.000.000	0.50	0.440.050	2.50	2 447 075	3.14
Joint Astronomy Centre	2,909,428	3.74	3,141,751	3.65	3,230,380	3.58	3,146,256	3.58	3,417,075	
Kuakini Medical Center	1,192,769	1.53	763,271	0.89	1,032,162	1.14	616,338	0.70	519,126	0.48
Natl Astronomical Observ of Japan	230,409	0.30	559,938	0.65	850,876	0.94	1,284,542	1.46	1,689,112	1.56
Other Sponsors	412,247	0.53	321,268	0.37	1,084,894	1.20	1,819,154	2.07	2,484,524	2.29
NON-FEDERAL PROJECTS	7,041,655	9.04	7,418,890	8.62	9,417,076	10.43	10,067,385	11.46	11,029,449	10.16
			7,537,946	8.76	9,620,899	10.66	10,416,500	11.86	12,091,271	11.14
TOTAL DIRECT PROJECTS	7,229,157	9.28	7,537,946	8.76	9,620,699	10.00	10,416,500	11.00	12,091,271	11.14
REVOLVING FUNDS	1997	%	1998	%	1999	%	2000	%	2001	%
(Including Specialized Service Facilities										
Specialized Service Fee/Ship Ope	4,670,761	5.99	4,819,939	5.60	4,950,498	5.48	3,460,507	3.94	3,849,913	3.54
Specialized Service Fac/Ship Ops										
Revolving Funds & Other SSF's	10,646,301	13.66	11,000,722	12.78	10,779,106	11.94	12,140,231	13.83	12,764,022	11.76
Total Revolving Funds & SSF's	15,317,062	19.65	15,820,661	18.38	15,729,604	17.42	15,600,738	17.77	16,613,935	15.30
TOTAL PROJECTS	77.918,150	100.00	86,075,160	100.00	90,276,383	100.00	87,811,609	100.00	108,555,049	100.00

Financial Statements for the Years Ended June 30, 2001 and 2000

Independent Auditors' Report

The Board of Directors
The Research Corporation
of the University of Hawaii:

We have audited the accompanying balance sheets of The Research Corporation of the University of Hawaii, State of Hawaii, a component unit of the University of Hawaii, as of June 30, 2001 and 2000, and the related statements of revenues and expenses, changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Research Corporation of the University of Hawaii, State of Hawaii, as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2001 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

July 27, 2001

STATE OF HAWAII

Balance Sheets

June 30, 2001 and 2000

Assets	2001	2000
Current assets: Cash and cash equivalents (notes 2 and 9) Investments (note 3) \$ \[\]	10,442,086 2,864,750	9,068,832 3,364,410
Receivables (note 7): Other sponsoring agencies (note 4) Receivables under lease agreements (note 5)	1,594,508 72,855	1,516,579 89,280
Total receivables	1,667,363	1,605,859
Prepaid expenses	50,798	47,236
Total current assets	15,024,997	14,086,337
Receivables under lease agreements, excluding current portion (note 5)	21,590	94,445
Office furniture and equipment, net (note 6)	1,023,004	868,173
Restricted assets – cash (notes 2 and 4)	678,837	175,880
\$	16,748,428	15,224,835
Liabilities and Retained Earnings		
Current liabilities: Current installments of long-term debt (note 8) \$ Accounts payable Accrued wages Advances: University of Hawaii projects (note 4) Other sponsoring agencies (note 4) Workers' compensation and unemployment claims reserve (note 15) Accrued interest	75,208 4,585,094 2,646,323 710,099 791,441 1,194,000 218	145,793 2,641,046 2,269,528 1,953,603 514,190 1,364,000 447
Total current liabilities	10,002,383	8,888,607
Long-term debt, excluding current installments (note 8) Deferred income Accrued supplemental retirement benefits (notes 9 and 11)	15,856 3,163 413,000	26,202 11,283 325,000
Total liabilities	10,434,402	9,251,092
Retained earnings – unreserved: Designated for (note 9): Working capital Quasi-endowment Supplemental retirement benefits Project contingent liabilities	3,837,000 1,488,655 211,612 776,269	3,382,000 1,629,977 217,592 743,656
Total designated	6,313,536	5,973,225
Undesignated	490	518
Total retained earnings	6,314,026	5,973,743
Commitments and contingencies (notes 7, 9, 11, 12, 13, 14, 15 and 16)		
\$	16,748,428	15,224,835

STATE OF HAWAII

Statements of Revenues and Expenses Years ended June 30, 2001 and 2000

	2001	2000
Operating revenues – administrative expense recoveries:	4 007 000	4 007 505
University of Hawaii (note 10)	1,827,338 1,294,669	1,687,585 1,178,039
Other sponsoring agencies		
Total operating revenues	3,122,007	2,865,624
Operating expenses:		
Salaries and wages	1,236,904	1,262,783
Data processing services	741,606	484,312
Depreciation	282,717	236,085
Employee fringe benefits (note 11)	273,908	307,601
Project development	201,000	23,163
Office supplies and services	123,690	107,673
Insurance	79,015	70,059
Office and equipment rental (note 14)	75,283	62,255
Professional services	32,009	32,885
Staff development	28,261 21,867	16,624
Communications	17,057	18,517 20,781
Travel	11,500	20,701
UH Research awards	9,476	8,886
Retiree medical benefits (note 12)	9,476	9,295
Discretionary fund	8,445	7,535
Tuition support Transportation	7,811	6,906
Board of Directors' meetings	7,147	9,179
Professional and technical support	4,005	29,923
Project overruns and disallowances	1,018	2,419
Research facilities expense	-,010	50,000
	3,171,776	2,766,881
Operating income (loss)	(49,769)	98,743
Nonoperating revenues (expenses): Interest income:		
Cash and certificates of deposit	531,374	375,837
Lease (note 5)	8,131	17,056
Interest expense – long-term debt (note 8) Intergovernmental (Federal Awards):	(8,131)	(17,056)
Revenue	397.336	175,619
Expense	(397,336)	(175,619)
Quasi-endowment income (expenses):	(007,000)	(170,010)
Increase (decrease) in fair value of investments	(163,516)	182,684
Investment (note 9)	72,613	69,785
Research assistantships expense (note 9)	(50,419)	(99,752)
Total nonoperating revenues, net	390,052	528,554
Net income \$	340,283	627,297

STATE OF HAWAII

Statements of Changes in Retained Earnings Years ended June 30, 2001 and 2000

	Designated	Undesignated	Total
Balance at July 1, 1999	\$ 5,345,418	1,028	5,346,446
Net income Designated for working capital (note 9) Net quasi-endowment income (notes 3 and 9) Designated for supplemental retirement	277,000 152,717	627,297 (277,000) (152,717)	627,297 — —
benefits (notes 9 and 11) Designated for project contingent liabilities (note 9)	(30,566) 228,656	30,566 (228,656)	
Balance at June 30, 2000	5,973,225	518	5,973,743
Net income Designated for working capital (note 9) Net quasi-endowment loss (notes 3 and 9) Designated for supplemental retirement	455,000 (141,322)	340,283 (455,000) 141,322	340,283 — —
benefits (notes 9 and 11) Designated for project contingent liabilities (note 9)	(5,980) 32,613	5,980 (32,613)	
Balance at June 30, 2001	\$ 6,313,536	490	6,314,026

STATE OF HAWAII

Statements of Cash Flows

Years ended June 30, 2001 and 2000

Cash flows from operating activities: \$ (49,769) 98,743 Adjustments to reconcile operating income (loss) to net cash provided by operating activities: 282,717 236,085 Depreciation 282,717 236,085 Decrease (increase) in assets:			2001	2000
Adjustments to reconcile operating income (loss) to net cash provided by operating activities: Depreciation Decrease (increase) in assets: Receivables: University of Hawaii Other sponsoring agencies Receivable from the University of Hawaii for workers' compensation reserve Increase (decrease) in liabilities: Accounts payable Account wages University of Hawaii projects Other sponsoring agencies University of Hawaii projects University of Hawaii projects Other sponsoring agencies Accounts payable Accrued wages Accounts payable Accrued wages Accounts payable Accrued supplemental retirement benefits Accounts provided by operating activities Collection of receivables under lease agreements, excluding interest Collection of receivables under lease agreements, excluding interest Interest received from lease agreements Accounts made on long-term debt Interest paid on long-term debt Accounts made on long-term debt Accash flows from investing activities: Cash flows from investing activities Accounts and capital and related financing activities Accounts and accounts and the lease agreements activities Cash flows from investing activities: Accounts and accounts and related financing activities Accounts and accounts and accounts and related financing activities Accounts and accounts and accounts and accounts a		•	(40.760)	09.743
Depreciation	Adjustments to reconcile operating income (loss) to net cash provided by operating	Þ	(49,769)	90,743
Decrease (increase) in assets: Receivables: University of Hawaii Cother sponsoring agencies Cot			282 717	236.085
Receivables: University of Hawaii			202,717	200,000
University of Hawaii				
Prepaid expenses (3,562) (2,708) Receivable from the University of Hawaii for workers' compensation reserve — 159,018 Increase (decrease) in liabilities: — 1,944,048 (533,605) Accounts payable 376,795 (16,817) Advances: — (1,243,504) 1,953,603 Other sponsoring agencies 277,251 514,190 Other sponsoring agencies 277,251 514,190 Workers' compensation and unemployment claims reserve (170,000) (131,000) Accrued supplemental retirement benefits 88,000 94,000 Net cash provided by operating activities: 88,000 94,000 Collection of receivables under lease agreements, excluding interest 80,931 145,616 Interest received from lease agreements, excluding interest 8,360 19,294 Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (8,360) (19,294) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (37,548) (271,			_	5,177,895
Receivable from the University of Hawaii for workers' compensation reserve	Other sponsoring agencies		(77,929)	(704,934)
Increase (decrease) in liabilities: Accounts payable			(3,562)	
Accounts payable 1,944,048 (533,605) Accrued wages 376,795 (16,817) Advances: (1,243,504) 1,953,603 Other sponsoring agencies 277,251 514,190 Workers' compensation and unemployment claims reserve (170,000) (131,000) Accrued supplemental retirement benefits 88,000 94,000 Net cash provided by operating activities 1,424,047 6,844,470 Cash flows from capital and related financing activities: 80,931 145,616 Collection of receivables under lease agreements, excluding interest 8,360 19,294 Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Purchase of investments (1,448,708) (1,804,219) Sale of investments (1,448,708) (1,804,219) Sale of investments (50,419) (69,752) Interest on cash deposits (159,018
Accrued wages Advances: University of Hawaii projects Other sponsoring agencies Other sponsoring activities Other sponsoring agencies Other sponsori				
Advances: University of Hawaii projects Other sponsoring agencies Othe				
University of Hawaii projects Other sponsoring agencies Other sponsoring agencies (1,243,504) 277,251 514,190 1,953,603 277,251 514,190 Workers' compensation and unemployment claims reserve (170,000) (170,000) (131,000) (131,000) Accrued supplemental retirement benefits 88,000 94,000 Net cash provided by operating activities 1,424,047 6,844,470 Cash flows from capital and related financing activities: 80,931 145,616 Collection of receivables under lease agreements, excluding interest linterest received from lease agreements excluding interest (437,548) 80,931 145,616 Interest received from lease agreements 8,360 19,294 Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (80,931) (1448,708) (271,245) Cash flows from inv			376,795	(16,817)
Other sponsoring agencies 277,251 514,190 Workers' compensation and unemployment claims reserve (170,000) (131,000) Accrued supplemental retirement benefits 88,000 94,000 Net cash provided by operating activities 1,424,047 6,844,470 Cash flows from capital and related financing activities: 80,931 145,616 Interest received from lease agreements 8,360 19,294 Purchase of office furniture and equipment (80,931) (145,616) Interest paid on long-term debt (80,931) (145,616) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments (1,448,708) (1,804,219) Sale of investments (1,448,708) (1,804,219) Interest on cash deposits 1,784,852 415,280 Interest on cash deposits 531,374 375,837 Investment income (50,419) (99,785) Quasi-endowment expense – re			(4.040.504)	4.052.602
Workers' compensation and unemployment claims reserve (170,000) 88,000 (131,000) 94,000 Accrued supplemental retirement benefits 88,000 94,000 Net cash provided by operating activities 1,424,047 6,844,470 Cash flows from capital and related financing activities: 80,931 145,616 Collection of receivables under lease agreements, excluding interest interest received from lease agreements 8,360 19,294 Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (80,931) (145,616) Interest paid on long-term debt (80,931) (145,616) Net cash used in capital and related financing activities (437,548) (271,245) Net cash growing activities: (1,448,708) (1,804,219) Sale of investments (1,448,708) (1,804,219) Sale of investments (1,448,708) (1,804,219) Sale of investments (1,548,522) (1,580,783) Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used				
Accrued supplemental retirement benefits 88,000 94,000 Net cash provided by operating activities 1,424,047 6,844,470 Cash flows from capital and related financing activities: 80,931 145,616 Collection of receivables under lease agreements, excluding interest 8,360 19,294 Interest received from lease agreements (437,548) (271,245) Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (80,931) (145,616) Interest paid on long-term debt (80,931) (145,616) Net cash used in capital and related financing activities (437,548) (271,245) Purchase of investments (1,448,708) (1,9294) Sale of investments (1,448,708) (1,804,219) Sale of investments (1,448,708) (1,804,219) Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Ne				
Net cash provided by operating activities 1,424,047 6,844,470 Cash flows from capital and related financing activities: 80,931 145,616 Collection of receivables under lease agreements, excluding interest received from lease agreements 8,360 19,294 Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments (1,448,708) (1,804,219) Sale of investments (1,784,852) 415,280 Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year <td>Workers' compensation and unemployment claims reserve</td> <td></td> <td></td> <td></td>	Workers' compensation and unemployment claims reserve			
Cash flows from capital and related financing activities: 80,931 145,616 Collection of receivables under lease agreements 8,360 19,294 Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments (1,448,708) (1,804,219) Sale of investments (1,784,852) 415,280 Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents are presented in the accompanying balance sheets as follows: 10,442,086 9,068,832 Cash a				
Collection of receivables under lease agreements Interest received from lease agreements 80,931 145,616 Interest received from lease agreements 8,360 19,294 Purchase of office furniture and equipment (80,931) (145,616) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments 1,784,852 415,280 Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents are presented in the accompanying balance sheets as follows: 10,442,086 9,068,832 Cash and cash	Net cash provided by operating activities		1,424,047	6,844,470
Interest received from lease agreements 8,360 19,294 Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments (1,784,852) 415,280 Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents are presented in the accompanying balance sheets as follows: 20,442,086 9,068,832 Cash and cash equivalents 678,837 175,880	Cash flows from capital and related financing activities:			
Purchase of office furniture and equipment (437,548) (271,245) Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (83,600) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (437,548) (271,245) Purchase of investments (1,448,708) (1,804,219) Sale of investments (1,848,708) (1,804,219) Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents are presented in the accompanying balance sheets as follows: Cash and cash equivalents 9,068,832 Cash and cash equivalents 678,837 175,880	Collection of receivables under lease agreements, excluding interest		80,931	
Payments made on long-term debt (80,931) (145,616) Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments (1,784,852) 415,280 Sale of investments 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: \$ 10,442,086 9,068,832 Cash and cash equivalents 678,837 175,880	Interest received from lease agreements		8,360	
Interest paid on long-term debt (8,360) (19,294) Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments (1,784,852) 415,280 Sale of investments 531,374 375,837 Interest on cash deposits 72,613 69,785 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: \$10,442,086 9,068,832 Cash and cash equivalents 678,837 175,880	Purchase of office furniture and equipment			
Net cash used in capital and related financing activities (437,548) (271,245) Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments 1,784,852 415,280 Sale of investments 531,374 375,837 Interest on cash deposits 72,613 69,785 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: Cash and cash equivalents \$ 10,442,086 9,068,832 Cash and cash equivalents 678,837 175,880	Payments made on long-term debt			
Cash flows from investing activities: (1,448,708) (1,804,219) Purchase of investments 1,784,852 415,280 Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: \$ 10,442,086 9,068,832 Cash and cash equivalents \$ 678,837 175,880	Interest paid on long-term debt		(8,360)	(19,294)
Purchase of investments (1,448,708) (1,804,219) Sale of investments 1,784,852 415,280 Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: \$ 10,442,086 9,068,832 Cash and cash equivalents 678,837 175,880	Net cash used in capital and related financing activities		(437,548)	(271,245)
Sale of investments 1,784,852 415,280 Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: \$ 10,442,086 9,068,832 Cash and cash equivalents \$ 678,837 175,880	Cash flows from investing activities:			
Interest on cash deposits 531,374 375,837 Investment income 72,613 69,785 Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: \$ 10,442,086 9,068,832 Cash and cash equivalents are presented in the accompanying balance sheets as follows: \$ 678,837 175,880	Purchase of investments			
Investment income	Sale of investments			
Quasi-endowment expense – research assistantships (50,419) (99,752) Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows:	Interest on cash deposits			
Net cash provided by (used in) investing activities 889,712 (1,043,069) Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows:				
Net increase in cash and cash equivalents 1,876,211 5,530,156 Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$ 11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows:	Quasi-endowment expense – research assistantships		(50,419)	(99,752)
Cash and cash equivalents at the beginning of the year 9,244,712 3,714,556 Cash and cash equivalents at the end of the year \$11,120,923 9,244,712 Cash and cash equivalents are presented in the accompanying balance sheets as follows: Cash and cash equivalents Restricted assets – cash 9,068,832 678,837 175,880	Net cash provided by (used in) investing activities		889,712	(1,043,069)
Cash and cash equivalents at the end of the year \$\frac{11,120,923}{9,244,712}\$ Cash and cash equivalents are presented in the accompanying balance sheets as follows: Cash and cash equivalents Restricted assets - cash \$\frac{10,442,086}{678,837}\$ \$\frac{9,068,832}{175,880}\$	Net increase in cash and cash equivalents			
Cash and cash equivalents are presented in the accompanying balance sheets as follows: Cash and cash equivalents Restricted assets – cash Cash and cash equivalents Restricted assets – cash Cash and cash equivalents Sample 10,442,086 678,837 175,880	Cash and cash equivalents at the beginning of the year		9,244,712	3,714,556
Cash and cash equivalents \$ 10,442,086 9,068,832 Restricted assets – cash 678,837 175,880	Cash and cash equivalents at the end of the year	\$	11,120,923	9,244,712
Cash and cash equivalents \$ 10,442,086 9,068,832 Restricted assets – cash 678,837 175,880				
Nosinited assets — ————————————————————————————————		\$		
\$ <u>11,120,923</u> <u>9,244,712</u>	Restricted assets – cash		678,837	175,880
		\$	11,120,923	9,244,712

Noncash investing activity – during 2001 and 2000, the decrease and increase in fair value of investments amounted to \$(163,516) and \$182,684, respectively.

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII Notes to Financial Statements June 30, 2001 and 2000

(1) Organization and Summary of Significant Accounting Policies

The Legislature of the State of Hawaii (State) established The Research Corporation of the University of Hawaii (Corporation) in 1965 for the purpose of promoting, encouraging, initiating, developing and conducting scientific research and investigation in all branches of learning, and for disseminating and making available to the public the benefits of such research and investigation. The Corporation is exempt from any income taxes. The Corporation provides administrative support services to projects of the University of Hawaii (University), the State, and other organizations which have been assigned to it by those entities (Sponsors). For these services, the Corporation receives reimbursements for administrative expenses based on a negotiated fee or predetermined indirect cost rate. Reimbursements for administrative expenses from the University are negotiated annually. The projects normally remain under the general and technical supervision of personnel employed by the Sponsors.

The Corporation's Board of Directors consists of five members of the University Board of Regents and five members appointed by the Governor. Additionally, the President of the University serves as President of the Corporation.

(a) Financial Reporting Entity

The Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity* (Statement No. 14), established standards for defining and reporting on the financial reporting entity. This statement requires that the financial statements of the University include the fund groups of organizations for which the University is financially accountable and other organizations for which the nature and significance of their relationship are such that exclusion would cause the financial statements of the University to be misleading.

The Corporation is fiscally dependent upon the University, and therefore the University is financially accountable for the Corporation as defined by Statement No. 14. Accordingly, the fund groups of the Corporation are blended with the University's financial statements.

(b) Measurement Focus and Basis of Accounting

The accounting policies of the Corporation conforms to accounting principles generally accepted in the United States of America as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Corporation has elected to apply all applicable Financial Accounting Standards Board pronouncements on accounting and reporting that were issued on or before November 30, 1989.

An enterprise fund is used to account for the acquisition, operation and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The Corporation's operations are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII Notes to Financial Statements

June 30, 2001 and 2000

(c) Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments, primarily certificates of deposit, with original maturities of three months or less to be cash equivalents. Cash equivalents amounted to \$9,500,000 and \$6,000,000 at June 30, 2001 and 2000, respectively.

(d) Investments

The Corporation accounts for its investments in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (Statement No. 31). Statement No. 31 establishes accounting and financial reporting standards for all investments held by governmental external investment pools and establishes fair value standards for other governmental entities. Accordingly, the Corporation has stated its investments at fair value. Changes in the fair value of investments are recognized in the statements of revenues and expenses.

(e) Office Furniture and Equipment

Office furniture and equipment acquired for the administrative operations of the Corporation are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets for financial statement purposes.

Furniture and equipment acquired by the Corporation for projects are charged to project expenditures and are not capitalized for financial statement purposes. Title to fixed assets acquired for direct project contracts generally remains with the sponsoring agency. Title to fixed assets acquired for University projects which are assigned to the Corporation passes directly to the University.

(f) Retirement Plan

The Corporation has a retirement plan for substantially all employees. The Corporation's policy is to contribute 10% of eligible employees' regular compensation to the plan. The required contributions are recognized as employee fringe benefits expense.

(q) Vacation

Employees are credited with vacation at the rate of 168 hours per calendar year. The maximum accumulation of such vacation credits is limited to 360 hours at calendar year end and are convertible to pay upon termination of employment. Accumulated vacation for administrative personnel has been accrued and reflected in the accompanying balance sheets.

(h) Accumulated Sick Leave

Sick leave accumulates at the rate of 14 hours per month of service without limit and is not convertible to pay upon termination of employment. However, an employee who retires in good standing and meets certain eligibility requirements may be entitled to supplemental retirement benefits (see note 11). Accumulated sick leave at June 30, 2001 and 2000 aggregated approximately \$809,000 and \$724,000,

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII Notes to Financial Statements June 30, 2001 and 2000

respectively.

(i) Risk Management

Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(k) Reclassifications

Certain 2000 accounts were reclassified to conform with the 2001 presentation. Such reclassifications had no effect on the previously reported results of operations.

(2) Cash and Cash Equivalents

At June 30, 2001 and 2000, the carrying amount of total bank deposits was \$11,051,452 and \$9,179,141, respectively, while the corresponding bank balances which are represented were \$13,759,701 and \$10,508,916, respectively. The portion of such deposits not covered by federal depository insurance are covered by collateral held in the name of the Corporation by third party custodians.

(3) Investments

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2001 and 2000:

	June 3	0, 2001	June 30, 2000		
	Fair Value	Cost	Fair Value	Cost	
Investment pool	1,488,655	1,356,343	1,629,977	1,334,149	
Certificates of deposit	1,376,095	1,376,095	1,734,433	1,734,433	
	2,864,750	2,732,438	3,364,410	3,068,582	

The investment pool is administered by the University of Hawaii Foundation (Foundation) and consists primarily of foreign and domestic equity and fixed income securities. At June 30, 2001 and 2000, the Corporation had 39,195.76 and 38,625.012 shares, respectively, in the investment pool. The fair value of these investments are primarily based on quoted market prices reported to the Corporation by the Foundation. The decrease and increase in fair value of investments (unrealized losses and gains) at

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII Notes to Financial Statements June 30, 2001 and 2000

June 30, 2001 and 2000 amounted to \$(163,516) and \$182,684, respectively.

Investments are classified as to custodial risk by three categories as follows: Category 1 includes investments that are insured or registered or securities held by the Corporation or its agent in the Corporation's name; Category 2 includes uninsured and unregistered investments with the securities held by the counterparty's trust departments or agent in the Corporation's name; Category 3 includes uninsured and unregistered investments, with the securities held by the counterparty, or by its trust departments or agent but not in the Corporation's name. The investment pool is classified as Category 3, while the certificates of deposit are classified as a Category 1.

(4) Receivables and Advances from Sponsoring Agencies

The Corporation's projects are divided into two groups: those administered under an agreement with the University, and those administered under direct agreements with other sponsors. Projects are either funded on a cost reimbursable basis or through advance fundings. Under cost reimbursable projects, expenditures are initially paid for by the Corporation and are later reimbursed by the sponsors. Under advance funded projects, the Corporation receives cash in advance of expenditures. Advances under direct agreements in excess of project expenditures totaled \$791,441 and \$514,190 at June 30, 2001 and 2000, respectively. Cash relating to a portion of the advances, amounting to \$678,837 and \$175,880 at June 30, 2001 and 2000, respectively, is restricted by the sponsors. Direct agreements allow for indirect cost recoveries based on a predetermined indirect cost rate. All claims are subject to audit and adjustments by the sponsoring agencies. Project expenditures less advances, and reimbursements from sponsors are accounted for within project accounts which are reflected on the Corporation's balance sheets. Except for federal awards, these transactions are not reflected on the Corporation's statements of revenues and expenses.

(5) Receivables Under Lease Agreements

In prior years the Corporation borrowed funds and purchased certain equipment. It simultaneously entered into agreements to lease the equipment to the University for the amount of the debt repayment installments with an option to purchase the equipment for \$1 at the end of the lease term.

Maturities of receivables under lease agreements at June 30, 2001 are as follows:

June 30:	
2002	\$72, 855
2003	17,670
2004	3,920
	\$94,445

(6) Office Furniture and Equipment

Office furniture and equipment at June 30, 2001 and 2000 is summarized as follows:

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII

Notes to Financial Statements June 30, 2001 and 2000

	2001	2000
Office furniture and equipment	\$ 579,547	\$ 599,913
Computer software	1,478,959	1,021,045
	2,058,506	1,620,958
Less accumulated depreciation	1,035,502	752,785
	\$1,023,004	\$ 868,173

(7) Line of Credit

The Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$2,000,000 for short-term working capital, expiring on December 1, 2001. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over accounts receivable. The rate of interest on borrowings outstanding is 75% of the bank's reference rate (6.75% at June 30, 2001). At June 30, 2001 and 2000, there were no borrowings outstanding under this line.

(8) Long-Term Debt

A summary of long-term debt at June 30, 2001 and 2000 is as follows:

	2001	2000
5.875% note payable to First Hawaiian Bank, secured by a snow blower, monthly payments of \$5,475 including interest, due March 2002, or upon demand, by the Institute for Astronomy	\$48,107	\$109,039
6.75% note payable to First Hawaiian Bank, secured by a computer numeric controlled lathe, monthly payments of \$985 including interest, due December 2002, or upon demand, by the Institute for Astronomy	16,755	27,065
6.57% note payable to Bank of Hawaii, secured by vehicles, monthly payments of \$980 including interest, due November 2003, by the Institute of Astronomy	26,202	35,891
	91,064	171,995
Less current installments of long-term debt	75,208	145,793
	\$15,856	\$ 26,202

Future maturities on the notes are as follows:

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII

Notes to Financial Statements June 30, 2001 and 2000

June 30:	
2002	\$75,208
2003	11,046
2004	4,810
	\$91,064

(9) Designated Retained Earnings

(a) Working Capital

Many of the projects administered by the Corporation are cost reimbursable. The time lag in receiving reimbursements makes the creation of a reserve for working capital necessary. The Board of Directors authorized the establishment of designated retained earnings for this purpose. The Corporation transferred \$455,000 and \$277,000 to the designated retained earnings for working capital from undesignated retained earnings in 2001 and 2000, respectively.

(b) Quasi-Endowment

The quasi-endowment designated retained earnings was established by the Board of Directors to assist the Corporation in carrying out its legislative purpose to assist in establishing and maintaining scholarships, fellowships and professorships and other staff positions for the purpose of aiding in the acquisition and dissemination of knowledge.

For the years ended June 30, 2001 and 2000, investment income of \$72,613 and \$69,785, respectively, was earned from investments administered by the Foundation. Research assistantship expenditures deducted from the quasi-endowment reserve during 2001 and 2000 amounted to \$50,419 and \$99,752, respectively.

(c) Supplemental Retirement Benefits

As described in note 11, the Corporation offers supplemental retirement benefits. The liability as of June 30, 2001 and 2000 associated with the supplemental retirement benefits are accrued in the accompanying balance sheets. The supplemental retirement benefits designated retained earnings balance represents supplemental retirement benefits surcharge collected in excess of supplemental retirement benefits paid or accrued in the balance sheets as of June 30, 2001 and 2000.

(d) Project Contingent Liabilities

The Corporation and the University enter into contracts and agreements with a multitude of organizations, both public and private, locally, nationally and internationally. These organizations often require terms and conditions in the contract or agreement, which if breached, may require reimbursement of expenses or payment of expenses. On March 13, 1998, the Board of Directors designated retained earnings to cover such reimbursements or expenses, which may include, but are not limited to project overruns and disallowances, litigation expenses, professional services and other project-related expenses (i.e.,

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII Notes to Financial Statements

June 30, 2001 and 2000

normally costs associated with a third-party insurer). In 2001 and 2000, the amount of the designation was increased by \$32,613 and \$228,656, respectively, which includes \$32,613 and \$28,656, respectively, of interest income and \$200,000 designated by the Board of Directors in 2000. The amount of the reserve for the years ended June 30, 2001 and 2000 was \$776,269 and \$743,656, respectively. A separate interest-bearing account is maintained for this reserve.

(10) Operating Revenues – University of Hawaii

Operating revenues received from the University of Hawaii for the years ending June 30, 2001 and 2000 amounted to \$1,735,469 and \$1,587,371, respectively, for extramurally sponsored projects and \$91,869 and \$100,214, respectively, for internally funded projects.

(11) Pension Information

The Corporation participates with other institutions in the Teachers Insurance and Annuity Association and College Retirement Equities Fund, a noncontributory defined contribution retirement plan which covers substantially all qualified employees. Employees are eligible to participate in this plan upon completion of one year of service. Required contributions by the Corporation to the retirement plan are based on 10% of the gross salary of each employee. All contributions are fully vested and nonforefeitable when made. While it is expected that this retirement plan will continue indefinitely, the Board of Directors of the Corporation reserves the right to modify or discontinue the plan at any time. Total contributions to the retirement plan for the years ended June 30, 2001 and 2000 were \$118,579 and \$103,634, respectively.

The Corporation offers supplemental retirement benefits in addition to benefits available under the previously mentioned pension plan. To be eligible, a terminating employee must be at least age 45 years 4 months, have service of 10 years or more and have accumulated unused sick leave of 60 days or more. The supplemental retirement benefits amount to 10% of the value of the unused sick leave reduced by 1/2% for each month below the age of 62. The terminating employee may elect to purchase an annuity or receive the benefit in cash. At June 30, 2001 and 2000, the Corporation accrued supplemental retirement benefits amounting to \$413,000 and \$325,000, respectively, in the accompanying balance sheets. The accrual represents the Corporation's best estimate based on available information. Supplemental retirement benefits paid during the years ended June 30, 2001 and 2000 were \$5,980 and \$30,566, respectively.

(12) Postretirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the Corporation also provides certain health care and life insurance benefits to all employees who retire in good standing with 10 years or more of continuous service, 10 years of participation in the Corporation's retirement and life insurance program and attain age 55. Contributions for health benefits are fixed at \$50 per month. The costs of retiree insurance benefits are recognized when the premiums are paid. The amounts paid for health care and life insurance for the years ended June 30, 2001 and 2000 aggregated \$9,476 and \$8,886, respectively.

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII

Notes to Financial Statements June 30, 2001 and 2000

(13) Project Expenditures and Commitments

Project expenditures that are not reflected on the accompanying statements of revenues and expenses are as follows:

	University Projects	Direct Projects	Other Projects	Total
2001: Salaries & Wages Equipment Other	\$28,042,372 8,115,847 43,691,624	\$ 6,865,410 70,070 5,155,791	\$ 6,108,439 179,824 10,325,672	\$ 41,016,221 8,365,741 59,173,087
	\$79,849,843	\$12,091,271	\$16,613,935	\$108,555,049
2000: Salaries & Wages Equipment Other	\$23,454,940 4,969,461 33,369,970	\$ 5,915,524 84,106 4,416,870	\$ 5,902,101 708,679 8,989,958	\$35,272,565 5,762,246 46,776,798
	\$61,794,371	\$10,416,500	\$15,600,738	\$87,811,609

Other projects consist of the University's revolving funds and specialized service facilities.

Commitments in the form of outstanding project purchase orders that are not reflected on the accompanying balance sheets amounted to approximately \$24,904,000 and \$16,667,000 at June 30, 2001 and 2000, respectively.

(14) Operating Lease

The Corporation occupies office space under noncancelable operating leases that expire through September 2003. The leases contain escalation and renewal clauses and provide that the Corporation pay taxes, maintenance and certain other operating expenses applicable to the leased premise. Total office and equipment rental expense for the years ended June 30, 2001 and 2000 was \$75,283 and \$62,255, respectively, which includes \$55,133 and \$47,025, respectively, of office rental expense under the operating leases for the years ended June 30, 2001 and 2000.

Future minimum lease payments under noncancelable operating leases as of June 30, 2001 are:

Year Ending June 30:	
2002	\$54,613
2003	12,648
2004	3,162
	\$70,423

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII Notes to Financial Statements June 30, 2001 and 2000

(15) Risk Management

The Corporation is exposed to various risks of loss related to torts including theft of, damage to, or destruction of assets, errors and omissions, natural disaster, and injuries to employees.

(a) Torts

The Corporation is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Corporation's financial position.

(b) Property and General Liability Insurance

The Corporation is covered under the statewide insurance program of the State of Hawaii. Under this program, the Corporation has property damage insurance for losses that may occur from fire, windstorm and other occurrences of \$100 million per occurrence. For earthquake and flood, property coverage is for \$50 million per occurrence. Deductibles for windstorm losses are 2% of values at each location, subject to a minimum of \$250,000 and maximum of \$3 million. Deductible for losses caused by earthquake, flood, tsunami and volcanic action is 2%, subject to a \$250,000 minimum. For other lines of coverage the deductible is \$250,000.

The Corporation has general liability insurance under the state with loss coverage of \$50 million for each occurrence. Exclusions include pollution, asbestos, airport and medical-professional losses. The deductible is \$2 million per occurrence. The State program includes crime insurance with loss coverage of \$10 million of criminal losses caused by faithful performance of duties. The deductible is \$50,000 per occurrence.

The Corporation has an additional general liability policy with loss coverage of \$2 million for each occurrence and in the annual aggregate; coverage is \$250,000 for fire damage losses. Exclusions include professional liability, pollution, employment related practices, sexual abuse, fiduciary liability, securities and financial interest, and product completed operations. The deductible is \$25,000 per claim. The Corporation also has personal property insurance against loss of inventoried equipment with coverage of \$1.6 million and a deductible of \$5,000 per occurrence. The Corporation has a \$4 million insurance policy for directors' and officers' liability losses, with a deductible of \$25,000.

(c) Workers' Compensation Policy

The Corporation is self-insured for workers' compensation losses incurred prior to July 1, 1997 and unpaid as of June 30, 1997, and is liable for all workers' compensation claims filed by its employees for that period. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. These liabilities include amounts for claims that have been incurred but not reported. At June 30, 2001 and 2000, the workers' compensation reserve amounted to \$836,000 and \$875,000, respectively, and is reported as a current liability in the accompanying balance sheets. The change

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII Notes to Financial Statements June 30, 2001 and 2000

in workers' compensation reserve resulted from the payments for workers' compensation claims of \$156,695 and \$204,178 during the year ended June 30, 2001 and 2000, respectively. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

For workers' compensation losses incurred after June 30, 1997, including employer's liability losses, the Corporation has guaranteed-cost insurance with coverage of \$1 million for each accident, with limits of \$1 million per injury and \$1 million per injury per employee. The insurance excludes bodily injury occurring outside of the United States or Canada unless during temporary travel, vessel operations, and damages from harassment, discrimination, termination and other matters as defined.

(d) Unemployment Claims Reserve

The Corporation is self-insured for unemployment claims. Liabilities for unemployment claims are established if information indicates that it is probable that liabilities have been incurred and the amount for those claims can be reasonably estimated. At June 30, 2001 and 2000, the unemployment reserve amounted to \$358,000 and \$489,000, respectively, and is reported as a current liability in the accompanying balance sheets.

(16) Contract Commitment

At June 30, 2001, the Corporation had an outstanding contract commitment through 2005 related to computer software licensing and maintenance of approximately \$584,000.

The Research Corporation of the University of Hawaii State of Hawaii Note to the Schedule of Expenditures of Federal Awards Year ended June 30, 2001

Basis of Presentation

The accompanying schedule of expenditures of federal awards (schedule) includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting, which is described in note 1 to the Corporation's financial statements. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The Research Corporation of the University of Hawaii STATE OF HAWAII Schedule of Expenditures of Federal Awards Year ended June 30, 2001

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Grant Number	Federal Program Award Amount	Federal Expenditures
US DEPARTMENT OF AGRICULTURE				
Foreign Agricultural Service Foreign Market Development Cooperator Program	10.600	00-JV-11221610-203	\$20,000	\$19,797
Cooperative State Research, Education and Extension Service Passed through the Pacific International Center for High Technology Research Agriculture-Based Remediation Program	10.500	98-COOP-1-5891	\$818,692	* \$186,810
US DEPARTMENT OF INTERIOR Office of Insular Affairs Economic, Social, and Political Development of the Territories and the Freely Associated States	15.875	GEN-151	\$258,698	\$190,729
Total Expenditures of Federal Funds				\$397,336

^{*}Denotes major federal program as defined by OMB Circular A-133.

See accompanying auditors' report and note to the schedule of expenditures of federal awards.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors

The Research Corporation of the University of Hawaii:

We have audited the financial statements of The Research Corporation of the University of Hawaii, State of Hawaii (Corporation), as of and for the year ended June 30, 2001, and have issued our report thereon dated July 27, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of The Research Corporation of the University of Hawaii, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

July 27, 2001

SECTION III - COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Directors
The Research Corporation of the University of Hawaii:

Compliance

We have audited the compliance of The Research Corporation of the University of Hawaii, State of Hawaii (Corporation), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of The Research Corporation of the University of Hawaii, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The Research Corporation of the University of Hawaii State of Hawaii Schedule of Findings and Questioned Costs Year ended June 30, 2001

- (1) Summary of Auditor's Results
 - (a) The type of report issued on the financial statements: **Unqualified opinion**
 - (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **None noted** Material weaknesses: **None noted**
 - (c) Noncompliance which is material to the financial statements: None noted
 - (d) Reportable conditions in internal control over major programs: **None noted**Material weaknesses: None noted
 - (e) The type of report issued on compliance for major programs: **Unqualified opinion**
 - (f) Any audit findings which are required to be reported under section. 510(a) of OMB Circular A-133: **None noted**
 - (g) Major program U.S. Department of Agriculture 10.500 Agriculture-Based Remediation Program
 - (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 - (I) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: No
- (2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None noted

(3) Findings and Questioned Costs Relating to Federal Awards:

None noted