

2006



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 304A - 3001 to 3011 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 33 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 Manoa campus and at the Manoa Innovation Center on Woodlawn Drive in Manoa.

The RCUH Hilo Office has a staff of 5, 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 tides shifted a bit during the 2005-06 fiscal year as we experienced a moderate (11%) decrease in the volume of business from \$322,416,176 million the year prior to \$291,371,371. This was due in large part to the completion of the construction activities of the UH School of Medicine's new facilities, which RCUH handled. The project's \$150 million price tag contributed significantly to RCUH's burgeoning volume over the past several years. We are grateful for the opportunity to be of assistance to the University in this endeavor and are confident that the RCUH systems provided the necessary flexibilities for the project to be completed on time and within budget.

The RCUH Strategic Plan continued to provide the focus for our activities during the year. The major initiative was the Research and Training Facilitators Program, which was launched in conjunction with the University of Hawaii on a pilot basis. The purpose of the program is to supplement UH services by assisting researchers in managing extramural contracts and grants through the UH and RCUH systems. This is in line with the "soup to nuts" research support concept outlined in the RCUH Strategic Plan. The Facilitators program, InfoEd (the electronic research administration software purchased by UH and RCUH last year), and Proforma (a new business process and knowledge management software program) formed the basis for this new initiative.

The specific research administration support needs to be met by this new cadre of research and training facilitators includes the following:

- Facilitate the development of pre-proposals and proposals to support research and training for faculty.
 - Track proposals (after submissions and prior to award or rejection by sponsoring agency).
 - Facilitate the execution of contract or grant documents (the award documents) at the University of Hawaii by working closely with the UH Office of Research Services.
 - Where necessary, assist with the establishment of project accounts (including advance accounts) and insure that budgets are revised as needed.
- Facilitate:
 - √ hiring of project staff through UH and RCUH,
 - √ executing of sub-agreements and sub-contracts for sub-recipients and contractors,
 - √ procuring of project equipment,
 - √ completing final reports to sponsors.
 - Assist with the implementation of InfoEd software.
 - Continually assess research and training support needs among researchers.
 - Monitor research and training opportunities in areas of interest to researchers.

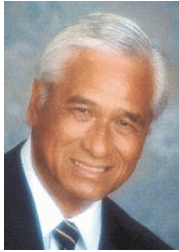
RCUH continued to make enhancements to its on-line financial and human resources systems. We continue to encourage feedback from our clients on other ways we can improve our systems and our processes.

While usually not visible to our client base, the RCUH Board of Directors continues to play a vital role in the governance of RCUH and providing the necessary support and guidance for RCUH to service the research community. At the close of the fiscal year, the terms of Shigeo Iwamoto and Brian Tamamoto came to an end. Both gentlemen served two full terms or eight years. We extend our thanks and appreciation to them for their long service and their many contributions to the continued development of RCUH.

There is still much to do to for the research enterprise of the University of Hawaii and the State of Hawaii, and we stand ready to continue our efforts to make a positive difference during the coming year.

Board of Directors

(as of 6/30/06)



Andres Albano
Director



Byron Bender
Chairman &
Director



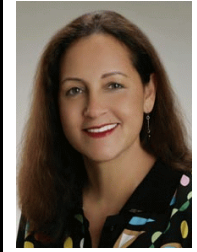
David Easa
Director



Shige Iwamoto
Director



Joelle Kane
Vice Chairman &
Director



Kitty Lagareta
Director



Allan Landon
Director



Ronald Migita
Director



Guy Ontai
Director



Brian Tamamoto
Director

Project Review

We are pleased to highlight the following three projects:

A “UH Service Ordered” Project

Imiloa Astronomy Center of Hawaii

Mission: To celebrate Hawaiian culture and Mauna Kea astronomy, sharing with the world an inspiring example of science and culture united to advance knowledge, understanding and opportunity.

The concept for Imiloa, originally called the Mauna Kea Astronomy Education Center, was developed in the mid-1990s by a team of educators, scientists and community leaders. They understood the need for a comprehensive educational facility to showcase the connections between the rich traditions of Hawaiian culture and the groundbreaking astronomical research conducted at the summit of Mauna Kea on the island of Hawaii.

The \$28 million, 40,000 sq. ft. science and cultural center is located on 9.1 acres at the University of Hawaii's Science and Technology Park mauka of the UH-Hilo campus. The novel architectural design features three titanium-covered cones, representing the volcanoes of Mauna Kea, Mauna Loa and Hualalai. The cones provide a distinctive and highly visible landmark easily seen by visitors arriving by air, ship or driving into Hilo from almost any direction. Construction of Imiloa started in 2002 and was completed in November 2005.

Funded primarily by NASA and based on a unique collaboration between Mauna Kea's cultural and scientific communities, Imiloa showcases the work of both groups for local, regional and international audiences, bringing together members of the Hawaiian and astronomy communities to share a common vision for the future. Imiloa brings information about the cultural and natural history of Mauna Kea to students, teachers, our local residents, and visitors from around the world.

The Center showcases a state-of-the-art planetarium and regularly features its signature show, “Mauna Kea: Between Earth and Sky” created specifically to connect Hawaiian culture and the astronomy research on Mauna Kea. Monthly star shows and special features attract visitors and residents to return to Imiloa for a unique visitor experience.

The 12,000 sq. ft. main exhibit hall houses over 80 interactive exhibits featuring the importance of both Hawaiian culture and astronomical discoveries and exploration atop Mauna Kea. The National Astronomy Observatory of Japan (NAOJ), which operates the Subaru Telescope, generously donated the 4D2U theater to Imiloa. This is the only location outside Japan where this cutting-edge technology is available for public education and enjoyment. Here visitors learn about distant galaxies and the birth, life, and death of stars in the universe. The Gemini Observatories contributed actual astronomer workstations with post-it notes describing observations for the virtual observatory exhibit in the main exhibit hall at Imiloa. A video-cam connects visitors to the top of Mauna Kea to observe conditions and astronomy activities in real time.

All exhibits are bilingual (Hawaiian and English), reflecting the Center's respect for Hawaiian culture and preservation of the language. The Kumulipo, the Hawaiian creation chant that traces the genealogy of people back to the beginnings of time, is featured in a dramatic object theater. Visitors gain an understanding and appreciation of the profound and thoughtful approach to creation and the connectedness of all forms of life and existence offered by the Hawaiian culture.

Imiloa constantly seeks new ways of engaging and educating visitors. Although it only opened to the public on February 23, 2006 new exhibits are in development. For example, Science on a Sphere, a program supported by the National Oceanic and Atmospheric Association (NOAA), is an educational tool to illustrate earth system science to people of all ages. Animated images of atmospheric storms, climate change, and ocean temperature can be shown on the sphere which is used to explain complex environmental processes in a way that is simultaneously intuitive and captivating. Thousands of Hawaii and U.S. school children have already visited the Center to gain an appreciation of the connections between science and culture.

The voyaging centerpiece in the main exhibit hall is the *Imiloa*, a one-fifth model of a voyaging canoe. Other exhibits explore the history of hula, the renaissance of the Hawaiian language, and the pocket theater focuses on historical and current day perspectives on what it means to participate actively in revitalizing our understanding of the importance of

a sense of place.

The exciting indoor experience offered by Imiloa is complemented by the Hawaii Island Landscape Association's award-winning outdoor landscaping - the largest collection of Hawaiian plants anywhere - a 72,000 sq. ft. garden-scape with nearly 50 different plant varieties (all indigenous or brought to Hawaii by the early Polynesian settlers) to introduce visitors to Hawaii's varied natural environments. The plantings simulate four regions of vegetation that range from sea level to the mountains. The landscaping also features the 1881 lava flow in Hilo, complemented with hala and ohia. The grounds also include two "canoe gardens," part of the wao kanaka (garden of man) areas, which feature plants brought by the earliest Hawaiians.

Imiloa welcomes your visit the next time you are in Hilo. Once you have seen the planetarium, Kumulipo object theater, 4D2U show, and dozens of interactive exhibits, you can unwind in the Imiloa Cafe with its breathtaking view of Hilo Bay.

RCUH has provided important and consistent support to Imiloa through the design, construction and initial operational phases of this project by guiding and facilitating the growth and development of this one-of-a-kind project and providing key and flexible support services to ensure its success.

<http://www.imiloahawaii.org/>

A “Direct” Project

Northwestern Hawaiian Island Marine National Monument

On June 15, 2006, President George W. Bush made conservation history when he signed Presidential Proclamation 8031 creating the largest fully protected marine conservation area on Earth in the Northwestern Hawaiian Islands (NWHI). By applying the authority of the Antiquities Act, which gives the President discretion to declare objects or places of scientific or historic interest a national monument, he created the Northwestern Hawaiian Islands Marine National Monument.

The Northwestern Hawaiian Islands Marine National Monument is the largest single area dedicated to conservation in the history of our country and is the largest protected marine area in the world. The area of the monument is nearly 140,000 square miles -- more than 100 times larger than Yosemite National Park and larger than 46 states.

The NWHI encompass an area from Nihoa Island to Kure Atoll, a chain of 10 islands, atolls, submerged banks, shoals, reefs, and their associated waters that is located northwest of the main Hawaiian Islands and stretches more than 1,200 miles -- about the distance from Chicago, Illinois to Miami, Florida.

Unique geology, biology and cultural history make the NWHI one of the world's greatest biological and cultural treasures. These remote environments offer a rare glimpse of what a thriving, intact, ecosystem looks like. The archipelago is home to more than 7,000 marine species, a quarter of which are found nowhere else on earth and is the primary habitat for critically endangered Hawaiian monk seals, land and sea birds, and plant species.

By creating a marine national monument, President Bush immediately granted the NWHI our nation's highest form of marine environmental protection. “The Northwestern Hawaiian Islands are a beautiful place,” he said, “and with the designation of the Northwestern Hawaiian Islands Marine National Monument, we are making a choice that will leave a precious legacy.”

The monument is co-managed through cooperative conservation efforts with the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA), the U.S. Department of

Interior's Fish and Wildlife Service, and the State of Hawaii.

The waters of the NWHI were previously managed as the NWHI Coral Reef Ecosystem Reserve. The reserve was administered through NOAA's National Marine Sanctuary Program (NMSP). Since the creation of the reserve in 2001 and now with the newly established Monument, RCUH has continued to successfully provide staffing and administrative services that supplement the needs of the federal and state programs. Growing from 3 positions in 2001 to currently over 20 positions, both full-time and part-time, the Monument program was able to fill a number of positions with the assistance of RCUH. These positions cover a broad range of employment needs for the Monument -- from administrative to research and policy positions, just to name a few.

The NOAA side of the Monument houses a main office located in Hawaii Kai in addition to an administrative office and the Mokuapapa Discovery Center in Hilo. The Discovery Center focuses on the biological importance of the Northwestern Hawaiian Islands and also on the cultural and historical significance. This venue has allowed more than 150,000 visitors annually take a “virtual tour” of the Monument -- one step towards the Monument's goal of bringing the place to the people, not the people to the place.

Additionally, with the support of RCUH's procurement and administrative services staff, a partnership between the Monument and the Kamakakuokalani Center for Hawaiian Studies was created to provide the opportunity to work with the Native Hawaiian community on a variety of topics related to the NWHI and the Monument. This partnership has increased the involvement of Native Hawaiians and essentially provided advice and guidance on the overall management of the Monument. These are just a few examples of how RCUH continues to play a key role in the implementation and management of the natural and cultural resources of the NWHI.

<http://www.hawaiireef.noaa.gov/>

A “Revolving Fund” Project

Hawaii Biodiversity & Mapping Program

The Hawaii Biodiversity & Mapping Program (HBMP) is a research program within the Center for Conservation Research and Training (CCRT), Pacific Biosciences Research Center (PBRC) at the University of Hawaii. HBMP is also a member of NatureServe, an international network of databases. The mission of HBMP is to gather, synthesize, and disseminate comprehensive information on the status and location of Hawaii's biological resources in order to assist others towards making a positive impact on biodiversity. Its staff's expertise includes collecting field data and applying digital databases and geoinformatics to model and research environmental issues. HBMP is well known as a source of geospatial information and is well positioned to continue in the building, maintenance, and dissemination of environmental datasets to the public, private, and academic sectors. To satisfy its mission, HBMP performs the following functions:

- Enhance the HBMP natural heritage databases and GIS
- Conduct biological surveys and assessments
- Perform spatial analysis and modeling
- Design stand-alone GIS and database systems
- Offer technical support and expertise in spatial technologies
- Perform classification of remotely sensed imagery to derive land cover maps
- Offer workshops, seminars, and training and
- Participate in the research endeavors of scientists, natural resource professionals, and students.

HBMP collaborates with state and federal agencies, non-governmental organizations (NGOs), and commercial companies in Hawaii, the Pacific Basin, and the continental U.S. on a diverse array of projects that help to meet its mission. Examples of projects include:

1. Marine GAP Program

Marine GAP is an integrated approach to understanding Hawaii's ocean environment in relation to what is known and what needs to be learned. The aim is to create an integrated source of current scientific knowledge, local/Hawaiian cultural and biological knowledge as well as ocean user knowledge. The Marine GAP program is administered by HBMP and is supported by funds from the Hawaii Department

of Aquatic Resources (DAR), National Oceanic and Atmospheric Administration (NOAA), Hawaii Community Foundation (HCF), The Nature Conservancy (TNC), and U.S. Fish and Wildlife Service.

Several agencies and NGOs use the data and products developed by Marine GAP. For example, TNC is using the data collected and created by Marine GAP for their Marine Eco-Regional Plan, which helps them to assess their past conservation/management efforts and what their focus will be over the next 5 and 10 years. In addition, DAR has expressed an interest to continue collaborations with the Marine GAP program, including providing additional funding.

2. Database Development

HBMP Natural Heritage Database

The HBMP Natural Heritage Database is the state's most comprehensive spatial database inventory of rare, endangered and threatened, plants, animals, and ecosystems. HBMP staff currently maintains detailed information on the status of more than 1,000 native species and ecosystems in nearly 16,000 locations across the state.

The Natural Heritage Database provides guidance for the U.S. Fish and Wildlife Service in determining which species should be listed endangered. The database also aids other agencies such as the National Park Service, State of Hawaii Division of Forestry and Wildlife, Hawaii Department of Agriculture, and U.S. Army Garrison Hawaii.

NGOs in Hawaii and the continental U.S. (such as NatureServe, The Nature Conservancy of Hawaii) also use the Natural Heritage Database for their management planning and conservation reports. Commercial and consulting groups often make requests from the Natural Heritage Database for environmental impact assessment reports such as the one currently being conducted for the rail transit system here on Oahu.

Island of Hawaii Natural Areas Reserve Database (Division of Forestry and Wildlife, State of Hawaii)

HBMP created the Big Island Natural Area Reserve System (NARS) database, which tracks annual monitoring, weed control, and rare plant outplanting activities within the eight Natural Area Reserves on the island of Hawaii. The NARS was created to preserve and protect "representative"

samples of Hawaiian biological ecosystems and geological formations. The Big Island NARS diverse areas range from marine and coastal environments to lava flows, tropical rainforest, and alpine desert. Under contract, HBMP staff have periodically made enhancements to the database as needed by NARS personnel.

3. Geospatial Applications and Technology Transfer

HBMP is committed to being the spatial data and technology center specializing in the collection, storage, dissemination, and/or synthesis of spatially referenced environmental data. Through the use of GIS, GPS, and remote sensing technologies, HBMP has become a developer of techniques, methods and strategies for handling environmental information.

Hawaii IKONOS Consortium

The Hawaii IKONOS Consortium, formed by HBMP, amalgamates resources from a number of stakeholders to procure digital, orthorectified, multispectral and pan sharpened color IKONOS satellite imagery of the eight main islands of Hawaii. Space Imaging has granted the Hawaii IKONOS Consortium a unique, multi-agency license with unlimited partners - allowing federal, state, local governmental agencies as well as commercial organizations in Hawaii to share costs and data once they meet purchase minimums.

Trust for Public Land (TPL) Interactive Resource Map

This project relates to previous work completed for TPL and involves producing GIS data layers and maps of:

- > Publicly-owned coastal land
- > Intact native dominated ecosystems
- > Known concentrations of Native Hawaiian cultural sites
- > Known areas of recreational use

The GIS data layers created and compiled from the targets listed above were made available to the public via an interactive mapping web site. The TPL Interactive Resource Map attempts to represent significant biological, cultural and recreationally important areas in which conservation efforts should be focused. Efforts to prioritize parcels and subsequently justify their acquisition to funders and others can be supported by the maps.

Ocean and Coastal Assessment

HBMP assisted Kamehameha Schools (KS) with collecting GIS and non-GIS data to be used for their ocean and coastal assessment of KS lands. Examples of data include satellite and aerial imagery as well as data layers for invasive species and marine managed areas. These data will be used by KS to better its strategic efforts to preserve marine and coastal resources on its properties.

4. Biological/Field Surveys

TNC: Various Monitoring Projects

TNC often requests the assistance of HBMP for biological or GPS field surveys, which help them to monitor the health of out-plantings or native forest. For example, the HBMP botanist has helped the TNC Molokai office with their field surveys of under-story plots.

U.S. Fish and Wildlife Service (USFW): Five-Year Status Reviews

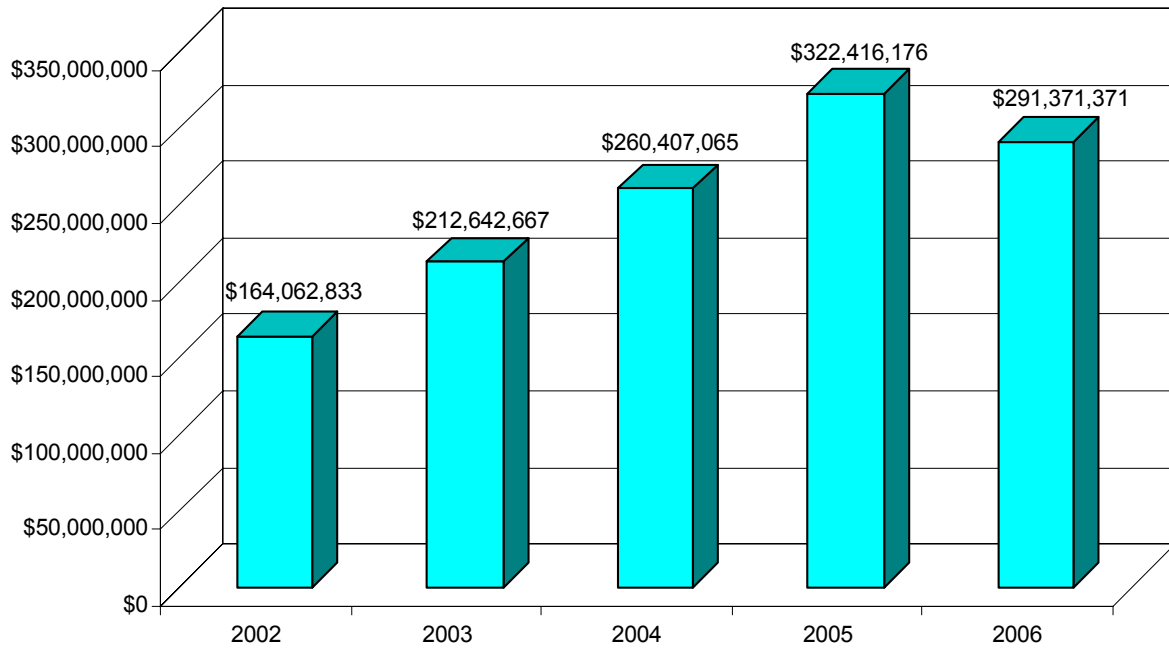
The USFW is mandated to complete periodic status reviews of threatened and endangered species. They have contracted with HBMP to assist with the most recent set of 5-year reviews due to the expert knowledge contained by HBMP staff from years of conducting biological surveys.

The RCUH revolving fund is critical as it affords HBMP the opportunity to support the above activities by providing: 1) rapid, specialized services in geospatial technology and data to government agencies, NGOs, and commercial companies; 2) support for projects requiring comprehensive data on Hawaii biodiversity; and 3) field expertise for agencies needing assistance with biological surveys.

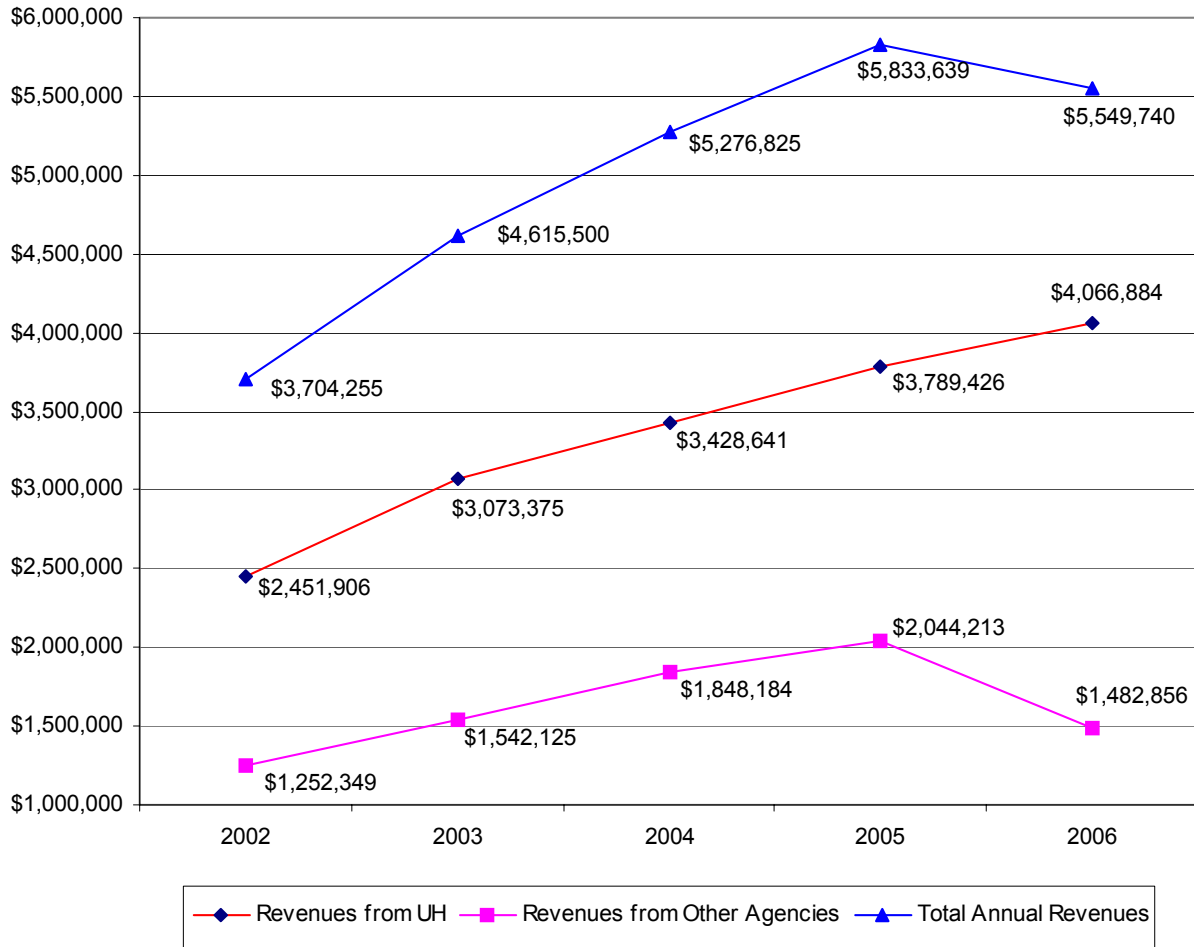
<http://www.hbmp.hawaii.edu/about.html>

Statistical Data - Fiscal Years 2002-2006

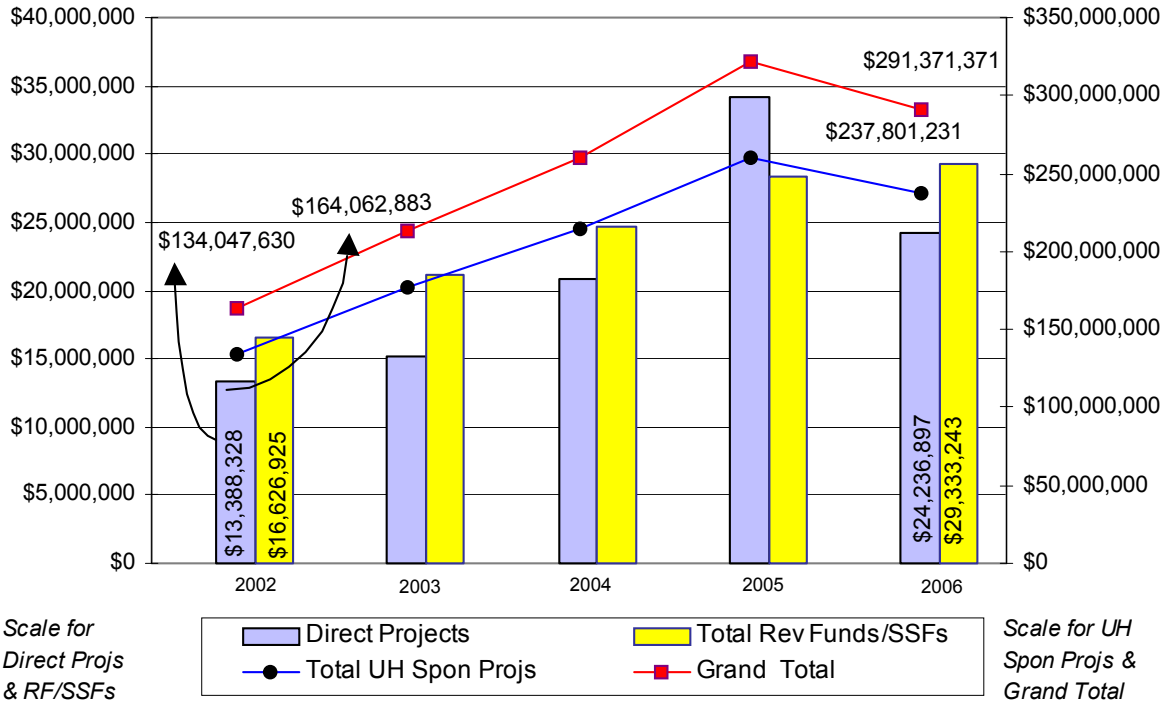
Dollar Volume of Project Administration



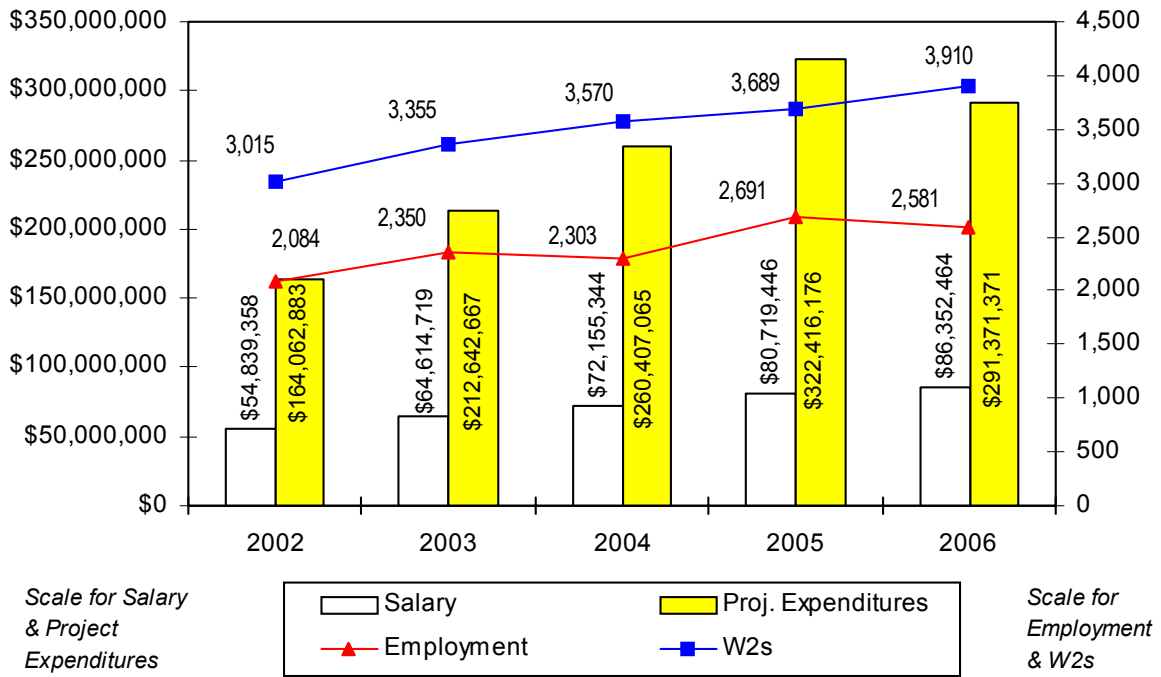
Operating Revenues Summary



Project Expenditures



Employment/W2s/Salaries/Project Expenditures



Distribution of Awards by Project Disciplines

	2002	2003	2004	2005	2006
Agriculture	\$6,874,096	\$5,435,998	\$5,854,099	\$8,830,182	\$10,431,532
Astronomy	\$21,389,807	\$21,348,650	\$26,364,139	\$37,610,210	\$41,804,796
Biomedicine	\$40,126,343	\$56,348,128	\$79,129,196	\$108,701,839	\$66,585,904
Energy	-	-	-	\$4,025,284	\$4,976,355
Fisheries & Aquaculture	\$3,173,514	\$4,277,010	\$6,690,703	\$8,183,804	\$7,155,596
Marine Programs	\$22,613,888	\$30,583,309	\$32,656,256	\$40,049,360	\$37,935,005
Natural Sciences	\$22,965,320	\$35,559,791	\$39,580,388	\$43,952,086	\$43,717,876
Publications/Educ Materials	\$11,821,206	\$17,373,216	\$18,826,363	\$14,549,562	\$16,606,953
Revolving Funds	\$16,626,924	\$21,101,406	\$24,684,636	\$28,265,058	\$29,458,112
Social Sciences	\$18,471,785	\$20,615,159	\$26,621,285	\$28,248,791	\$32,699,242
TOTAL	\$164,062,883	\$212,642,667	\$260,407,065	\$322,416,176	\$291,371,371

Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2002	%	2003	%	2004	%	2005	%	2006	%
FEDERAL										
Dept of Health & Human Services	21,867,899	13.31	29,751,403	13.99	30,640,504	11.77	31,201,604	9.68	36,785,607	12.62
Dept of Commerce	9,610,271	5.86	11,716,908	5.51	15,200,894	5.84	16,150,922	5.01	16,401,296	5.63
National Science Foundation	8,882,914	5.41	12,798,076	6.02	5,930,906	6.12	19,262,297	5.97	18,381,284	6.31
Dept of Agriculture	5,526,550	3.37	5,228,131	2.46	4,440,861	1.71	4,221,081	1.31	4,574,674	1.57
Dept of Interior	6,058,590	3.69	6,909,207	3.25	8,356,279	3.21	11,158,249	3.46	10,379,711	3.56
Dept of Energy	772,915	0.47	779,864	0.37	878,729	0.34	1,198,935	0.37	1,582,202	0.54
Dept of Defense	16,630,419	10.14	31,728,095	14.92	27,767,432	10.66	36,205,734	11.23	47,185,666	16.19
Dept of Education	10,229,809	6.24	10,781,062	5.07	10,636,720	4.08	9,644,551	2.99	13,746,101	4.72
Natl Aeronautics & Space Adminis	6,042,056	3.68	5,884,155	2.77	9,858,790	3.79	15,215,154	4.72	11,964,741	4.11
Dept of State	2,980,994	1.82	2,280,616	1.07	3,117,950	1.20	4,831,498	1.5	4,171,711	1.43
Other Miscellaneous Federal	3,614,791	2.20	6,251,654	2.94	7,765,837	2.98	6,260,387	1.94	6,620,824	2.27
TOTAL UH Federal Projects	92,217,208	56.19	124,109,171	58.37	134,594,902	51.69	155,350,412	48.18	171,793,817	56.96
NON-FEDERAL										
<u>State & County Governments:</u>										
University of Hawaii										
Sch of Ocean & Earth Sci & Techn	929,281	0.57	1,100,217	0.52	1,389,231	0.53	2,196,879	0.68	1,690,654	0.58
Institute for Astronomy	3,634,782	2.22	3,022,320	1.42	4,012,728	1.54	3,455,506	1.07	2,801,434	0.96
Ofc of Tech Transf & Econ Dev	730,728	0.45	777,509	0.37	580,256	0.22	907,455	0.28	1,073,944	0.37
Cancer Research Center of HI	826,658	0.50	845,942	0.40	1,016,548	0.39	1,510,994	0.47	1,553,813	0.53
School of Medicine	11,267,353	6.87	20,439,334	9.61	44,306,537	17.01	65,500,159	20.32	24,546,408	8.42
UH Hilo	716,962	0.44	883,937	0.42	1,490,325	0.57	3,429,663	1.06	4,022,044	1.38
UH Other	7,237,272	4.41	5,807,279	2.73	9,699,963	3.72	9,056,934	2.81	8,885,135	3.05
Dept of Health	4,766,704	2.91	6,189,969	2.91	4,739,824	1.82	5,647,763	1.75	6,194,191	2.13
Dept of Land & Natural Resrcs	1,358,872	0.83	1,375,640	0.65	1,368,195	0.53	1,409,161	0.44	3,196,687	1.1
Dept of Education	291,993	0.18	221,692	0.10	226,938	0.09	399,125	0.12	410,995	0.14
Dept of Defense	569,208	0.35	518,079	0.24	1,522,162	0.58	872,314	0.27	0	-
County Government	314,279	0.19	306,999	0.14	192,615	0.07	243,447	0.08	761,886	0.26
<u>Other Sponsors</u>	9,186,330	5.60	10,779,539	5.07	9,804,540	3.77	9,900,956	3.07	10,870,223	3.73
TOTAL UH Non-Federal Projects	41,830,422	25.52	52,268,456	24.58	80,349,862	30.86	104,530,356	32.42	66,007,414	22.65
TOTAL UH PROJECTS	134,047,630	81.71	176,377,627	82.95	214,944,764	82.54	259,880,768	80.6	237,801,231	81.61
DIRECT PROJECTS										
FEDERAL	947,249	0.58	2,064,179	0.58	5,181,583	1.99	8,989,143	2.79	5,685,622	1.95
NON-FEDERAL										
<u>State & County Governments:</u>										
Dept of Health	1,102,893	0.67	1,407,029	0.67	1,369,250	0.53	751,457	0.23	1,107,781	0.38
Dept of Bus, Econ Dev & Tour	-	-	-	-	-	-	-	-	0	-
Dept of Land & Natural Res	1,267,594	0.77	1,160,987	0.77	1,399,813	0.54	1,425,889	0.44	1,546,472	0.53
Dept of Education	82,525	0.05	93,031	0.05	75,509	0.03	80,050	0.02	116,531	0.04
County Government	-	-	-	-	-	-	7,512,403	2.33	463,252	0.16
<u>Others:</u>										
Joint Astronomy Centre	3,620,656	2.21	4,229,975	2.21	4,556,688	1.75	4,441,265	1.38	4,510,732	1.55
Academia Sinica Instit of Astron	1,459,798	0.89	1,666,639	0.89	1,153,123	0.44	1,271,675	0.39	1,573,576	0.54
Kuakini Medical Center	336,371	0.21	186,693	0.21	-	-	-	-	0	-
Natl Astronomical Observ of Japan	2,086,662	1.27	3,029,500	1.27	4,024,469	1.55	4,735,971	1.47	5,774,183	1.98
Other Sponsors	2,484,580	1.51	1,302,534	1.51	3,017,230	1.16	4,994,090	1.55	3,458,748	1.19
TOTAL Non-Federal Projects	12,441,079	7.58	13,076,388	7.58	15,596,082	5.99	25,212,800	7.82	18,551,275	6.37
TOTAL DIRECT PROJECTS	13,388,328	8.16	15,140,567	8.16	20,777,665	7.98	34,201,943	10.61	24,236,897	8.32
REVOLVING FUNDS & SSF's										
Specialized Service Fac/Ship Ops	3,235,248	1.97	7,674,420	1.97	8,920,660	3.43	12,320,439	3.82	9,561,339	3.28
Revolving Funds & Other SSF's	13,391,677	8.16	13,450,053	8.16	15,763,976	6.05	16,013,026	4.97	19,771,904	6.79
TOTAL REVOL FUNDS & SSF's	16,626,925	10.13	21,124,473	10.13	24,684,636	9.48	28,333,465	8.79	29,333,243	10.07
TOTAL PROJECTS	164,062,883	100.0	212,642,667	100.0	260,407,065	100.0	322,416,176	100.0	291,371,371	100.0

Financial Statements for the Years Ended June 30, 2006 and 2005

Financial statements and report of independent certified public accountants

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

June 30, 2006 and 2005

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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, 2006 and 2005, 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, 2006 and 2005, 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 11, 2006 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 11, 2006

- Because of the reformatting for this report, pages 5-6 in this copy.

The Research Corporation of the University of Hawaii
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 and 2005

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 (Corporation) for the year ended June 30, 2006. It includes selected comparative information with the year ended June 30, 2005. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes.

The financial reports of the Corporation 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.

The Corporation's volume of business (project expenditures) decreased by 11% from \$322,416,176 in fiscal year 2005 to \$291,371,371 in fiscal year 2006. This is a change from the past five years where record volume increases were attained.

Total assets of the Corporation at June 30, 2006 and 2005, were \$43,885,648 and \$34,528,306, respectively. Total assets at June 30, 2004 was \$32,239,064.

The increase in cash balances in fiscal year 2006 was a result of cash generated from operating profits and interest income. Cash and cash equivalents increased by \$1,628,884 in fiscal year 2006 from \$8,928,707 at June 30, 2005 to \$10,557,591 at June 30, 2006. This is a change from fiscal year 2005 where it decreased by \$10,169,880 from \$19,098,587 at June 30, 2004, to \$8,928,707 at June 30, 2005. The decrease in cash balances in prior fiscal years were 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.

The fair value of the Corporation's investments with the University of Hawaii Foundation and the Hawaii Strategic Development Corporation increased by 5% from \$1,318,894 to \$1,383,868 at June 30, 2005 and June 30, 2006. TCD's with maturity terms exceeding 90 days are also classified as investments. At June 30, 2006 and June 30, 2005, outstanding TCD's with maturity terms exceeding 90 days were \$7,874,833 and \$7,343,091, respectively. The reclassified TCD's resulted in a reduction to cash balances and a corresponding increase to investments of \$531,742.

In fiscal year 2006, receivables increased significantly from \$11,469,327 at June 30, 2005 to \$18,526,819 at June 30, 2006. This increase was attributable to net receivable balance due from the University which resulted from incurrence of liabilities payable to vendors. The net receivable due from the University at June 30, 2006 was \$14,456,886 compared to \$7,592,018 at June 30, 2005 and \$1,089,185 at June 30, 2004.

The net value of fixed assets was \$765,772 and \$890,105 at June 30, 2006 and June 30, 2005, respectively. Fixed asset acquisitions amounted to \$158,054 for the year ended June 30, 2006 compared to \$227,132 for the year ended June 30, 2005. Depreciation expense for the years ended June 30, 2006 and June 30, 2005 amounted to \$282,387 and \$277,138, respectively.

Total liabilities were \$32,459,932 at June 30, 2006, compared to \$24,643,429 at June 30, 2005. The significant increase resulted from accounting of University program costs incurred within the fiscal year but paid in the subsequent period. At June 30, 2006, long term debt, including current installments, on an equipment loan amounted to \$239,380 compared to \$383,915 at June 30, 2005. There was no outstanding long term debt at June 30, 2004.

For the year ended June 30, 2006, net assets increased \$1,540,839 as operating profit and net non-operating revenues were \$733,731 and \$807,108, respectively. Operating revenues decreased from \$5,833,639 in fiscal year 2005 to \$5,549,740 in fiscal year 2006. Although the volume of business activity decreased by 11% from fiscal years 2006 and 2005, operating revenues decreased only by 5% because revenue operating activities remained fairly constant. Non-operating revenues included interest income of \$743,479 and a market value gain of \$63,629 in the quasi-endowment investments held at the University of Hawaii Foundation.

Operating expenses in fiscal year 2006 were \$4,816,009, an increase of 3% over the previous year's expenses of \$4,690,222. Significant increases in expenditure levels were incurred in payroll costs (\$410,492) and data processing (\$245,040). Payroll costs increased as a result of additions in core staff and planned annual employee pay adjustments. Data processing costs were higher due to the Human Resource Peoplesoft system upgrade as budgeted for in the fiscal year. Project development costs (\$196,909) decreased from prior year since only one program was approved for funding in fiscal year 2006. In fiscal year 2005, strategic plan implementation costs were incurred to support the University with the purchase of the InfoEd system. In fiscal year 2006, the Research and Training Facilitators program was approved for the strategic plan implementation. The program had a slower start than anticipated and costs were incorporated in the general operating expenses.

In fiscal year 2005, net assets increased \$1,534,752 on operating revenues of \$5,833,639. Operating revenues were higher by 11% over 2004 levels of \$5,276,825 as a result of the continued growth in the Corporation's volume of business.

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 Corporation's 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 fiscal year 2005, \$294,464 was expended as a first step in the Corporation'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 was for research initiatives originally scheduled for fiscal year 2004.

At June 30, 2006 total net assets were \$11,425,716 compared to \$9,884,877 at June 30, 2005. Net assets invested in capital assets at June 30, 2006 and 2005 were \$765,772 and \$890,105, respectively. There was no debt financing on capital assets and unrestricted net assets amounted to \$10,659,944 at June 30, 2006 and \$8,994,772 at June 30, 2005.

The Research Corporation of the University of Hawaii
State of Hawaii

BALANCE SHEETS
June 30,

ASSETS	2006	2005	LIABILITIES AND NET ASSETS	2006	2005
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash & Cash Equivalents (note B)	\$10,557,591	\$ 8,928,707	Accounts payable	\$18,982,600	\$12,449,622
Investments (note C)	9,258,701	8,661,985	Accrued salaries and other	5,295,617	5,017,365
Receivables:			Advances for other sponsoring agencies (note D)	6,126,518	4,706,424
University of Hawaii projects (note D)	14,456,886	7,592,018	Workers' compensation and unemployment claims reserve (note O)	869,999	1,183,333
Other sponsoring agencies (note D)	3,920,163	3,732,784	Current installments of long-term debt (note H)	149,770	144,525
Current portion of receivables under lease agreements, net of deferred credits (note E)	<u>149,770</u>	<u>144,525</u>	Current portion of accrued supplemental retirement benefits (note K)	<u>24,000</u>	<u>22,000</u>
Total Receivables	18,526,819	11,469,327	Total current liabilities	31,448,504	23,523,269
Prepaid expenses	<u>156,953</u>	<u>179,997</u>	NONCURRENT LIABILITIES:		
Total Current Assets	38,500,064	29,240,016	Long-term debt - net (note H)	89,610	239,390
			Accrued supplemental retirement benefits - net (notes I and K)	<u>921,818</u>	<u>880,770</u>
			Total Noncurrent Liabilities	<u>1,011,428</u>	<u>1,120,160</u>
			Total Liabilities	32,459,932	24,643,429
NONCURRENT ASSETS:			COMMITMENTS AND CONTINGENCIES (notes I, K, L, M, N, O and P)	-	-
Receivables under lease agreements, net of deferred credits (note E)	89,610	239,390	NET ASSETS (note I):		
Capital assets (note F)	765,772	890,105	Investment in capital assets	765,772	890,105
Restricted assets - cash (notes B and D)	<u>4,530,202</u>	<u>4,158,795</u>	Unrestricted	<u>10,659,944</u>	<u>8,994,772</u>
Total Noncurrent Assets	<u>5,385,584</u>	<u>5,288,290</u>	Total Net Assets	<u>11,425,716</u>	<u>9,884,877</u>
TOTAL ASSETS	<u>\$43,885,648</u>	<u>\$34,528,306</u>	TOTAL LIABILITIES AND NET ASSETS	<u>\$43,885,648</u>	<u>\$34,528,306</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,

	2006	2005
Operating revenues — administrative expense recoveries:		
University of Hawaii (note J)	\$ 4,066,884	\$ 3,789,426
Other sponsoring agencies	<u>1,482,856</u>	<u>2,044,213</u>
Total operating revenues	5,549,740	5,833,639
Operating expenses:		
Salaries and wages	2,089,947	1,804,160
Data processing services	998,275	753,235
Employee fringe benefits (note K)	506,951	382,246
Insurance	327,523	389,255
Depreciation	282,387	277,138
Office supplies and services	213,319	222,001
Office and equipment rental (note N)	66,127	75,137
Travel	51,956	36,203
Tuition support	44,072	28,283
Professional and technical support	42,338	40,463
Professional services	38,996	28,683
Staff development	35,435	16,471
Project development	29,004	225,913
Communications	24,325	19,128
UH Research awards	16,500	16,500
Retiree medical benefits (note L)	13,768	14,354
Discretionary fund	11,669	7,585
Project overruns and disallowances	10,929	—
Transportation	6,619	13,149
Strategic plan implementation	3,000	294,464
Board of Directors' meetings	2,869	7,219
Flood clean up/repair	—	<u>38,635</u>
Total operating expenses	<u>4,816,009</u>	<u>4,690,222</u>
Operating profit carried forward	733,731	1,143,417
Nonoperating revenues (expenses):		
Interest income:		
Cash, certificates of deposit and investment	743,479	368,148
Receivables under lease agreement (note E)	11,358	6,020
Interest expense — long-term debt (note H)	(11,358)	(6,020)
Intergovernmental (Federal Awards):		
Revenue	3,567,127	7,219,062
Expense	(3,567,127)	(7,219,062)
Quasi-endowment income (expenses):		
Increase in fair value of investments (note C)	63,629	23,187
Investment (note I)	35,589	35,589
Research assistantships expense (note I)	(35,589)	(35,589)
Total nonoperating revenues, net	<u>807,108</u>	<u>391,335</u>
INCREASE IN NET ASSETS	1,540,839	1,534,752
Net assets at beginning of year	<u>9,884,877</u>	<u>8,350,125</u>
Net assets at end of year	<u>\$11,425,716</u>	<u>\$ 9,884,877</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,

	2006	2005
Cash flows from operating activities:		
Project cost reimbursements received from:		
University of Hawaii	\$236,308,692	\$254,850,029
Other sponsors	46,032,282	51,142,099
Management fees received from:		
University of Hawaii	4,370,500	2,976,378
Other sponsors	1,482,856	2,130,209
Payments to vendors	(199,200,553)	(234,611,349)
Payments to employees	(59,623,154)	(56,062,726)
Payments of federal and state payroll taxes	(26,203,077)	(24,353,300)
Project cost reimbursements to the University of Hawaii	(1,678,518)	(1,582,841)
Purchase of equipment under lease agreements	--	(442,850)
Cash received under equipment lease agreements, including interest	157,092	65,455
Other receipts	<u>446,368</u>	<u>432,075</u>
Net cash provided by operating activities	2,092,488	(5,456,821)
Cash flows from noncapital financing activities:		
Proceeds from debt	--	442,850
Principal and interest payments on debt	<u>(144,535)</u>	<u>(58,935)</u>
Net cash provided by (used in) noncapital financing activities	(144,535)	383,915
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(158,054)</u>	<u>(227,132)</u>
Net cash used in capital and related financing activities	(158,054)	(227,132)
Cash flows from investing activities:		
Purchase of investments	(533,087)	(3,509,777)
Interest income received on cash deposits and investment income	779,068	403,737
Contribution to University of Hawaii assistantships	<u>(35,589)</u>	<u>(35,589)</u>
Net cash provided by (used in) investing activities	<u>210,392</u>	<u>(3,141,629)</u>
INCREASE (DECREASE) IN CASH	2,000,291	(8,441,667)
Cash at the beginning of the year	<u>13,087,502</u>	<u>21,529,169</u>
Cash at the end of the year	<u>\$ 15,087,793</u>	<u>\$ 13,087,502</u>
Cash is presented in the accompanying balance sheets as follows:		
Cash	\$ 10,557,591	\$ 8,928,707
Restricted assets - cash	<u>4,530,202</u>	<u>4,158,795</u>
	<u>\$ 15,087,793</u>	<u>\$ 13,087,502</u>
Reconciliation of operating profit to net cash provided by (used in) operating activities:		
Operating profit	\$ 733,731	\$ 1,143,417
Adjustments to reconcile operating profit to net cash provided by operating activities:		
Depreciation expense	282,387	277,138
Change in assets and liabilities:		
Receivables	(6,907,712)	(7,344,554)
Prepaid expenses	23,044	96,603
Accounts payable and accrued wages	6,811,230	(732,752)
Advances from University of Hawaii and other sponsors	1,420,094	1,184,688
Workers' compensation and unemployment claims reserve	(313,334)	(236,167)
Accrued supplemental retirement benefits	<u>43,048</u>	<u>154,806</u>
Net cash provided by (used in) operating activities	<u>\$ 2,092,488</u>	<u>\$ (5,456,821)</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, 2006 and 2005

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, 2006 and 2005.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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, 2006 and 2005 aggregated approximately \$1,246,000 and \$1,048,000, 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.

NOTE B – CASH

At June 30, 2006 and 2005, the carrying amount of total bank deposits was \$15,000,502 and \$13,001,181, respectively, while the corresponding bank balances which are represented were \$21,523,000 and \$18,986,000, 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.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE C – INVESTMENTS

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2006 and 2005:

	June 30, 2006		June 30, 2005	
	Fair Value	Cost	Fair Value	Cost
Investments	\$1,383,868	\$1,411,369	\$1,318,894	\$1,410,024
Certificates of deposit	7,874,833	7,874,833	7,343,091	7,343,091
	\$9,258,701	\$9,286,202	\$8,661,985	\$8,753,115

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, 2006 and 2005, 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 \$972,499 and \$908,870 at June 30, 2006 and 2005, respectively. The increase in fair value of investments (unrealized gains) for the years ended June 30, 2006 and 2005 amounted to \$63,629 and \$23,187, respectively.

In 2003, \$406,265 was transferred from the investment pool at the Foundation to HSDC. In November 2005, a \$50,000 investment was made in Pipeline Investment 2005, LLC, a special purpose entity formed to invest in the securities of Pipeline Communications and Technology, Inc., a Hawaii company focusing on navigational software solutions for maritime safety and advanced antenna solutions for secure mobile communications. The core technology was developed at the University of Hawaii and is licensed to Company. The balance in HSDC is held in an interest bearing demand deposit account for additional future investment in University of Hawaii developed technologies. At June 30, 2006 and 2005, funds invested with HSDC amounted to \$411,369 and \$410,024, 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, 2006 and 2005 as follows:

	<u>2006</u>	<u>2005</u>
Uninsured and collateral held by trust department or agent not in the Corporation's name	\$1,383,868	\$1,318,894

At June 30, 2006 and 2005, more than 5% of the Corporation's total investments were as follows:

	<u>2006</u>	<u>2005</u>
Certificates of deposit held with First Hawaiian Bank	85%	85%

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 \$6,126,518 and \$4,706,424 at June 30, 2006 and 2005, respectively. Cash relating to a portion of the advances, amounting to \$4,530,202 and \$4,158,795 at June 30, 2006 and 2005, 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

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE D – RECEIVABLES AND ADVANCES FROM OTHER SPONSORING AGENCIES (continued)

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. Maturities of receivables under the lease agreements at June 30, 2006 are as follows:

June 30,	
2007	\$157,092
2008	91,637
	<u>\$248,729</u>

The following lists the components of receivables under lease agreements as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Total minimum lease payments receivable	\$ 248,729	\$ 405,821
Less deferred credits	<u>(9,349)</u>	<u>(21,906)</u>
Net investment in receivables under lease agreements	239,380	383,915
Less current portion	<u>(149,770)</u>	<u>(144,525)</u>
	<u>\$ 89,610</u>	<u>\$ 239,390</u>

NOTE F – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Ending balance</u>
Office equipment	\$ 504,307	\$ 99,444	\$ –	\$ 603,751
Computer software	<u>2,429,295</u>	<u>58,610</u>	<u>–</u>	<u>2,487,905</u>
	2,933,602	158,054	–	3,091,656
Less accumulated depreciation				
Office equipment	197,548	13,749	–	211,297
Computer software	<u>1,845,949</u>	<u>268,638</u>	<u>–</u>	<u>2,114,587</u>
	<u>2,043,497</u>	<u>282,387</u>	<u>–</u>	<u>2,325,884</u>
	<u>\$ 890,105</u>	<u>\$ (124,333)</u>	<u>\$ –</u>	<u>\$ 765,772</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE F – CAPITAL ASSETS (continued)

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>

Depreciation expense for the years ended June 30, 2006 and 2005 amounted to \$282,386 and \$277,138, 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 February 1, 2007. 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 (8.25% and 6.25% at June 30, 2006 and 2005, respectively). At June 30, 2006 and 2005, there were no borrowings outstanding under this line.

NOTE H – LONG-TERM DEBT

A summary of long-term debt at June 30, 2006 and 2005 is as follows:

	2006	2005
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	<u>\$239,380</u>	<u>\$383,915</u>
Less current installments of long-term debt	<u>149,770</u>	<u>144,525</u>
	<u>\$ 89,610</u>	<u>\$239,390</u>

The following is a summary of changes in long-term debt for the two years ended June 30, 2006:

Balance as of June 30, 2004	\$ –
Additions	442,850
Deductions	<u>58,935</u>
Balance as of June 30, 2005	383,915
Additions	–
Deductions	<u>144,535</u>
Balance as of June 30, 2006	<u>\$239,380</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE H – LONG-TERM DEBT (continued)

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

Year ending June 30,	
2007	\$155,892
2008	90,698
	<hr/>
	246,590
Amount representing interest	(7,210)
	<hr/>
	\$239,380
	<hr/>

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 \$1,510,000 and \$1,533,000 from undesignated net assets to the designated net assets for working capital in 2006 and 2005, 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, 2006 and 2005, investment income of \$35,589 and \$35,589, respectively, was earned from investments administered by the Foundation. Research assistantship expenditures deducted from the quasi-endowment reserve during 2006 and 2005 amounted to \$35,589 and \$35,589, respectively.

3. Supplemental Retirement Benefits

As described in note K, the Corporation offers supplemental retirement benefits. The liability as of June 30, 2006 and 2005 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, 2006 and 2005.

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 2006 and 2005, the amount of the designation was increased by \$30,986 and \$14,754, respectively. A separate interest-bearing account is maintained for this reserve.

Net assets at June 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Designated		
Working capital	\$ 9,481,000	\$8,012,000
Quasi-endowment	972,499	908,870
Supplemental retirement benefits	85,106	107,307
Project contingent liabilities	887,094	856,107
Undesignated	<hr/> 17	<hr/> 593
	<hr/> <u>\$11,425,716</u>	<hr/> <u>\$9,884,877</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE J – OPERATING REVENUES – UNIVERSITY OF HAWAII

Operating revenues received from the University of Hawaii for the years ending June 30, 2006 and 2005 amounted to \$3,919,751 and \$3,602,564, respectively, for extramurally sponsored projects and \$147,133 and \$186,862, 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, 2006 and 2005 were \$157,877 and \$133,358, 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, 2006 and 2005, the Corporation accrued supplemental retirement benefits amounting to \$945,818 and \$902,770, 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, 2006 and 2005 were \$22,200 and \$36,176, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Beginning balance	\$902,770	\$747,964
Additions	65,248	190,982
Deductions	<u>(22,200)</u>	<u>(36,176)</u>
Ending balance	945,818	902,770
Less current portion of accrued supplemental retirement benefits	<u>24,000</u>	<u>22,000</u>
	<u><u>\$921,818</u></u>	<u><u>\$880,770</u></u>

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, 2006 and 2005 aggregated to \$13,768 and \$14,354, respectively.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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
2006:				
Salaries and wages	\$ 61,003,674	\$13,044,658	\$10,469,094	\$ 84,517,426
Equipment	21,149,432	1,475,198	233,917	22,858,547
Other	155,648,125	9,717,041	18,630,232	183,995,398
	<u>\$237,801,231</u>	<u>\$24,236,897</u>	<u>\$29,333,243</u>	<u>\$291,371,371</u>
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>

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 \$71,129,000 and \$95,124,000 at June 30, 2006 and 2005, 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, 2006 and 2005 was \$66,127 and \$75,137, respectively, which includes \$50,676 and \$51,488, respectively, of office rental expense under the operating leases for the years ended June 30, 2006 and 2005.

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 for all risk losses including \$100 million per occurrence for windstorm losses, \$50 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 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 \$4 million per occurrence. The State program includes crime insurance with loss coverage of \$10 million for criminal losses. The deductible is \$500,000 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.

The Research Corporation of the University of Hawaii
State of Hawaii

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE O – RISK MANAGEMENT (continued)

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, 2006 and 2005, the workers' compensation reserve amounted to \$575,828 and \$592,074, 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 \$38,717 and \$68,086 during the year ended June 30, 2006 and 2005, 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 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, 2006 and 2005, the unemployment reserve amounted to \$294,171 and \$591,259, respectively, and is reported as a current liability in the accompanying balance sheets.

NOTE P – COMMITMENTS

At June 30, 2006, 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, 2006, the Corporation had an outstanding contract commitment through May 31, 2007 related to computer software and hardware maintenance of \$134,249.

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, 2006 and 2005. 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 11, 2006

The Research Corporation of the University of Hawaii
State of Hawaii

SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
Year ended June 30, 2006

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	\$ 3,495
U.S. DEPARTMENT OF DEFENSE Office of Naval Research Seafarers Training Center	12.300	N00014-03-1-0957	2,363,850	822,088
Next Generation Optimized Radar	12.000	N00421-03-C-0013	1,163,028	74,953
Alternate Transmitter for Advanced Hawkeye (HEATx)	12.000	N00421-03-C-0118	8,442,180	1,741,498
Mapping & Detection of UXO	12.000	N00164-05-C-0654	2,985,211	510,837
U.S. DEPARTMENT OF INTERIOR Office of Insular Affairs Pacific Islands Health Officers Association	15.875	GEN-178	210,487	27,953
Secretariat US All Islands Coral Reef Initiative Committee	15.875	CRI-RCUH-1-05	149,982	42,927
Sunia Award Summer Internship	15.875	CRI-RCUH-2-05	30,000	8,264
Pass through Programs from Pacific Post-Secondary Education Council (PPEC): PPEC Building Regional Capacity	15.875	GEN-182	235,240	59,700
U.S. Geological Survey Hawaii GAP Analysis Project	15.808	01HQAG0195	894,787	124,464
Hawaii GAP Analysis Program's Land Cover Map Products	15.811	06HQAG0007	39,580	1,854
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES Health Resources and Service Administration: Regional Collaborative Pacific Basin	93.224	1 U1BOA04137-01-00	28,758	87,911
Regional Collaborative Pacific Basin	93.224	3 U1BOA04137-01-01	175,000	11,471
Centers for Disease Control: Center for Public Health Preparedness	93.283	U90/CCU624246-01	87,700	4,658
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>46,054</u>
				<u>\$ 3,567,127</u>

The Research Corporation of the University of Hawaii
State of Hawaii

NOTE TO THE SCHEDULE OF EXPENDITURES AND FEDERAL AWARD
Year ended June 30, 2006

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.

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, 2006 and 2005, and have issued our report thereon dated August 11, 2006. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 11, 2006

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, 2006. 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, 2006.

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 11, 2006

The Research Corporation of the University of Hawaii
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

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)
12.000	Mapping and Detection of UXO

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

None noted.

The Research Corporation of the University of Hawaii
COMMENTS REGARDING PRIOR FISCAL YEAR FINDINGS
June 30, 2006

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

Finding: 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. The auditors noted that a certification for suspension or debarment was not obtained during the procurement process.

The auditors 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 website.

Action/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.

Status/Update:

RCUH fiscal staff is working with project personnel and appropriate certifications are being obtained during the procurement process in conformity with RCUH Policy and Procedure 2.450.