

2005



Annual Report

The Research Corporation
of the University of Hawaii

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The Research Corporation of the University of Hawaii

Its creation . . .

RCUH 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 . . .

The 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 science-related activities now involving universities, federal government and private industry.

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

Although penned forty 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 . . .

RCUH 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. . .

RCUH is attached to the University of Hawaii (UH) for administrative purposes (per statute). 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.

Its funding . . .

Like 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 based on an agreed-upon amount.

'Direct' projects (typically non-University projects), such as those of other state agencies, federal 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 . . .

The 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 University of Hawaii 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 . . .

The "core" staff of RCUH consists of approximately 35 employees, spread across the departments of accounting, disbursing, human resources, procurement, project management, and the executive director's office. The core staff is housed at Sakamaki Hall on the UH campus and at the Manoa Innovation Center on Woodlawn Drive in Manoa.

The RCUH Hilo Office has a staff of 4, and they are located in the Institute for Astronomy building in the UH Hilo Research Park.

At any given time, there are on average 2,500 project personnel on RCUH's payroll.

EEO/AA Policy

RCUH 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

The fiscal year ending June 30, 2005 resulted in another milestone year for RCUH. We surpassed \$300 million in our volume of business ... \$322.4 million to be exact! This translates to a 24% increase from the year prior.

The University of Hawaii continues to be RCUH's major client, representing close to 90% of our business, with the remaining 10% or so coming from non-University clients, what we categorize as "direct" projects (e.g., state, federal and private entities). Both sectors experienced significant growth – the University's volume increased by 36% and our direct projects had a phenomenal growth of 65%. Some one-time awards caused the spike in volume and therefore the unusual growth, especially in the direct projects sector. However, it is safe to say that research is thriving!

As we ended the previous fiscal year, a Strategic Plan for RCUH was adopted by the Board of Directors. Consequently, this year was devoted to the implementation of RCUH's Strategic Plan, which calls for RCUH to provide all the required support for extramural research and training contracts and grants, from "soup to nuts". This ambitious goal requires working closely with the University of Hawaii to accomplish, since many of the support activities currently reside with the University. Much time and effort was spent working with various University representatives on how RCUH can accomplish this.

A number of focus group sessions were held with our University clientele to solicit comments (both positive and negative) on RCUH's policies, procedures, and practices. Many constructive comments were received, and we are continuing to work on improvements to our overall operations.

RCUH funded one-half of the costs of InfoEd, an electronic research administration software, that the University decided to purchase. This will streamline many of the pre-award functions for the University Principal Investigators and others. When fully implemented, it will provide for proposal preparation and tracking as well as electronic submissions to the various federal agencies. We are optimistic that this investment in the University's research infrastructure will reap many benefits.

The infamous flood in late October 2004, which caused millions of dollars in damage to the UH Manoa campus also affected our Human Resources department. While the damages experienced by us were nowhere near the magnitude of what the University faced, it nonetheless affected some of our operations as mud and water had to be removed and carpeting, furniture, and equipment had to be replaced. Our Human Resources staff persevered, however, and continued to provide most services during this disaster.

In line with Human Resources services, a new feature was made available to our employees via our PeopleSoft system. The Employee Self-Service (ESS) System became operational in June 2005 and this made it possible for employees to make changes to their personal data and withholding allowances, view and print their payroll statements, and view other personal information such as compensation history.

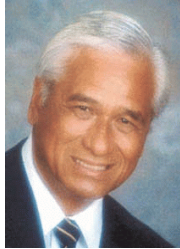





We also continued to make enhancements to our financial system, the major one being converting to a "real time" system whereby transactions executed are immediately posted to the accounting system and reflected on reports.


As the year came to a close, we bid aloha to Board members Lynn Kinney and Eugene Tiwanak. Our thanks and appreciation to them for their many contributions to RCUH over the past several years. Trent Kakuda's term also came to an end shortly after the close of the fiscal year, and our thanks to him as well for his service on the Board.

We look forward to the new year with continued enthusiasm as we pursue our mission of supporting the research and training activities of the University of Hawaii and the State of Hawaii.

Board of Directors

(as of 6/30/05)

 <p>Andres Albano Director</p>	 <p>Byron Bender Vice Chairman & Director</p>	 <p>Shige Iwamoto Diretor</p>	 <p>Joelle Kane Director</p>	 <p>Trent Kakuda Director</p>	 <p>Lynn Kinney Chairman & Director</p>
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 <p>Kitty Lagareta Director</p>	 <p>Brian Tamamoto Director</p>	 <p>Eugene Tiwanak Director</p>	1 vacancy
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Project Review

We are pleased to highlight the following three projects:

A “UH Service Ordered” Project

Investing in Multidisciplinary University Activities (IMUA) Through NSF Hawai`i EPSCoR: Building Research Infrastructure Across the State

The University of Hawai`i (UH) System has a strong history of deliberate and thoughtful research infrastructure improvement. During the 1970s and 1980s, UH developed its Astronomy and Ocean & Earth Sciences programs with targeted and sustained resources, sense of purpose, and focused initiatives. As a result, Hawai`i now possesses internationally recognized research enterprises in these fields.

This established practice of self-assessment followed by proactive development is mirrored in the University's participation in the National Science Foundation's Experimental Program to Stimulate Competitive Research (NSF EPSCoR). Hawai`i became eligible for participation in this federal research infrastructure improvement program in 2001. The first Research Infrastructure Improvement (RII) award of approximately \$9,000,000 was made in April 2003, after extensive strategic planning on the part of Hawai`i's statewide EPSCoR Committee. The title of the project is “Investing in Multidisciplinary University Activities through NSF Hawai`i EPSCoR.” The resulting acronym of **IMUA NSF Hawai`i EPSCoR** gives a very purposeful spirit to the project's name, as *imua* means to go forward with strength and purpose in the Hawaiian language. The award carried with it a 50% cost match, thereby increasing the value of it to \$13,500,000 over a three-year period. Recently the state submitted a renewal proposal to continue this important work.

The current NSF EPSCoR proposal, IMUA II, will build on the success of the first EPSCoR RII program to advance specific research opportunities in ecology, evolution and cyberinfrastructure that are of high priority to the State and the UH System. Specifically, Hawai`i's 2005 RII Plan presents a research agenda that promotes responsible stewardship of Hawai`i's ecosystems while enabling its people to assume their roles as technologically literate, critically thinking citizens in a 21st century workforce. In partnership with the State Department of Business, Economic Development & Tourism (DBEDT), UH will leverage IMUA II to promote an “*opportunity for environmental*

responsibility to be an economic force” for the State.

NSF EPSCoR in Hawai`i is designed to promote the development of science and technology resources throughout the University of Hawai`i System and the State of Hawai`i. NSF Hawai`i EPSCoR is developing several initiatives to enhance Hawai`i's ability to develop nationally recognized programs and obtain competitive grants. The program is hiring faculty, graduate students and technicians. It is purchasing equipment and establishing shared-use core laboratory facilities. In addition, NSF Hawai`i EPSCoR is promoting the interaction of researchers and educators throughout the UH System and the State in order to develop interdisciplinary and intercampus research and education programs that are nationally recognized. Following are some highlights of the project's accomplishments, and a brief description of the dynamics of the management team.

Overview of UH Research Funding

The UH System has seen an overall increase in the amount of funding awarded from \$180.9 m to \$326.0 m from 2000-2004.

- A dramatic increase in funding at UH Hilo (\$3.2 m to \$9.9 m) and UHCC (\$8.1 m to \$18.9 m)
- UH received most of the federal funding from DoD, NSF and NIH (\$137 m combined in 2004).
- EPSCoR faculty increased research funding from \$1.6 m to \$9.4 m (5.9 times) from 2000-2004.

Research Programs

The three Research Thrust areas are: Ecosystems Research, Evolutionary Genetics, and Information Technology for Environmental Research.

- Established core Genetics, Analytical, GIS/remote sensing and field station facilities at UH Manoa and UH Hilo with Laboratory Managers at each facility.
- Hired 5 faculty at UH Manoa and 9 faculty at UH Hilo in the thrust areas. These faculty members join the current faculty to enhance these research programs. A faculty search is nearing conclusion for the remaining faculty position at UH Hilo.
- Research collaborations and grant activity have been systematically promoted in the University and with federal and state agencies, and other University partners.

The Education and Human Resources (EHR) programs are building a pipeline of activities across the UH system in science, technology, engineering and mathematics (STEM) disciplines.

- Faculty Development program at UH Hilo has funded 22 research projects since the project's inception. These internally awarded developmental grants allow for researchers to develop preliminary data and prepare for submittal to federal agencies for larger research awards. So far the return of investment on this program is conservatively estimated at nearly five dollars for every dollar invested. A single award made to one of the researchers in this group for over \$4,000,000 would drive the return of investment figure to nearly \$32 for every dollar invested; given the great disparity of return of investment figures, both are offered for the reader's analysis.
- The University of Hawaii Community Colleges (UHCC) have a similar internally awarded grants program that affords faculty development opportunities. To date, this initiative has funded 27 projects with a return of investment estimated at slightly over six dollars for each dollar invested.
- The main UHCC programs are: K-16 Environmental Science, Pacific Initiative for Environmental Studies (PIES), Contextual Math & Science Nursing Program, Sustainable Agriculture, and Biotechnology Program Development.
- Student research experience activities and curriculum development at UH Hilo and UHCC are expanding the opportunities for local students to enter science and mathematics disciplines as career paths and courses of post-secondary study.
- A new Masters of Science degree in Tropical Conservation Biology and Environmental Science at UH Hilo began in Fall 2004. This program has 32 participating faculty and 30 graduate students.

EPSCoR Administration:

- State-wide EPSCoR Committee Co-Chairs: Dr. Rose Tseng, UH Hilo Chancellor; Mr. Maurice Kaya, CTO of DBEDT
- Principal Investigator: Dr. James Gaines, UH System Interim Vice President for Research
- Co-Project Directors: Dr. Donald Price, Director of UH Hilo MS in Tropical Conservation Biology and Environmental Science; Dr. Kenneth Kaneshiro, Director of the UH Manoa Center for Conservation Research and Training
- Project Administrator, Ms. Terrilani Chong
- UH System Managing Director, Mr. Kevin Kelly

<http://www.epscor.hawaii.edu/>

A “Direct” Project

Evaluation of the Proposed Space Radar System’s Potential Contribution to Disaster Management Decision Support

Under a contract with Northrop Grumman Space Technology Corporation, RCUH assembled a team of radar satellite experts and disaster specialists to assess the potential contribution of the Department of Defense’s proposed Space Radar System (SRS) to improved decision support for emergency managers.

The vision for the SRS is to enhance security by deploying a constellation of satellites with radar sensors that can provide near-continuous, on-demand surveillance coverage of military targets and other areas of interest. It would incorporate a synthetic aperture radar for high-resolution imagery; ground moving target indication for tracking moving targets such as vehicles; digital terrain elevation data for 3-D mapping; and electronically scanned array systems for processing large amounts of radar data in near real time. Unlike optical imaging satellites, the SRS would be unconstrained by adverse weather conditions or darkness.

The team was comprised of individuals from the East-West Center (Pacific Disaster Center), RCUH, General Dynamics Corporation (Advanced Information Systems), and a private consultant.

Background

Over the past two decades catastrophic human and economic losses due to tropical cyclones, earthquakes, volcano eruptions, tsunamis, drought, wildfires and disasters triggered by technological hazards, have risen dramatically. Losses from natural disasters are the predictable results of interactions among two major factors: (1) the physical/natural environment, which is constantly changing and is punctuated by extremely hazardous geological and meteorological events; and (2) society and its infrastructure, i.e., the social and demographic characteristics of communities, which are expanding rapidly and diversifying in hazard-prone regions, and society’s constructed environment, including utilities, buildings, roads, bridges, and other components.

Because of these trends, there is worldwide movement underway to shift the disaster management paradigm from reactive, i.e. focusing on response and recovery operations, to a more proactive stance focusing on

mitigation and preparedness. This is accompanied by a growing awareness in the international disaster management community that in order to achieve sustainable development, disaster resistant communities, and reduce the losses from disasters, a number of scientific and technical improvements are needed. These include:

- Improved prediction and understanding of geophysical and meteorological phenomena.
- New environmental and observational technologies for higher spatial and temporal resolution monitoring of natural phenomena and events.
- Improved tools for the assessments of risks and vulnerabilities to, and the consequences of, natural disasters for people and places.

Study Purpose

The main purpose of the SRS Utility Study was to assess the potential contribution of the prospective SRS towards meeting the above disaster management information challenges. The Study Team took advantage of its knowledge of the continuing advances in data collection techniques, modeling, computing and communications, and technologies for analysis and display of geospatial information in the context of the hypothetical SRS constellation. In particular, the Study Team identified ways in which disaster managers might take advantage of the SRS’s unique capabilities to provide timely, accurate, and verifiable information across the entire disaster/crisis management spectrum--preparation, response, recovery and mitigation.

Selected Key Findings

The study team concluded that the proposed SRS would provide emergency managers and decision-makers with the following improved capabilities during a wide array of natural disaster events:

1. It would provide the first wide-area near persistent day/night all-weather coverage of emergency evacuations and evolving emergency situations, to include:
 - Day/night/all-weather imaging of individual critical facilities, utilities, and other critical infrastructure for near-real-time damage assessment.
 - Better targeting of response resources.
 - Monitoring of traffic flow along major evacuation routes.

- Indicator of possible infrastructure failures (bridges, power lines, debris, etc.).
2. The SRS would generate regional topography to predict flooding potential due to rainfall and storm surges during hurricanes and other severe weather events.
 3. The SRS would provide the first wide-area near-persistent, day/night, all-weather coverage of dangerous storms.

In light of these findings that the SRS offers considerable potential towards meeting the information needs of emergency managers and decision-makers, further work will be required to incorporate such users into the system's architecture for tasking, exploitation, processing and dissemination of the radar data.

A “Revolving Fund” Project

Telecommunications and Information Policy Group

One of the overarching missions of the Telecommunications and Information Policy Group (TIPG) of the Social Science Research Institute (SSRI) at the University of Hawaii at Manoa is to facilitate and conduct interdisciplinary and applied research in issues relating to accessible and affordable Information Communication Technologies (ICT) and telecommunication services in under-served and rural locations. To achieve this mission, the specific program objectives and functions are to:

- Manage several public service telecommunication networks and cross-connections to promote the sharing of information and resources;
- Assist in planning, design, implementation and management of ICT projects and networks;
- Coordinate, develop, and deliver content and programs;
- Provide education and training focused on developing ICT capacity within the region;
- Research development and civic service ICT; and
- Assist in ICT policy reform and sustainability

The TIPG program works in collaboration with local departments and ministries of education and health, and other government and non-government agencies in the Hawaii and Pacific Island regions to achieve its mission.

Projects focus on:

1. Public Service Telecommunication Networks

- TIPG operates, manages, and administers several public service telecommunication networks, including:

Pan Pacific Education and Communication Experiments by Satellite (PEACESAT) - PEACESAT connects twelve Pacific Island jurisdictions through interactive video teleconferencing, voice and data communications. A memorandum of agreement between the National Telecommunication Information Administration (NTIA), National Oceanic and Atmospheric Administration (NOAA) and the National

Aeronautics and Space Administration (NASA) allows TIPG to utilize a decommissioned NOAA weather satellite for communications in the PEACESAT network.

State Telehealth Access Network (STAN) – STAN is a consortium of public and private health care facilities and educational institutions and connects up to forty health-care facilities throughout the State of Hawaii for telehealth and telemedicine applications (interactive video teleconferencing, voice and data communications).

Pacific Partnering Networks – TIPG is capable of monitoring and cross connecting networks in American Samoa, the Commonwealth of the Northern Mariana Islands and Guam. These networks include schools, hospitals and government offices.

- Interlinking Networks – the TIPG operates two-multipoint video teleconferencing bridges that enable the cross connection of direct network links (from PEACESAT, STAN, Pacific Partnering Networks) and switched networks using ISDN or Internet protocol.
- Network Usage - Over the past six years, the TIPG network operations center supported 5,291 video teleconferences connecting over 500 different locations through network cross connections. The top three applications of the network services include administrative (1,717 conferences), medical and health (1,585 conferences) and distance education (1,103 conferences.)

2. Distance Learning and Telehealth Projects

- VistA Institute – TIPG is working in collaboration with the Pacific Telehealth and Technology Hui, a Department of Veteran Affairs and Department of Defense partnership, to develop the VistA Institute. The VistA Institute is an education and training program focused on the electronic health records (EHR) system called the Veterans Health Information Systems and Technology Architecture (VistA) and the open source version called Open Vista. The VistA EHR and related systems offer a potential for an affordable EHR for rural, small and underserved areas. The VistA Institute is necessary for developing a workforce with the skills to support these systems that are being increasingly deployed in physician offices, rural hospitals and clinics.

- TIPG is partnering with the Pacific Association for Clinical Training (PACT) program of the University of Hawaii John A. Burns School of Medicine, a Health Resources and Services Administration (HRSA) four-year funded program to assist in coordination of public health and continuing medical education in the Pacific Island jurisdictions. TIPG supports ICT, distance learning and telehealth network aspects of the project.
- Together with the American Samoa Community College, American Samoa Department of Education and the American Samoa eCommerce Development Corporation (eCDC), TIPG, assisted in the development of ED 240: Computer Literacy and Instructional Design and ED 250: Distance Learning Practice and Theory.
- The Asia Pacific Initiative (API) Environmental Seminar program is a graduate level course delivered through video teleconference among the University of Hawaii (Hawaii, USA), University of the South Pacific (Suva, Fiji), National University of Samoa (Samoa), Asian Institute of Technology (Pathumthani, Thailand), University of the Ryukyus (Okinawa, Japan), Keio University and the United Nations University (Tokyo, Japan.)
- TIPG has investigated the use of open source software options and provided technical support and documentation for implementation in the Pacific Islands and has assisted with the implementation of Moodle, an open source eCourse management system.

3. Selected ICT Capacity Building Projects

- Pacific ICT Academy: A one-year education and training program with the American Samoa Government, American Samoa Community College and Pacific eCDC that provides participants with skills needed to support and develop ICT networks and operations. <picta.ecdc.as>
- Telecommunications Information Resource Management (TIRM): A ten-month graduate certificate program for working professionals and students to gain skills and understanding in ICT, information resource policy, planning and management and ICT development and services. TIRM is a hybrid course delivered through TIPG video telecommunication

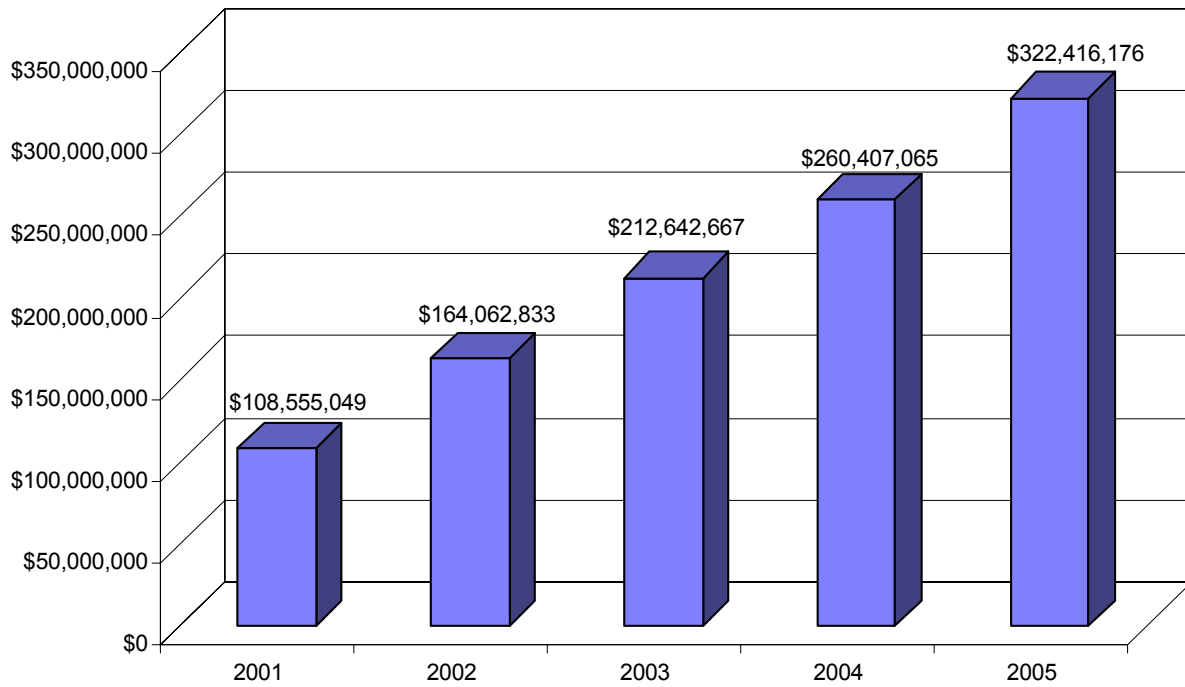
network and Moodle eCourse Management System. <www.tirm.tipg.net>

- ICT Policy Reform and Sustainability in the Pacific Islands: A project to conduct workshops, education and training with leadership, policy makers and multi-sectoral stakeholders in the islands to raise awareness of ICT issues, and refine telecommunication policies.

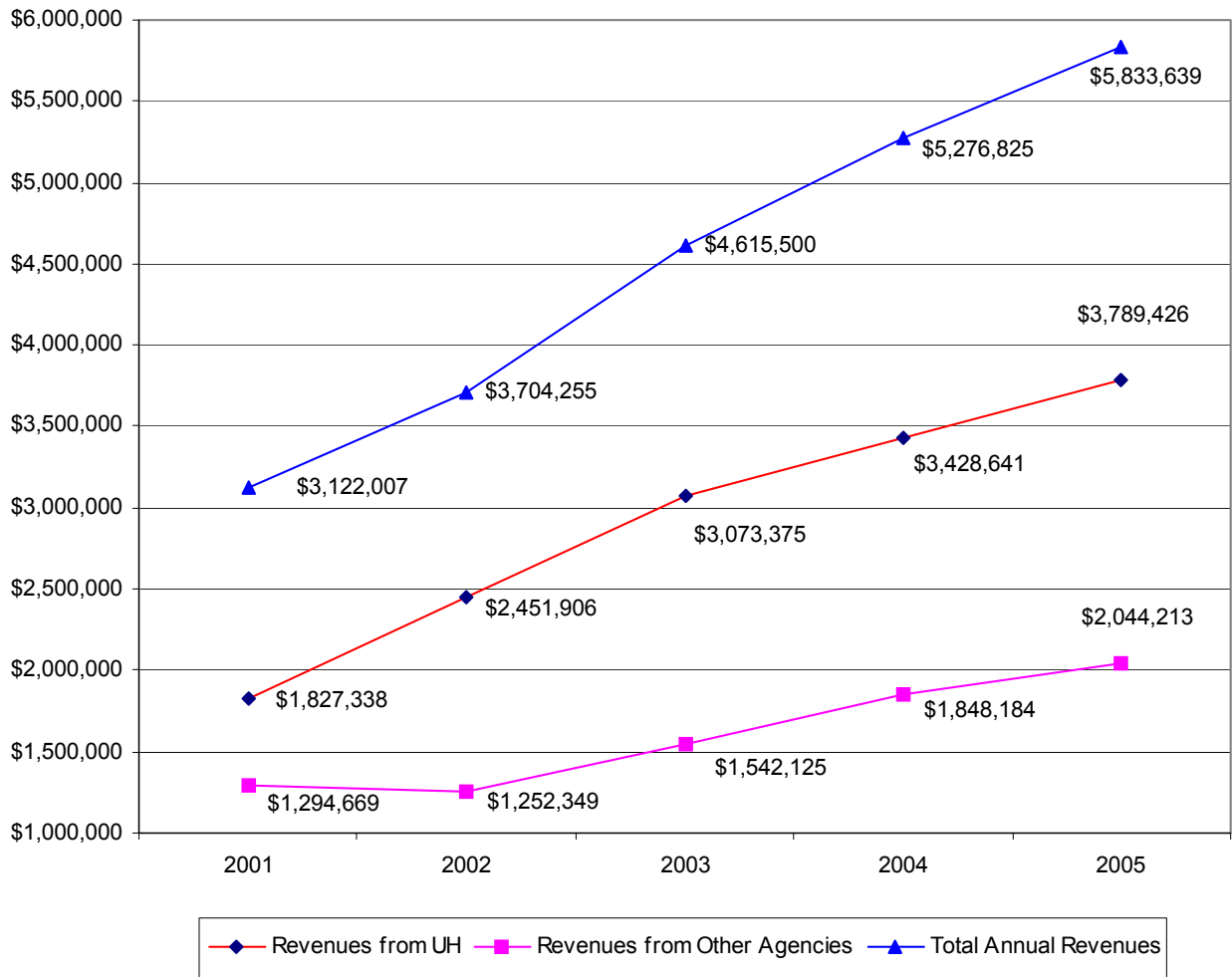
The RCUH revolving fund provides the means for TIPG to support these activities by providing (a) short-term, highly specialized information and communications technology (ICT) goods and services in support of educational institutions, health care providers, government agencies, and other non-profit organizations; (b) support development and maintenance of regional and Hawaii ICT networks based on shared user support costs; (c) provide ICT education and training; and, (d) seed and initiate development and public service ICT programs.

Statistical Data - Fiscal Years 2001-2005

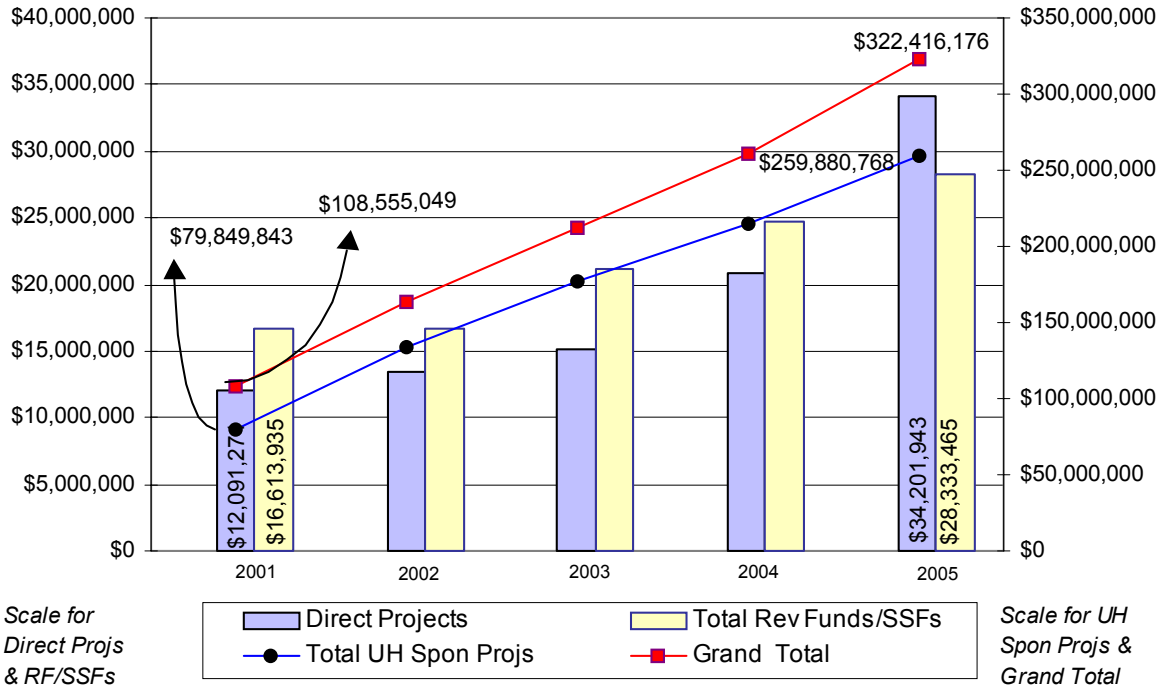
Dollar Volume of Project Administration



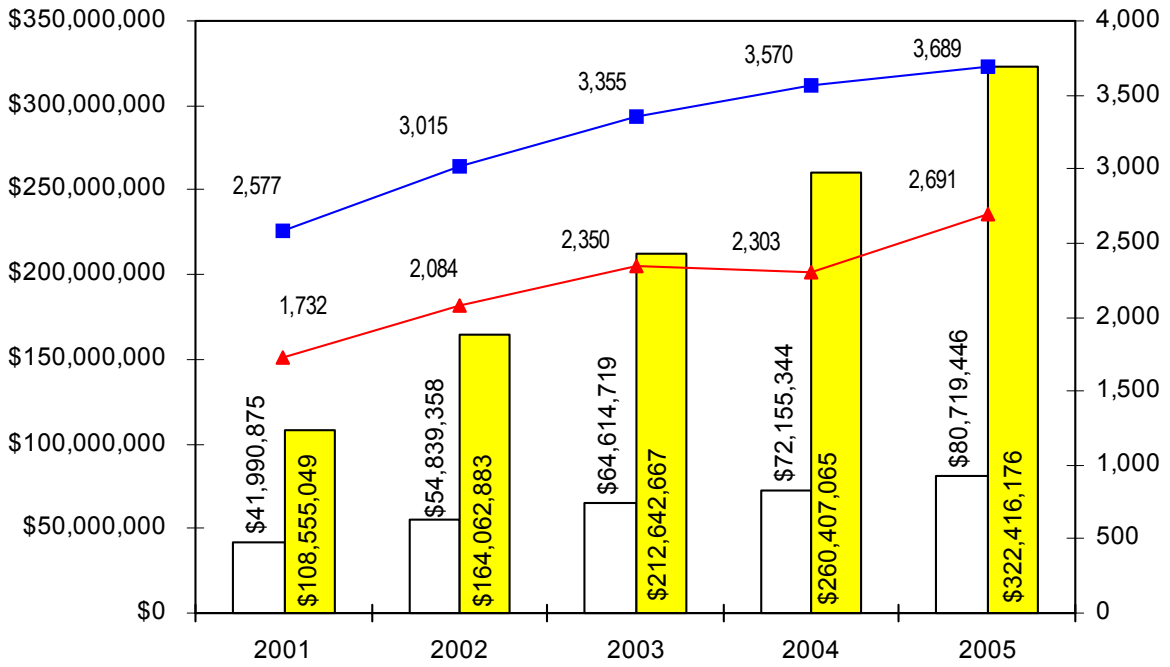
Operating Revenues Summary



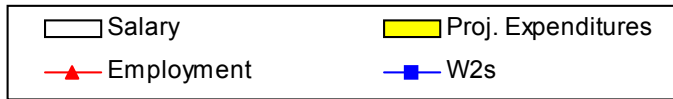
Project Expenditures



Employment/W2s/Salaries/Project Expenditures



Scale for
Salary &
Project
Expenditures



Scale for
Employment
& W2s

Distribution of Awards by Project Disciplines

	2001	2002	2003	2004	2005
Agriculture	\$5,765,112	\$6,874,096	\$5,435,998	\$5,854,099	\$8,830,182
Astronomy	\$16,489,668	\$21,389,807	\$21,348,650	\$26,364,139	\$37,610,210
Biomedicine	\$19,912,680	\$40,126,343	\$56,348,128	\$79,129,196	\$108,701,839
Energy	-	-	-	-	\$4,025,284
Fisheries & Aquaculture	\$3,128,072	\$3,173,514	\$4,277,010	\$6,690,703	\$8,183,804
Marine Programs	\$19,436,392	\$22,613,888	\$30,583,309	\$32,656,256	\$40,049,360
Natural Sciences	\$10,402,761	\$22,965,320	\$35,559,791	\$39,580,388	\$43,952,086
Publications/Educ Materials	\$4,196,119	\$11,821,206	\$17,373,216	\$18,826,363	\$14,549,562
Revolving Funds	\$16,605,734	\$16,626,924	\$21,101,406	\$24,684,636	\$28,265,058
Social Sciences	\$12,618,511	\$18,471,785	\$20,615,159	\$26,621,285	\$28,248,791
TOTAL	\$108,555,049	\$164,062,883	\$212,642,667	\$260,407,065	\$322,416,176

Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2001	%	2002	%	2003	%	2004	%	2005	%
FEDERAL										
Dept of Health & Human Services	12,956,111	11.94	21,867,899	13.31	29,751,403	13.99	30,640,504	11.77	31,201,604	9.68
Dept of Commerce	6,607,200	6.09	9,610,271	5.86	11,716,908	5.51	15,200,894	5.84	16,150,922	5.01
National Science Foundation	6,981,894	6.43	8,882,914	5.41	12,798,076	6.02	5,930,906	6.12	19,262,297	5.97
Dept of Agriculture	4,637,651	4.27	5,526,550	3.37	5,228,131	2.46	4,440,861	1.71	4,221,081	1.31
Dept of Interior	5,620,943	5.18	6,058,590	3.69	6,909,207	3.25	8,356,279	3.21	11,158,249	3.46
Dept of Energy	692,347	0.64	772,915	0.47	779,864	0.37	878,729	0.34	1,198,935	0.37
Dept of Defense	5,250,187	4.84	16,630,419	10.14	31,728,095	14.92	27,767,432	10.66	36,205,734	11.23
Dept of Education	4,251,257	3.92	10,229,809	6.24	10,781,062	5.07	10,636,720	4.08	9,644,551	2.99
Natl Aeronautics & Space Adminis	3,867,868	3.56	6,042,056	3.68	5,884,155	2.77	9,858,790	3.79	15,215,154	4.72
Dept of State	2,922,028	2.69	2,980,994	1.82	2,280,616	1.07	3,117,950	1.20	4,831,498	1.5
Other Miscellaneous Federal	2,265,350	2.09	3,614,791	2.20	6,251,654	2.94	7,765,837	2.98	6,260,387	1.94
TOTAL UH Federal Projects	56,052,836	51.65	92,217,208	56.19	124,109,171	58.37	134,594,902	51.69	155,350,412	48.18
NON-FEDERAL										
<u>State & County Governments:</u>										
<u>University of Hawaii</u>										
Sch of Ocean & Earth Sci & Techn	1,499,125	1.38	929,281	0.57	1,100,217	0.52	1,389,231	0.53	2,196,879	0.68
Institute for Astronomy	2,902,380	2.67	3,634,782	2.22	3,022,320	1.42	4,012,728	1.54	3,455,506	1.07
Ofc of Tech Transf & Econ Dev	1,422,423	1.31	730,728	0.45	777,509	0.37	580,256	0.22	907,455	0.28
Cancer Research Center of HI	804,064	0.74	826,658	0.50	845,942	0.40	1,016,548	0.39	1,510,994	0.47
School of Medicine	-	-	11,267,353	6.87	20,439,334	9.61	44,306,537	17.01	65,500,159	20.32
UH Hilo	-	-	716,962	0.44	883,937	0.42	1,490,325	0.57	3,429,663	1.06
UH Other	5,245,978	4.83	7,237,272	4.41	5,807,279	2.73	9,699,963	3.72	9,056,934	2.81
Dept of Health	2,542,488	2.34	4,766,704	2.91	6,189,969	2.91	4,739,824	1.82	5,647,763	1.75
Dept of Land & Natural Resrcs	889,018	0.82	1,358,872	0.83	1,375,640	0.65	1,368,195	0.53	1,409,161	0.44
Dept of Education	54,737	0.05	291,993	0.18	221,692	0.10	226,938	0.09	399,125	0.12
Dept of Defense	659,745	0.61	569,208	0.35	518,079	0.24	1,522,162	0.58	872,314	0.27
County Government	152,498	0.14	314,279	0.19	306,999	0.14	192,615	0.07	243,447	0.08
Other Sponsors	7,624,551	7.02	9,186,330	5.60	10,779,539	5.07	9,804,540	3.77	9,900,956	3.07
TOTAL UH Non-Federal Projects	23,797,007	21.91	41,830,422	25.52	52,268,456	24.58	80,349,862	30.86	104,530,356	32.42
TOTAL UH PROJECTS	79,849,843	73.56	134,047,630	81.71	176,377,627	82.95	214,944,764	82.54	259,880,768	80.6
DIRECT PROJECTS										
FEDERAL	1,061,822	0.98	947,249	0.58	2,064,179	0.97	5,181,583	1.99	8,989,143	2.79
NON-FEDERAL										
<u>State & County Governments:</u>										
Dept of Health	1,368,640	1.26	1,102,893	0.67	1,407,029	0.66	1,369,250	0.53	751,457	0.23
Dept of Bus, Econ Dev & Tour	241,746	0.22	-	-	-	-	-	-	-	-
Dept of Land & Natural Res	1,205,167	1.11	1,267,594	0.77	1,160,987	0.55	1,399,813	0.54	1,425,889	0.44
Dept of Education	104,059	0.10	82,525	0.05	93,031	0.04	75,509	0.03	80,050	0.02
County Government	-	-	-	-	-	-	-	-	7,512,403	2.33
<u>Others:</u>										
Joint Astronomy Centre	3,417,075	3.14	3,620,656	2.21	4,229,975	1.99	4,556,688	1.75	4,441,265	1.38
Academia Sinica Instit of Astron	824,552	0.01	1,459,798	0.89	1,666,639	0.78	1,153,123	0.44	1,271,675	0.39
Kuakini Medical Center	519,126	0.48	336,371	0.21	186,693	0.09	-	-	-	-
Natl Astronomical Observ of Japan	1,689,112	1.56	2,086,662	1.27	3,029,500	1.42	4,024,469	1.55	4,735,971	1.47
Other Sponsors	1,659,972	1.52	2,484,580	1.51	1,302,534	0.61	3,017,230	1.16	4,994,090	1.55
TOTAL Non-Federal Projects	11,029,449	10.16	12,441,079	7.58	13,076,388	6.14	15,596,082	5.99	25,212,800	7.82
TOTAL DIRECT PROJECTS	12,091,271	11.14	13,388,328	8.16	15,140,567	7.11	20,777,665	7.98	34,201,943	10.61
REVOLVING FUNDS & SSF's										
Specialized Service Fac/Ship Ops	3,849,913	3.54	3,235,248	1.97	7,674,420	3.61	8,920,660	3.43	12,320,439	3.82
Revolving Funds & Other SSF's	12,764,022	11.76	13,391,677	8.16	13,450,053	6.33	15,763,976	6.05	16,013,026	4.97
TOTAL REVOL FUNDS & SSF's	16,613,935	15.30	16,626,925	10.13	21,124,473	9.94	24,684,636	9.48	28,333,465	8.79
TOTAL PROJECTS	108,555,049	100.0	164,062,883	100.0	212,642,667	100.0	260,407,065	100.0	322,416,176	100.0

Financial Statements for the Years Ended June 30, 2004 and 2005

Financial statements and report of independent certified public accountants

The Research Corporation of the University of Hawaii, State of Hawaii

June 30, 2005 and 2004

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SECTION I – FINANCIAL

Report of Independent Certified Public Accountants

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 (Corporation), a component unit of the University of Hawaii, as of June 30, 2005 and 2004, and the related statements of revenues and expenses and changes in net assets, 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2005 and 2004, 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 August 5, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 6 to 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/ Grant Thornton LLP

Honolulu, Hawaii
August 5, 2005

The Research Corporation of the University of Hawaii
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

The following discussion and analysis provides an overview of the financial position and results of operations for The Research Corporation of the University of Hawaii (RCUH) for the year ended June 30, 2005. It includes selected comparative information with the year ended June 30, 2004. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes.

The financial reports of RCUH include three statements. The balance sheets, which summarize assets and liabilities and present an overall picture of the financial position of the Corporation, the statements of revenues, expenses and changes in net assets, which summarize the financial results of operations for the fiscal year, and the statements of cash flows, which identify the sources and uses of cash.

In fiscal year 2005, the Corporation attained a record volume of business (project expenditures) for the fifth consecutive year. As summarized below project expenditures have increased from \$108,555,049 in fiscal year 2001 to \$322,416,176 in fiscal year 2005.

2005	\$322,416,176
2004	\$260,407,065
2003	\$212,642,667
2002	\$164,062,883
2001	\$108,555,049

The significant growth in the volume of project expenditures had a significant impact on the Corporation's financial statements in terms of the cash, receivable, accounts payable and accrued liability balances presented on the balance sheet, revenues generated and levels of cash flows.

Total assets of the Corporation at June 30, 2005 and June 30, 2004, were \$34,528,306 and \$32,239,064, respectively. Cash and cash equivalents, decreased \$10,169,880, in fiscal year 2005, from \$19,098,587 at June 30, 2004, to \$8,928,707 at June 30, 2005. A similar reduction of \$8,639,606 was experienced in fiscal year 2004 when cash and cash equivalents declined from \$27,738,193 at June 30, 2003 to \$19,098,587 at June 30, 2004. Total assets at June 30, 2003 was \$34,255,904.

The significant decrease in cash balances was attributable to lower cash advances from University of Hawaii (University) internally funded projects, the reclassification of time certificates of deposit (TCD's) from cash to investments, and the generally higher level of monthly cash outflows attributable to the increase in project expenditures.

Cash advance balances on University projects, primarily construction, renovation and equipment acquisition type projects, decreased from \$22,795,664 at June 30, 2004 to \$19,549,627 at June 30, 2005, a decline of \$3,246,037. The Corporation classifies TCD's with maturity terms exceeding 90 days as investments. TCD's with maturity terms of 90 days or less are classified as cash. At June 30, 2005 and June 30, 2004, outstanding TCD's with maturity terms exceeding 90 days were \$7,343,091 and 3,834,744, respectively. The reclassified TCD's resulted in a reduction to cash balances and a corresponding increase to investments of \$3,508,347.

Receivable balances increased significantly in fiscal years 2005 and 2004 as a result of the growth in business activity. The substantial portion of the increase is due to higher receivable balances on University accounts resulting from the increase in expenditure activity and the reduction in cash advance balances discussed above. Total receivables increased from \$4,364,163 at June 30, 2004 to \$11,469,237 at June 30, 2005. The net receivable balance due from the University at June 30, 2005 was \$7,592,018 compared to \$1,089,185 at June 30, 2004.

In fiscal year 2004, receivables from "Other Sponsors" increased from \$2,153,782 at June 30, 2003 to \$3,274,978 at June 30, 2004. The net receivable balance due from the University at June 30, 2004 was \$1,089,185 compared to a net balance due to the University of \$10,703,815 at June 30, 2003.

The net value of fixed assets was \$890,105 and \$940,111 at June 30, 2005 and June 30, 2004, respectively. Fixed asset acquisitions amounted to \$227,132 for the year ended June 30, 2005 compared to \$371,725 for the year ended June 30, 2004. Depreciation expense for the years ended June 30, 2005 and June 30, 2004 amounted to \$277,138 and \$262,407, respectively.

Total liabilities were \$24,643,429 at June 30, 2005, compared to \$23,888,939 at June 30, 2004. At June 30, 2005, long term debt, including current installments, on an equipment loan amounted to \$383,915. There was no outstanding long term debt at June 30, 2004. Total liabilities at June 30, 2003 was \$27,652,863 including long term debt-current installments of \$4,783.

For the year ended June 30, 2005, net assets increased \$1,534,752 as operating profit and net non-operating revenues were \$1,143,417 and \$391,335, respectively. Operating revenues of \$5,833,639 were attained on a record volume of business activity and was 11% higher than fiscal year 2004 operating revenues of \$5,276,825. Non-operating revenues included interest income of \$368,148 and a market value gain of \$23,187 in the quasi-endowment investments held at the University of Hawaii Foundation.

Operating expenses in fiscal year 2005 were \$4,690,222, an increase of 25% over the previous year's expenses of \$3,752,599. Significant increases in expense levels were incurred in payroll costs (\$186,376), data processing (\$119,193) strategic plan implementation costs (\$294,464) and project development costs (\$192,786). Payroll costs increased as a result of the planned annual employee pay adjustments and the filling of the RCUH Executive Director position in fiscal year 2005. Data processing costs were higher due to enhancements and modifications made to the RCUH web applications related to the "real time" processing of purchasing and payment transactions and the Human Resources Employee Self Service application. In the current year, \$294,464 was expended as a first step in RCUH's strategic plan to work with the University in creating a more viable and responsive research enterprise. \$285,000 of the total strategic plan costs was used for the purchase of software to assist UH researchers in managing the proposal and pre-award functions. The significant portion of project development costs incurred for fiscal year 2005 were for research initiatives originally scheduled for fiscal year 2004. Project development costs amounted to \$225,913 and \$33,127 in fiscal years 2005 and 2004, respectively.

In fiscal year 2004, net assets increased \$1,747,084 on operating revenues of \$5,276,825. Operating revenues were higher by 14% over 2003 levels of \$4,615,500 as a result of the continued growth in the Corporation's volume of business.

Fiscal year 2004 operating expenses totaled \$3,752,599 compared to \$4,209,434 in 2003, a decrease of 11%. Major expense variances between fiscal years 2004 and 2003 were as follows. Data processing costs of \$634,042 was \$298,003 lower than in 2003 as there were no major enhancements or modifications to the existing computer systems and web applications in 2004. Project development costs were significantly lower by \$221,287 as funding on major research initiatives was delayed to fiscal year 2005. Insurance costs increased \$76,490 from \$270,476 in 2003 to \$346,966 in 2004. Higher premiums continued to reflect the overall market conditions surrounding liability coverages in 2004.

At June 30, 2005 total assets were \$9,884,877 compared to \$8,350,125 at June 30, 2004. Net assets invested in capital assets were \$890,105. There was no debt financing on capital assets and unrestricted net assets amounted to \$8,994,772.

The Research Corporation of the University of Hawaii
State of Hawaii

BALANCE SHEETS
June 30,

ASSETS	2005	2004	LIABILITIES AND NET ASSETS	2005	2004
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash & Cash Equivalents (note B)	\$ 8,928,707	\$19,098,587	Accounts payable	\$12,449,622	\$ 12,619,932
Investments (note C)	8,661,985	5,129,021	Accrued salaries and other	5,017,365	5,579,807
Receivables (note G):			Advances for other sponsoring agencies (note D)	4,706,424	3,521,736
University of Hawaii projects (note D)	7,592,018	1,089,185	Workers' compensation and unemployment claims reserve (note O)	1,183,333	1,419,500
Other sponsoring agencies (note D)	3,732,784	3,274,978	Current installments of long-term debt (note H)	144,525	-
Current portion of receivables under lease agreements, net of deferred credits (note E)	<u>144,525</u>	<u>-</u>	Current portion of accrued supplemental retirement benefits (note K)	<u>22,000</u>	<u>23,000</u>
Total Receivables	11,469,327	4,364,163	Total current liabilities	23,523,269	23,163,975
Prepaid expenses	<u>179,997</u>	<u>276,600</u>	NONCURRENT LIABILITIES:		
Total Current Assets	29,240,016	28,868,371	Long-term debt - net (note H)	239,390	
			Accrued supplemental retirement benefits - net (notes I and K)	<u>880,770</u>	<u>724,964</u>
			Total Noncurrent Liabilities	<u>1,120,160</u>	<u>724,964</u>
			Total Liabilities	24,643,429	23,888,939
NONCURRENT ASSETS:			COMMITMENTS AND CONTINGENCIES (notes G, I, K, L, M, N, O and P)	-	-
Receivables under lease agreements, net of deferred credits (note E)	239,390	-	NET ASSETS (note I):		
Capital assets (note F)	890,105	940,111	Investment in capital assets	890,105	940,111
Restricted assets - cash (notes B and D)	<u>4,158,795</u>	<u>2,430,582</u>	Unrestricted	<u>8,994,772</u>	<u>7,410,014</u>
Total Noncurrent Assets	<u>5,288,290</u>	<u>3,370,693</u>	Total Net Assets	<u>9,884,877</u>	<u>8,350,125</u>
TOTAL ASSETS	<u>\$34,528,306</u>	<u>\$32,239,064</u>	TOTAL LIABILITIES AND NET ASSETS	<u>\$34,528,306</u>	<u>\$ 32,239,064</u>

The accompanying notes are an integral part of these statements.

The Research Corporation of the University of Hawaii
State of Hawaii

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
Year ended June 30,

	2005	2004
Operating revenues — administrative expense recoveries:		
University of Hawaii (note J)	\$ 3,789,426	\$ 3,428,641
Other sponsoring agencies	<u>2,044,213</u>	<u>1,848,184</u>
Total operating revenues	5,833,639	5,276,825
Operating expenses:		
Salaries and wages	1,804,160	1,590,263
Data processing services	753,235	634,042
Insurance	389,255	346,966
Employee fringe benefits (note K)	382,246	409,767
Strategic Plan Implementation	294,464	--
Depreciation	277,138	262,407
Project development	225,913	33,127
Office supplies and services	222,001	192,465
Office and equipment rental (note N)	75,137	84,923
Professional and technical support	40,463	46,778
Flood clean-up/repair	38,635	-
Travel	36,203	9,859
Professional services	28,683	22,479
Tuition support	28,283	23,304
Communications	19,128	19,530
UH Research awards	16,500	16,500
Staff development	16,471	17,219
Retiree medical benefits (note L)	14,354	16,517
Transportation	13,149	7,470
Discretionary fund	7,585	5,164
Board of Directors' meetings	7,219	13,785
Project overruns and disallowances	<u>-</u>	<u>34</u>
Total operating expenses	<u>4,690,222</u>	<u>3,752,599</u>
Operating profit carried forward	1,143,417	1,524,226
Nonoperating revenues (expenses):		
Interest income:		
Cash, certificates of deposit and investment	368,148	137,122
Lease (note E)	6,020	72
Interest expense — long-term debt (note H)	(6,020)	(72)
Intergovernmental (Federal Awards):		
Revenue	7,219,062	4,470,580
Expense	(7,219,062)	(4,470,580)
Quasi-endowment income (expenses):		
Increase in fair value of investments (note C)	23,187	85,736
Investment (note I)	35,589	32,084
Research assistantships expense (note I)	(35,589)	<u>(32,084)</u>
Total nonoperating revenues, net	<u>391,335</u>	<u>222,858</u>
INCREASE IN NET ASSETS	1,534,752	1,747,084
Net assets at beginning of year	<u>8,350,125</u>	<u>6,603,041</u>
Net assets at end of year	<u>\$ 9,884,877</u>	<u>\$ 8,350,125</u>

The accompanying notes are an integral part of these statements.

The Research Corporation of the University of Hawaii
State of Hawaii

STATEMENTS OF CASH FLOWS
Year ended June 30,

	2005	2004
Cash flows from operating activities:		
Project cost reimbursements received from:		
University of Hawaii	\$254,850,029	\$208,655,012
Other sponsors	51,142,099	36,353,019
Management fees received from:		
University of Hawaii	2,976,378	3,642,840
Other sponsors	2,130,209	1,808,689
Payments to vendors	(234,611,349)	(180,860,067)
Payments to employees	(56,062,726)	(50,343,604)
Payments of federal and state payroll taxes	(24,353,300)	(21,590,245)
Project cost reimbursements to the University of Hawaii	(1,582,841)	(2,019,515)
Purchase of equipment under lease agreements	(442,850)	--
Cash received under equipment lease agreements, including interest	65,455	8,640
Other receipts	<u>432,075</u>	<u>253,276</u>
Net cash provided by operating activities	(5,456,821)	(4,091,955)
Cash flows from noncapital financing activities:		
Proceeds from debt	442,850	--
Principal and interest payments on debt	<u>(58,935)</u>	<u>(4,783)</u>
Net cash provided by (used in) noncapital financing activities	383,915	(4,783)
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(227,132)</u>	<u>371,725</u>
Net cash used in capital and related financing activities	(227,132)	(371,725)
Cash flows from investing activities:		
Purchase of investments	(3,509,777)	(3,836,185)
Interest income received on cash deposits and investment income	403,737	169,206
Contribution to University of Hawaii assistantships	<u>(35,589)</u>	<u>(32,084)</u>
Net cash (used in) provided by investing activities	<u>(3,141,629)</u>	<u>(3,699,063)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(8,441,667)	(8,167,526)
Cash and cash equivalents at the beginning of the year	<u>21,529,169</u>	<u>29,696,695</u>
Cash and cash equivalents at the end of the year	<u>\$ 13,087,502</u>	<u>\$ 21,529,169</u>
Cash and cash equivalents are presented in the accompanying balance sheets as follows:		
Cash and cash equivalents	\$ 8,928,707	\$ 19,098,587
Restricted assets - cash	<u>4,158,795</u>	<u>2,430,582</u>
	<u>\$ 13,087,502</u>	<u>\$ 21,529,169</u>
Reconciliation of operating profit to net cash (used in) provided by operating activities:		
Operating profit	\$ 1,143,417	\$ 1,524,226
Adjustments to reconcile operating profit to net cash provided by operating activities:		
Depreciation expense	277,138	262,407
Change in assets and liabilities:		
Receivables	(7,344,554)	(2,201,741)
Prepaid expenses	96,603	82,294
Accounts payable and accrued wages	(732,752)	5,915,201
Advances from University of Hawaii and other sponsors	1,184,688	(9,852,376)
Workers' compensation and unemployment claims reserve	(236,167)	51,601
Accrued supplemental retirement benefits	<u>154,806</u>	<u>126,433</u>
Net cash (used in) provided by operating activities	<u>\$ (5,456,821)</u>	<u>\$ (4,091,955)</u>

The accompanying notes are an integral part of these statements.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A – 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. 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.

1. Financial Statement Presentation and Financial Reporting Entity

The accompanying financial statements of the Corporation have been prepared in conformity with the accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 14, *The Financial Reporting Entity* (Statement No. 14), as amended by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, established standards for defining and reporting on the financial reporting entity. This statement requires that the financial statements of the University include the financial statements 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 financial statements of the Corporation are blended with the University's financial statements.

2. 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 GASB. In accordance with GASB standards, the Corporation has elected not to apply all applicable Financial Accounting Standards Board pronouncements on accounting and reporting that were issued after 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.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation are administrative expense recoveries.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2005. Cash equivalents amounted to \$3,500,000 at June 30, 2004.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. 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.

5. Capital Assets

Capital assets, which include office furniture and equipment and computer software acquired for the administrative operations, are reported in the financial statements. Management capitalizes office furniture and equipment and computer software costs if the cost is in excess of \$5,000 and \$25,000, respectively, and the useful life exceeds 1 year. Purchased capital assets are valued at cost.

Depreciation expense is recorded in the financial statements. The straight-line method is utilized over the assets' estimated useful life. Generally, the useful lives used for office furniture and equipment and computer software costs is 6 years.

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.

6. 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.

7. 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.

8. 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 K). Accumulated sick leave at June 30, 2005 and 2004 aggregated approximately \$1,048,000 and \$1,011,000, respectively.

9. 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.

10. 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.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE B – CASH AND CASH EQUIVALENTS

At June 30, 2005 and 2004, the carrying amount of total bank deposits was \$13,001,181 and \$21,434,147, respectively, while the corresponding bank balances which are represented were \$18,986,000 and \$26,002,000, respectively. The portion of such deposits not covered by federal depository insurance or invested in U.S. treasury notes are covered by collateral held in the name of the Corporation by third party custodians.

NOTE C – INVESTMENTS

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2005 and 2004:

	June 30, 2005		June 30, 2004	
	Fair value	Cost	Fair value	Cost
Investments	\$1,318,894	\$1,410,024	\$1,294,277	\$1,408,594
Certificates of deposit	7,343,091	7,343,091	3,834,744	3,834,744
	<u>\$8,661,985</u>	<u>\$8,753,115</u>	<u>\$5,129,021</u>	<u>\$5,243,338</u>

The Corporation has investments with the University of Hawaii Foundation (Foundation) and the Hawaii Strategic Development Corporation (HSDC), a state of Hawaii agency created in 1990 to promote economic development in conjunction with private enterprise.

Investments at the Foundation consist primarily of foreign and domestic equity and fixed income securities. At June 30, 2005 and 2004, the Corporation had 26,961 shares 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 investments at the Foundation amounted to \$908,870 and \$885,683 at June 30, 2005 and 2004, respectively. The increase (decrease) in fair value of investments (unrealized gains and losses) for the years ended June 30, 2005 and 2004 amounted to \$23,187 and \$85,736, respectively.

In 2003, \$406,265 was transferred from the investment pool at the Foundation to HSDC. These funds are currently being held in an interest bearing demand deposit account for future investment in University of Hawaii developed technologies. At June 30, 2005 and 2004, funds invested with HSDC amounted to \$410,024 and \$408,594, 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 investments held by the Foundation and HSDC are classified as Category 3, while the certificates of deposit are classified as a Category 1.

Custodial credit risk is the risk that in the event of a financial institution failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. The Corporation's investments were exposed to custodial credit risk at June 30, 2005 and 2004 as follows:

	2005	2004
Uninsured and collateral held by trust department or agent not in the Corporation's name	<u>\$1,318,894</u>	<u>\$1,294,277</u>

At June 30, 2005 and 2004, more than 5% of the Corporation's total investments were as follows:

	2005	2004
Certificates of deposit held with First Hawaiian Bank	85%	85%
Funds invested with HSDC	0%	8%

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE D – RECEIVABLES AND ADVANCES FROM OTHER 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 \$4,706,424 and \$3,521,736 at June 30, 2005 and 2004, respectively. Cash relating to a portion of the advances, amounting to \$4,158,795 and \$2,430,582 at June 30, 2005 and 2004, 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 direct federal awards, these transactions are not reflected on the Corporation's statements of revenues and expenses.

NOTE E – RECEIVABLES UNDER LEASE AGREEMENTS

In January 2005, the Corporation borrowed funds and purchased certain equipment. It simultaneously entered into an agreement 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. There were no outstanding lease agreements or receivables under lease agreements at June 30, 2004. Maturities of receivables under the lease agreements at June 30, 2005 are as follows:

June 30,	
2006	\$157,092
2007	157,092
2008	91,637
	<u>\$405,821</u>

The following lists the components of receivables under lease agreements as of June 30, 2005:

Total minimum lease payments receivable	\$ 405,821
Less deferred credits	<u>(21,906)</u>
Net investment in receivables under lease agreements	383,915
Less current portion	<u>(144,525)</u>
	<u>\$ 239,390</u>

NOTE F – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 is as follows:

	Beginning Balance	Acquisitions	Dispositions	Ending Balance
Office equipment	\$ 515,044	\$ –	\$(10,737)	\$ 504,307
Computer software	2,202,163	227,132	–	2,429,295
	<u>2,717,207</u>	<u>227,132</u>	<u>(10,737)</u>	<u>2,933,602</u>
Less accumulated depreciation				
Office equipment	199,427	8,858	(10,737)	197,548
Computer software	1,577,669	268,280	–	1,845,949
	<u>1,777,096</u>	<u>277,138</u>	<u>(10,737)</u>	<u>2,043,497</u>
	<u>\$ 940,111</u>	<u>\$ (50,006)</u>	<u>\$ –</u>	<u>\$ 890,105</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE F – CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2004 is as follows:

	Beginning balance	Acquisitions	Dispositions	Ending Balance
Office equipment	\$ 518,623	\$ 15,029	\$ (18,608)	\$ 515,044
Computer software	1,845,467	356,696	–	2,202,163
	<u>2,364,090</u>	<u>371,725</u>	<u>(18,608)</u>	<u>2,717,207</u>
Less accumulated depreciation				
Office equipment	204,738	13,297	(18,608)	199,427
Computer software	1,328,559	249,110	–	1,577,669
	<u>1,533,297</u>	<u>262,407</u>	<u>(18,608)</u>	<u>1,777,096</u>
	<u>\$ 830,793</u>	<u>\$ 109,318</u>	<u>\$ –</u>	<u>\$ 940,111</u>

Depreciation expense for the years ended June 30, 2005 and 2004 amounted to \$277,138 and \$262,407, respectively.

NOTE G – 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, 2005. 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 (6.25% at June 30, 2005). At June 30, 2005, there were no borrowings outstanding under this line.

NOTE H – LONG-TERM DEBT

A summary of long-term debt at June 30, 2005 is as follows:

3.57% note payable to First Hawaiian Bank, secured by IBM processor, monthly payments of \$12,991 including interest, due January 2008, by the University of Hawaii, Information Technology Services	\$383,915
Less current installments of long-term debt	<u>144,525</u>
	<u>\$239,390</u>

The following is a summary of changes in long-term debt for the two years ended June 30, 2005:

Balance as of July 1, 2003	\$ 4,783
Additions	–
Deductions	<u>4,783</u>
Balance as of June 30, 2004	–
Additions	442,850
Deductions	<u>58,935</u>
Balance as of June 30 2005	<u>\$383,915</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE H – LONG-TERM DEBT (continued)

The following is a schedule of future minimum payments on long-term debt:

Year ending June 30,	
2006	\$155,892
2007	155,892
2008	90,698
	<hr/>
	402,482
Amount representing interest	(18,567)
	<hr/>
	<u>\$383,915</u>

NOTE I – NET ASSETS

1. 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 net assets for this purpose. The Corporation transferred \$1,533,000 and \$1,668,000 from undesignated net assets to the designated net assets for working capital in 2005 and 2004, respectively.

2. Quasi-Endowment

The quasi-endowment designated net assets 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, 2005 and 2004, investment income of \$35,589 and \$32,084, respectively, was earned from investments administered by the Foundation. Research assistantship expenditures deducted from the quasi-endowment reserve during 2005 and 2004 amounted to \$35,589 and \$32,084, respectively.

3. Supplemental Retirement Benefits

As described in note K, the Corporation offers supplemental retirement benefits. The liability as of June 30, 2005 and 2004 associated with the supplemental retirement benefits are accrued in the accompanying balance sheets. The supplemental retirement benefits designated net assets balance represents supplemental retirement benefits surcharge collected in excess of supplemental retirement benefits paid or accrued in the balance sheets as of June 30, 2005 and 2004.

4. 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 net assets 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. In 2005 and 2004, the amount of the designation was increased by \$14,754 and \$8,015, respectively. A separate interest-bearing account is maintained for this reserve.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE I – NET ASSETS (continued)

Net assets at June 30, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Designated		
Working capital	\$ 8,012,000	\$ 6,479,000
Quasi-endowment	908,870	885,682
Supplemental retirement benefits	107,307	143,483
Project contingent liabilities	856,107	841,353
Undesignated	<u>593</u>	<u>607</u>
	<u>\$ 9,884,877</u>	<u>\$ 8,350,125</u>

NOTE J – OPERATING REVENUES – UNIVERSITY OF HAWAII

Operating revenues received from the University of Hawaii for the years ending June 30, 2005 and 2004 amounted to \$3,602,564 and \$3,291,198, respectively, for extramurally sponsored projects and \$186,862 and \$137,443, respectively, for internally funded projects.

NOTE K – 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 nonforfeitable 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, 2005 and 2004 were \$133,358 and \$138,379, 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, 2005 and 2004, the Corporation accrued supplemental retirement benefits amounting to \$902,770 and \$747,964, respectively, in the accompanying balance sheets. The accrual represents the Corporation's best estimate of future supplemental retirement benefits based on available information. Supplemental retirement benefits paid during the years ended June 30, 2005 and 2004 were \$36,176 and \$14,750, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 747,964	\$ 621,531
Additions	190,982	141,183
Deductions	<u>(36,176)</u>	<u>(14,750)</u>
Ending balance	902,770	747,964
Less current portion of accrued supplemental retirement benefits	<u>22,000</u>	<u>23,000</u>
	<u>\$ 880,770</u>	<u>\$ 724,964</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE L – 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, 2005 and 2004 aggregated to \$14,354 and \$16,517, respectively.

NOTE M – 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
2005:				
Salaries and wages	\$ 56,000,365	\$12,936,958	\$10,166,918	\$ 79,104,241
Equipment	28,848,887	4,229,316	268,459	33,346,662
Other	175,031,514	17,035,670	17,898,089	209,965,273
	<u>\$259,880,766</u>	<u>\$34,201,944</u>	<u>\$28,333,466</u>	<u>\$322,416,176</u>
2004:				
Salaries and wages	\$ 50,175,339	\$ 11,553,378	\$ 9,507,105	\$ 71,235,822
Equipment	19,886,812	1,330,818	117,300	21,334,930
Other	144,882,613	7,893,469	15,060,231	167,836,313
	<u>\$214,944,764</u>	<u>\$20,777,665</u>	<u>\$24,684,636</u>	<u>\$260,407,065</u>

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 \$95,124,000 and \$133,818,000 at June 30, 2005 and 2004, respectively.

NOTE N – OPERATING LEASE

The Corporation occupies office space under month-to-month operating leases. The leases 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, 2005 and 2004 was \$75,137 and \$84,923, respectively, which includes \$51,488 and \$64,655, respectively, of office rental expense under the operating leases for the years ended June 30, 2005 and 2004.

NOTE O – RISK MANAGEMENT

1. 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.

2. 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 of \$100 million for all risk losses including hurricane, \$25 million for losses from earthquake and flood, and terrorism loss of \$50 million per occurrence. Deductibles for windstorm losses are 3% of values at each location, subject to a minimum of \$250,000. Deductible for losses caused by earthquake, flood, tsunami and volcanic action is 3%, subject to a \$250,000 minimum. For other lines of coverage the deductible is \$250,000.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE O – RISK MANAGEMENT (continued)

The Corporation has general liability insurance under the State with loss coverage of \$10 million for each occurrence. Exclusions include pollution, asbestos, airport and medical-professional losses. The deductible is \$3 million per occurrence. The State program includes crime insurance with loss coverage of \$10 million for criminal losses. Faithful performance of duties coverage is \$1 million. The deductible is \$250,000 per occurrence.

The Corporation has an additional general liability policy with loss coverage of \$1 million for each occurrence and \$4 million in the annual aggregate; coverage is \$100,000 for fire legal liability. Exclusions include professional liability, pollution, employment related practices, sexual abuse, fiduciary liability, securities and financial interest. The deductible is \$25,000 per claim. In addition, the Corporation has a \$10 million umbrella liability policy in excess of the \$1 million coverage for general liability. The Corporation has a \$5 million insurance policy for directors' and officers' liability losses, with a deductible of \$15,000.

3. 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, 2005 and 2004, the workers' compensation reserve amounted to \$592,074 and \$646,537, respectively, and is reported as a current liability in the accompanying balance sheets. The change in workers' compensation reserve resulted from the payments for workers' compensation claims of \$68,086 and \$116,824 during the year ended June 30, 2005 and 2004, 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 a retrospective rated insurance plan with coverage 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.

4. 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, 2005 and 2004, the unemployment reserve amounted to \$591,259 and \$772,963, respectively, and is reported as a current liability in the accompanying balance sheets.

NOTE P – COMMITMENTS

At June 30, 2005, the Corporation had an outstanding stand-by letter of credit commitment in the amount of \$575,000. The commitment is collateral for the deductible portion of a workers' compensation insurance policy obtained by the Corporation in relation to the administration of a University of Hawaii project to construct a new medical center.

At June 30, 2005, the Corporation had an outstanding contract commitment through May 31, 2006 related to computer software and hardware maintenance of \$118,000.

SUPPLEMENTARY INFORMATION

Report of Independent Certified Public Accountants
on Supplementary information

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of The Research Corporation of the University of Hawaii, State of Hawaii, as of and for the years ended June 30, 2005 and 2004. 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.

/s/ Grant Thornton LLP

Honolulu, Hawaii
August 5, 2005

The Research Corporation of the University of Hawaii
State of Hawaii

SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
Year ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Program Award Amount	Federal Expenditures
DEPARTMENT OF COMMERCE Economic Development Administration Stimulation, Telemedicine, Applied Technology and Incubator Center	11.300	07-01-05270	\$3,000,000	\$ 2,445
U.S. DEPARTMENT OF DEFENSE Office of Naval Research Maritime Fire Training at Barber's Point	12.300	N00014-02-1-0999	1,931,000	790,439
Seafarers Training Center	12.300	N00014-03-1-0957	2,363,850	791,415
Next Generation Optimized Radar	12.000	N00421-03-C-0013	1,163,028	223,317
Alternate Transmitter for Advanced Hawkeye (HEATx)	12.000	N00421-03-C-0118	8,442,180	4,547,783
U.S. DEPARTMENT OF INTERIOR Office of Insular Affairs Pacific Islands Health Officers Association	15.875	GEN-173	7,980	7,500
Pacific Islands Health Officers Association	15.875	GEN-178	210,487	81,558
Secretariat US All Islands Coral Reef Initiative Committee	15.000	CRI-RCUH-1-05	149,982	46,717
Sunia Award Summer Internship	15.000	CRI-RCUH-2-05	30,000	9,792
Pass through Programs from Pacific Post-Secondary Education Council (PPEC): PPEC Building Regional Capacity	15.000	GEN-182	235,240	6,083
U.S. Geological Survey Hawaii GAP Analysis Project	15.808	01HQAG0195	894,787	151,834
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES Health Resources and Service Administration: Regional Collaborative Pacific Basin	93.224	3 U1BOA04137-01-01	175,000	131,771
Centers for Disease Control: Center for Public Health Preparedness	93.283	U90/CCU624246-01	87,700	81,479
U.S. DEPARTMENT OF LABOR Pass through Hawaii Community Foundation: Job Creation for Cruise Line/Building Trade Industries	17.000	AF-13699-04-60	496,750	<u>346,929</u>
				<u>\$ 7,219,062</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTE TO THE SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
Year ended June 30, 2005

NOTE 1 – 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 A 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.

NOTE 2 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

<u>Program title</u>	<u>CFDA No.</u>	<u>Amount</u>
U.S. Department of Labor Passed through Hawaii Community Foundation Job Creation for Cruise Line/Bldg Trade Industries	17.000	\$302,280

SECTION II – INTERNAL CONTROL OVER
FINANCIAL REPORTING AND COMPLIANCE

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters 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 years ended June 30, 2005 and 2004, and have issued our report thereon dated August 5, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 an opinion on the internal control over financial reporting. Accordingly, we express no such opinion. 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 reportable 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 caused by error or fraud 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

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 grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 05-01.

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

/s/ Grant Thornton LLP

Honolulu, Hawaii
August 5, 2005

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

To 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 each of its major federal programs for the year ended June 30, 2005. The Corporation's major federal programs are 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 each of its major federal programs 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants; 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 each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 05-01.

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, and not to provide an opinion on the internal control over compliance. Accordingly, we express no such opinion.

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 reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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, management and 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.

/s/ Grant Thornton LLP

Honolulu, Hawaii
August 5, 2005

The Research Corporation of the University of Hawaii
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2005

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: Unqualified opinion.

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor’s report issued on compliance for major programs: Unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
12.000	Alternate Transmitter for Advanced Hawkeye (HEATX)
17.000	Job Creation for Cruise Line/Building Trade Industries

Dollar threshold used to distinguish between type A and type B programs: \$300,000
Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133? yes no

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

Job Creation for Cruise Line/Building Trade Industries (CFDA 17.000)

Procurement and Suspension and Debarment

(Ref #05-01)

According to 29 CFR 98.300, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. RCUH Policy and Procedure 2.450 requires a debarment certification for all procurement actions \$25,000 or higher. During our testing, we noted that a certification for suspension or debarment was not obtained during the procurement process.

We recommend that personnel ensure that policies and procedures for the procurement process are being followed. These policies and procedures are available to all employees on the RCUH web site.

Management’s Response

The certification for suspension or debarment was subsequently obtained from the vendor. In the future, RCUH fiscal staff shall work with project personnel to ensure that the certification is obtained during the procurement process in conformity with RCUH Policy and Procedure 2.450.