

2013

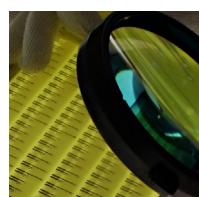


***The Research Corporation  
of the University of Hawaii***



# 2013

ANNUAL REPORT



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**The Research Corporation  
of the University of Hawaii**  
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Honolulu, Hawaii 96822

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# RCUH Information On

## **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 . . .**

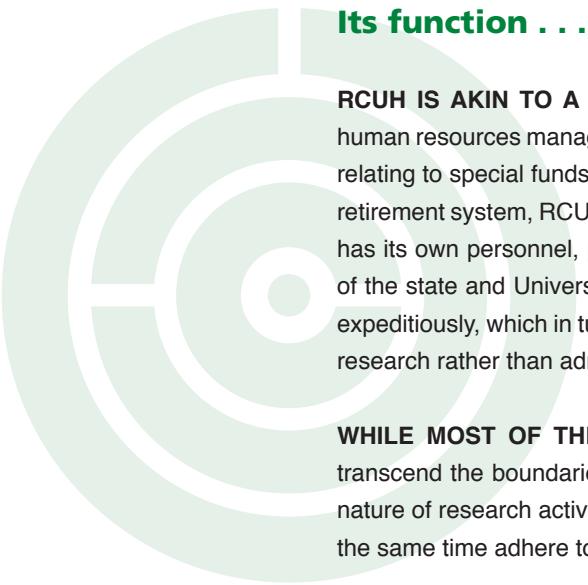
. . . the rapid and extensive entry of the University of Hawaii into basic and applied research programs sponsored by the federal government, and into applied research programs which couple University capability with that of private industry, requires a much more flexible and streamlined method of operation 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 MORE THAN FORTY-SEVEN YEARS AGO**, these words are even more profound today. The University has made tremendous strides in the highly competitive world of externally-funded research, and today, stands among the great research universities. We believe RCUH's role in facilitating research activities has played a small, but important part in this achievement.



### Its function . . .

**RCUH IS AKIN TO A SERVICE BUREAU.** Its services include accounting, disbursements, human resources management, and procurement. Because of its exemption from State statutes relating to special funds, procurement, 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, procurement 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 of sponsoring agencies.

### Its relationship with the UH . . .

**RCUH IS ATTACHED TO THE UNIVERSITY OF HAWAII (UH)** for administrative purposes (per statute). An 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 formula.

**‘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 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.

**NOTE:** On July 9, 2013, Act 288, SLH 2013, took effect and changed the Board composition (from a 10-member to 8-member body) as well as eliminated the position of President of RCUH.

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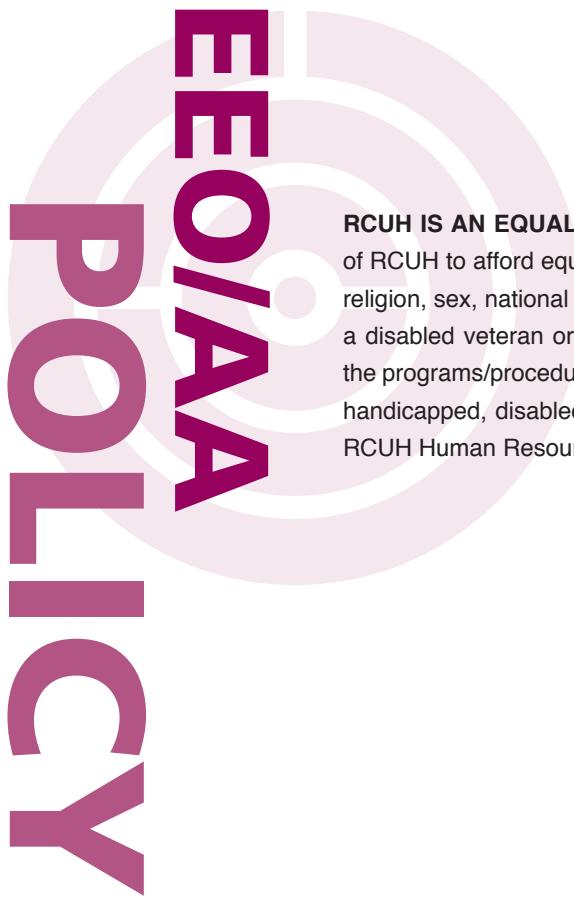
### Its governance . . . (*continuation*)

**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 40 employees, spread across the departments of accounting, disbursing, human resources, procurement, project administration, and the executive director’s office. The core staff is housed at the East-West Center’s Burns Hall on the UH Manoa campus and at the Manoa Innovation Center on Woodlawn Drive in Manoa.

**ON AVERAGE**, there are 3,000 project personnel on RCUH’s payroll at any given time. The vast majority work on UH research and training projects.



**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

**OUR VOLUME OF BUSINESS AT YEAR'S END** was \$416,793,298. While still a significant amount, it represents a 14% decrease from the prior year. As we reported last year, the two major construction projects handled by RCUH, UH West Oahu and the UH Cancer Center, were winding down, so that contributed to the lower volume. It was, however, still a very busy year.

The University of Hawaii launched its new Kuali Financial System on July 1, 2012. The efforts we devoted earlier to ensure that the necessary data feeds between the UH and RCUH systems would work properly provided the results we expected and required only minor adjustments when Kuali went live. Our HR system also had to be modified for Kuali, but overall, there were no major issues.

The RCUH Hilo Office transitioned to become a part of UH Hilo in September 2012. The Hilo Office was established in May 2000 as a pilot to help UH Hilo build its research program by providing research management and support services (pre-proposal and post-award). UH Hilo's research volume grew from \$5.4 million in 2001 to \$17.5 million in 2012 so the RCUH Hilo Office had fulfilled its mission. Under the UH Hilo umbrella, the services can be tailored to better meet the requirements of the campus.

In the summer and fall of 2012, our Human Resources and Disbursing/Procurement staff moved from their offices at Sakamaki Hall on the UH campus to Burns Hall at the East-West Center because the UH needed the Sakamaki space for classrooms and other purposes.

The 2013 legislative session brought some attention to RCUH. Early in the session there were a few bills introduced that affected RCUH, but only one survived. Senate Bill 1388 changed the composition of the RCUH Board, eliminated the President of UH as the President of RCUH, and added a proviso relating to state-funded construction projects, among other things. The bill eventually became law in July 2013.

The Board welcomed John Dean (one of the UH Board of Regents' members) during the year and continued to meet on a quarterly basis. The Board devoted a bit of attention on the Retiree Health Plan Benefit, and in particular, the financial liabilities associated with the program. Management continues to address this matter in order for the Board to determine whether changes are necessary for the program. As the year drew to a close, we bid aloha to Robert Dewitz and Guy Ontai, as their terms came to an end.

*We look to the new year with continued enthusiasm as we strive to enhance our services to meet the ever-changing needs of the research community. We are grateful for the opportunity to be of service.*



# RCUH Board of DIRECTORS

(as of June 30, 2013)



**Carl Carlson**



**Robert Dewitz**  
*Chairman*



**John Dean**



**James Karins**



**James Lee**  
*Vice Chairman*



**Eric Martinson**



**Guy Ontai**



**Jan Sullivan**



**Donn Takaki**



**Mark Yamada**

## \*\*\*\*\* PROJECT REVIEW \*\*\*\*\*



Hawaii Natural Energy Institute

# Hydrogen Program

Supporting a Hawaii Hydrogen Economy

By Richard Rocheleau and Mitch Ewan

**HAWAII, ISOLATED BY OVER 2,400 MILES OF OCEAN** from the nearest land mass, derives over 90% of its energy from imported fossil fuels, including over 80% of its electricity from petroleum. With no island-to-island grid interconnections, each island's electrical system operates independently and must have sufficient reserves to maintain reliability and power quality. High petroleum costs combined with these small sparse grid systems results in the highest energy costs in the nation and provides compelling motivation for Hawaii to harness its diverse renewable energy resources to achieve energy self-sufficiency.

The Hawaii Natural Energy Institute (HNEI) was established in 1974 to coordinate and undertake the development of natural energy sources for Hawaii. The significance of HNEI's contributions to the State was recognized by the Hawaii State Legislature which, in 2007, established HNEI in statute (Act 273) and expanded its mandate to explicitly include coordination with state and federal agencies; and the demonstration and deployment of efficient end use technologies. In executing this mandate, HNEI has assumed a pivotal role within the state to reduce Hawaii's dependence on fossil fuels, serving as the implementing organization for several large-scale, high visibility public-private partnerships to develop, deploy and demonstrate renewable energy systems. HNEI works closely with federal funding agencies, industry, the State Energy Office, regularly participating in high-level coordination meetings.



**HNEI**  
Hawai'i Natural Energy Institute

School of Ocean and Earth Science and Technology  
University of Hawai'i at Mānoa

excellent wind regimes, high temperature geothermal resources, abundant sunshine, and the opportunity to harness ocean energy including ocean thermal energy conversion and wave power. Utilizing these renewable resources to produce hydrogen as a means of increasing energy security and diversifying the energy mix has been an ongoing goal in the state. Arguably, Hawaii has, of all the states, the nearest-term potential to evolve towards an energy economy that includes a significant use of renewable hydrogen.

#### Renewable Hydrogen Program

Fortunately, Hawaii is blessed with a diversity of renewable energy resources including year round growth of crops,

(continued on the following page)

# HAWAII

## Hydrogen Program

Hawaii has a long history in the area of renewable hydrogen beginning in 1980 when then Senator Spark Matsunaga introduced the first hydrogen legislation into Congress. In 1985, HNEI received awards to explore technology for the renewable production of hydrogen, beginning one part of what has grown to become the US Department of Energy (USDOE) Hydrogen Infrastructure and Fuel Cell Program.



*GM Equinox Fuel Cell Electric Vehicle in Hawaii  
– Courtesy of GM*

In 2000, the Hawaii State Legislature commissioned a study to recommend options that could result in hydrogen becoming a future contributor in the State's energy economy. HNEI concluded, assuming certain cost targets were met, that large-scale hydrogen produced from renewables for transportation could be cost competitive.. Following this study, the Legislature appropriated funds to help initiate private/public partnerships to implement the recommendations contained in the 2000 study. In 2002, HNEI was funded by USDOE, through the Hawaii Department of Business, Economic Development and Tourism (DBEDT), to develop the Hawaii Hydrogen Power Park Program (Power Park).



*Picture of what the HNEI Hydrogen Dispenser will look like*

With the critical support of RCUH in purchasing equipment and services, the HNEI hydrogen program has continued to evolve. In early 2014 HNEI will commission hydrogen production and dispensing infrastructure at Marine Corps Base Hawaii-Kaneohe that will demonstrate the technical and economic performance of hydrogen fueling stations that can be deployed throughout Hawaii to support hydrogen Fuel Cell Electric Vehicles (FCEV). This state-of-the-art station will be capable of providing full-fill (5kg) of high pressure hydrogen to the vehicle in less than 5 minutes and will be the first station with this capability in Hawaii. In November 2013, several automakers announced plans to roll out FCEVs starting in 2014 through 2016. Hawaii has already attracted a fleet of 16 General Motors Equinox FCEVs that are supported by the Department of Defense and have been operating in Hawaii for 3 years.



*Hilo & HAVO Fuel Cell Electric Vehicle Bus*

HNEI is also developing a project on the Island of Hawaii to install a hydrogen production system to produce hydrogen while at the same time demonstrating the ability to cycle the electrolyzer to support grid operations. While the energy to produce the hydrogen is expected to come initially from geothermal power, the primary purpose is to demonstrate the ability to use the electrolyzer for demand response, with the potential to allow more intermittent electricity generated by wind and solar to be delivered to the grid. The hydrogen produced at this site will be delivered to Volcanoes National Park to support the operation of two (2) FCEV buses to transport visitors in the park. A third bus being procured by

HNEI is planned to go into service with the County of Hawaii bus service providing community service in the Hilo-Pahoa area. The buses are being converted by US Hybrid in Hawaii with the support of the Hawaii Center for Advanced Transportation Technologies (HCATT). In total these projects represent an investment of over \$10 million in funding from many sources that RCUH has helped HNEI to manage.

*(continued on the following page)*

# HAWAII

## Hydrogen Program



Geothermal Hydrogen Project Concept

These hydrogen infrastructure projects have helped to generate interest by the USDOE Hydrogen Office to bring additional new hydrogen infrastructure projects to Hawaii including hydrogen production and dispensing at the US Government Services Administration (GSA) facility located at Fort Armstrong near the Federal Court building; a project with the US Maritime Administration to introduce hydrogen powered refrigerated containers for inter-island delivery of food; and working with the City & County of Honolulu to introduce FCEV buses for TheBus public transportation system.

[www.hnei.hawaii.edu](http://www.hnei.hawaii.edu)

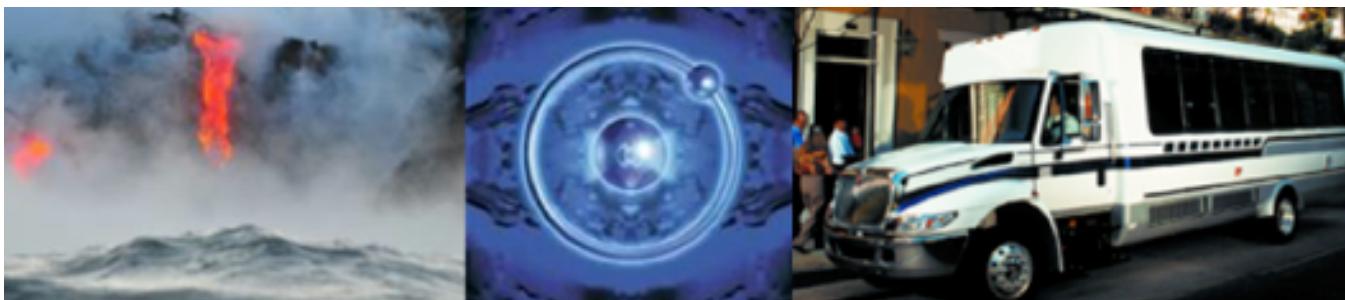


Diagram showing the geothermal – Hydrogen – Bus Relationship

H<sub>2</sub>wai'i

## PROJECT REVIEW



Unique Japan-Hawaii  
Partnership Leads the Study  
of Asia-Pacific Climate

## International Pacific Research Center

by Kevin Hamilton

**ASIA AND THE PACIFIC REGION ARE HOME** to over half the world's people, all of whom are affected by variations in the climate system on a range of time scales from seasons to centuries. The region also includes many of the world's inhabitants who are most vulnerable to severe impacts by long-term manmade climate change. The climate system is extremely complicated, and scientific challenges in understanding and projecting regional climate changes are daunting. At a 1997 meeting between then US Vice President Gore and Japan Prime Minister Hashimoto, climate research was added to the international agreement, Japan-US Common Agenda for Cooperation in Global Perspective. The vision of the national leadership was matched by that of working scientists and science managers in each country who strived successfully to establish the International Pacific Research Center (IPRC) as a Japan-US partnership housed in the School of Ocean and Earth Science and Technology (SOEST) at the University of Hawai'i (UH). Initial operation of the IPRC began in October 1997.

### *The Mission of IPRC*

*To provide an international research environment dedicated to improving mankind's understanding of the nature and predictability of climate variability and change in the Asia-Pacific sector, and to developing innovative ways to utilize knowledge gained for the benefit of society.*

IPRC scientists conduct computer modeling and diagnostic studies to document climate variations and understand their causes, whether the causes are purely natural or have a manmade component. Through advances in basic research, IPRC supports the ultimate practical goal of improving environmental prediction for the Asia-Pacific region. One focus of IPRC investigations is understanding key phenomena rooted in the tropics such as the El Niño-Southern Oscillation of the ocean-atmosphere system, monsoons, year-to-year variability in the Indian Ocean region, and tropical cyclones. Other examples of important issues for IPRC study include the nature of long period variability in the extratropical North Pacific Ocean which is important for Hawaii's climate and the dynamics of the very strong Kuroshio and Oyashio ocean currents in the western North Pacific Ocean. Concerns about human induced climate change are addressed through computer modeling studies of past climate and through assessment of model predictions for future trends in climate.

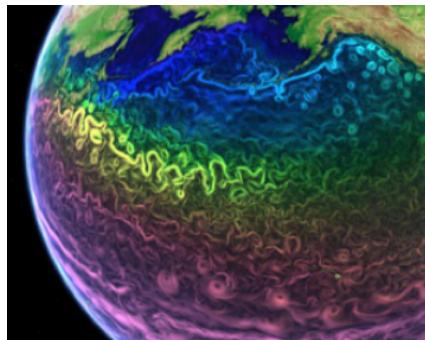
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The Japan connection continues through longstanding and extensive collaborations with colleagues at the Japan Agency for Marine-Earth Science and Technology (JAMSTEC). Research funding for IPRC research activities is also provided by the major US Federal science agencies such as NOAA, NASA and the National Science Foundation, among others.

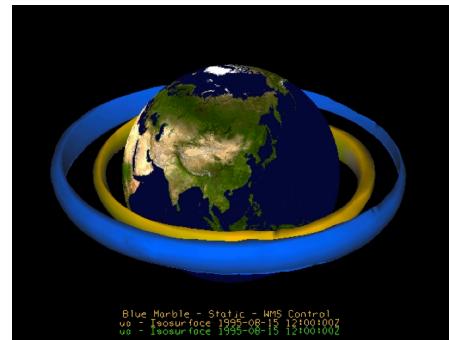
The IPRC has developed into a powerhouse for climate modeling and diagnostics research, education and service in the Pacific. Ten tenured UH faculty are members of IPRC along with about 40 additional research scientists, postdoctoral fellows and scientific and administrative support staff. IPRC scientists have published almost 1,000 refereed scientific papers. The IPRC has contributed significantly to the education and professional development of over 100 young scientists mainly from Japan and other Asian nations who have come as graduate students, postdoctoral fellows, researchers, other scientific employees or long-term visitors. The IPRC “alumni” are now populating the universities and research institutes of Asia, the US and elsewhere in the world. As intended by IPRC’s founders and our major sponsoring agencies, IPRC has become a “crossroads of the Pacific” in climate science by serving as the temporary home of a diverse international group of scientists (graduate students, postdoctoral fellows, employees, visitors) and by organizing and hosting numerous international meetings that have brought thousands of researchers to Hawaii for scientific exchanges. Now with a total of 24 RCUH employees, IPRC’s growth has benefitted from RCUH’s fine support and the relative flexibility of RCUH procedures



A March 2012 international workshop hosted and organized by the IPRC



Computer model simulation of the ocean currents in the North Pacific.

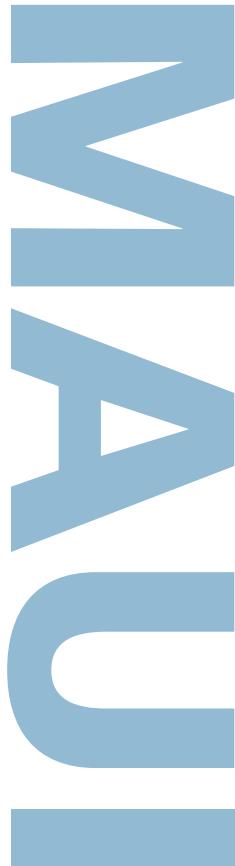


Vizualization of strong jets in the tropical upper atmosphere.

The IPRC is now an important and widely-known international center for climate science. In an ever more globalized scientific community, the IPRC has established a unique role as a leader in establishing deep and long-lasting international research collaborations focusing on issues with practical importance for the people of the entire Asia-Pacific region.

[iprc.soest.hawaii.edu/](http://iprc.soest.hawaii.edu/)

## PROJECT REVIEW



# Oral Health Center

**THE MAUI ORAL HEALTH CENTER IS A COLLABORATIVE PROJECT** sponsored by the Maui County Dental Health Alliance, University of Hawaii Maui College, the County of Maui, Hui No Ke Ola Pono, and the Maui District Health Office of the Department of Health. The Center opened its doors in the fall of 2003.

The Center serves as a classroom and clinical site for the UH Maui College's Dental Assisting Certificate and Dental Hygiene Associate Degree programs and offers cost-effective, living-wage career opportunities. These dental programs are offered in an authentic setting, a former dentist's clinic, equipped with seven operatories. It serves as a teaching lab, as well as a place where students are able to gain practical clinical experience. Gaining real-world experience while providing affordable and accessible oral/dental health care to the underserved, low-income, uninsured families and children of Maui County has proven to be an invaluable service provided by Maui College through the Center's program. Last year, the Center provided dental care to more than 3,000 patients in more than 11,000 appointments, and by May 2013, approximately 176 dental assistants and 19 dental hygienists completed their respective programs and are employed as dental professionals. Additionally, more than 50 Maui dentists, 30 organizations, and 100 donors have contributed to this success.

Blending education with real-world need underscores the importance of learning in ways that make a difference. RCUH helped to address these complexities and provided a foundation for a transition that will move these dental programs and services to the UH Maui College campus as part of the Daniel K. Inouye Allied Health Center, which will serve its students and community with 18 operatories in early 2015.

[maui.hawaii.edu/mohc/](http://maui.hawaii.edu/mohc/)

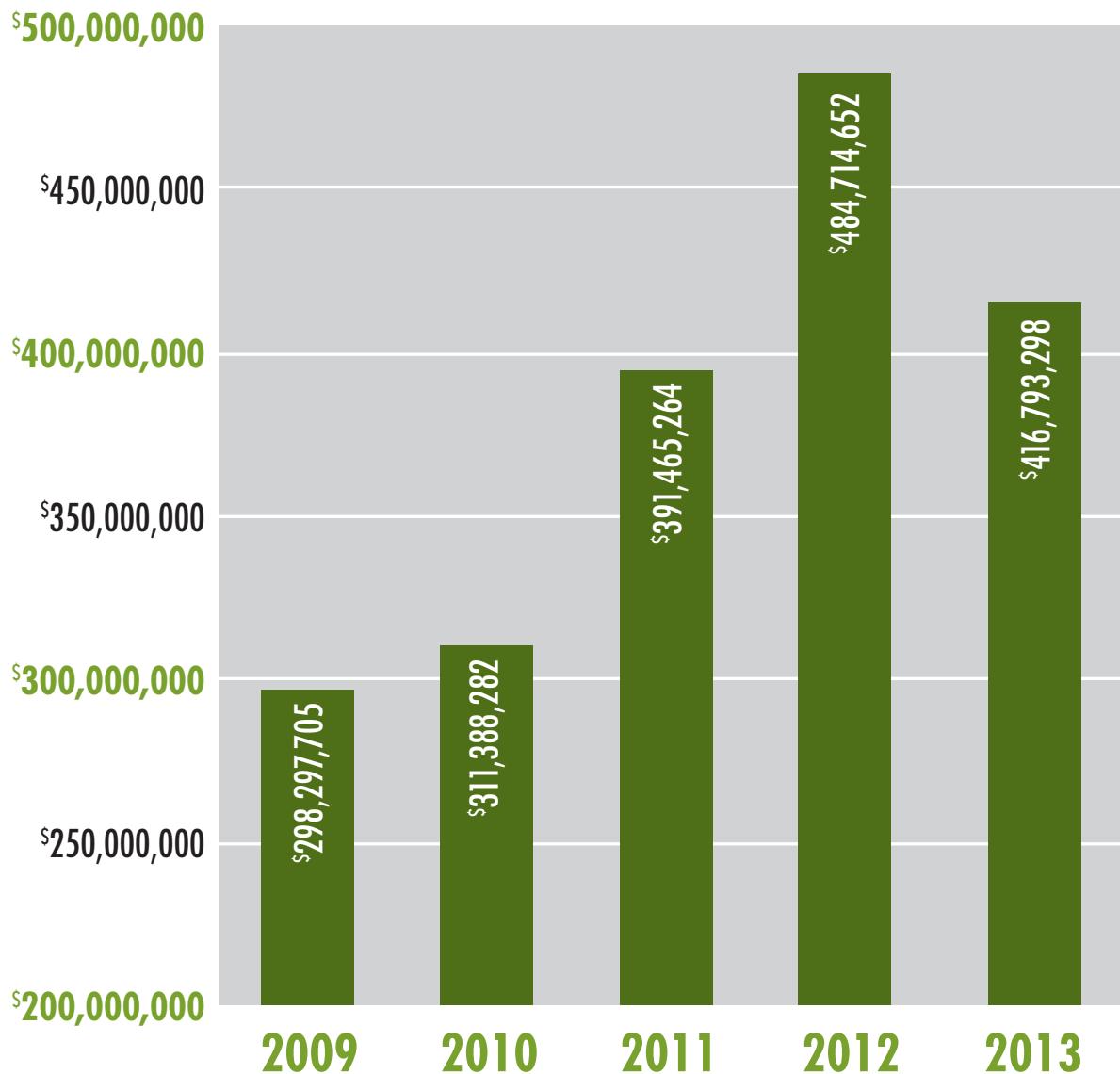


UNIVERSITY of HAWAI'I  
MAUI COLLEGE



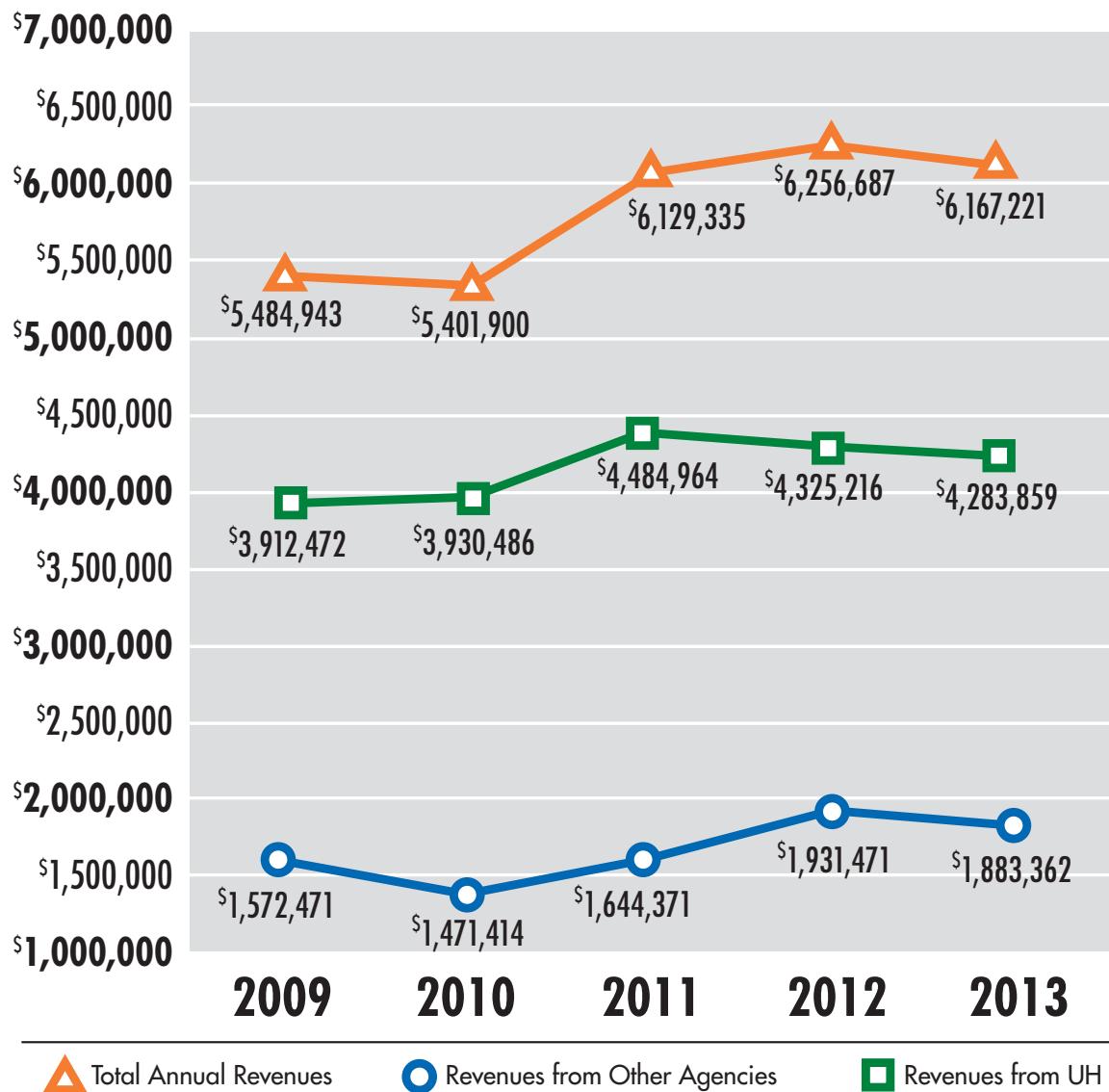
## Statistical Data

# Dollar Volume of Project Administration



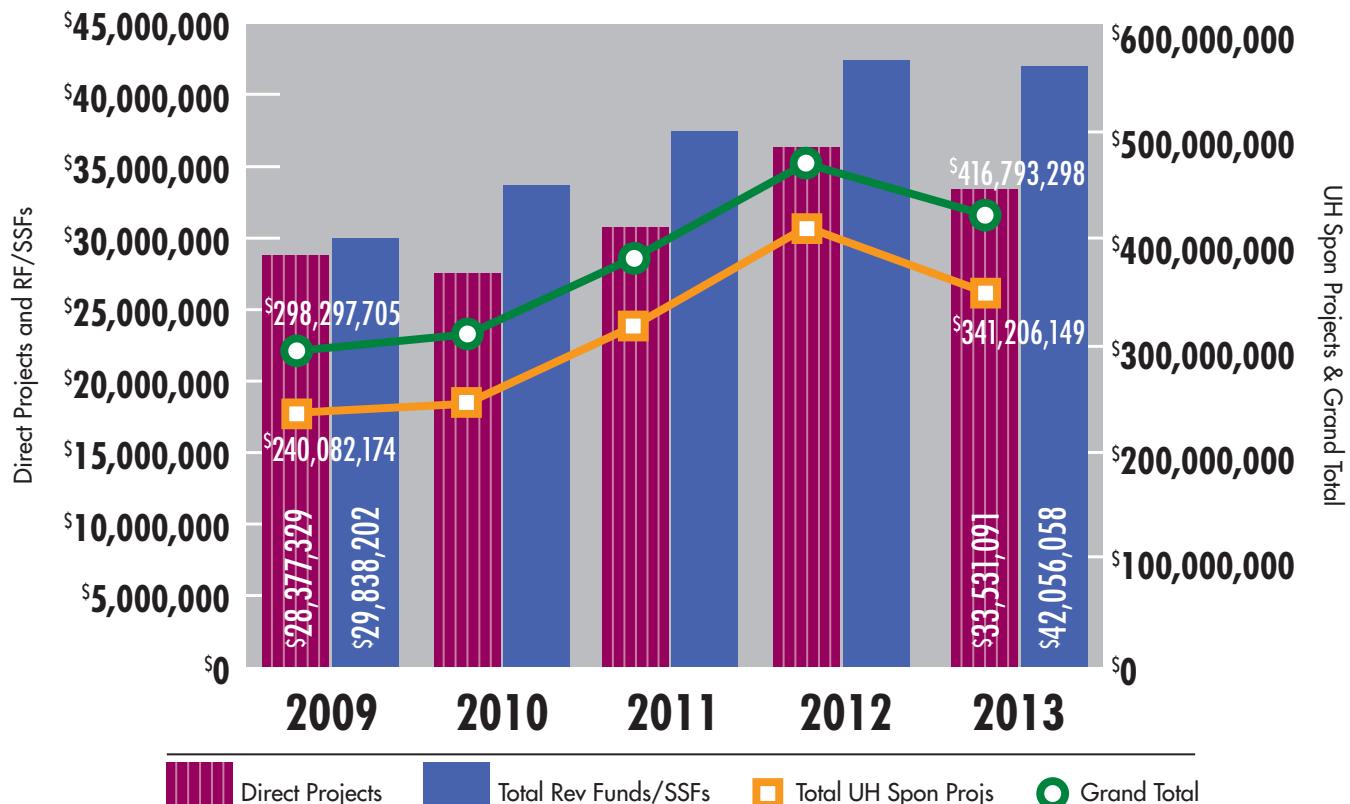
## Statistical Data

# Operating Revenues Summary



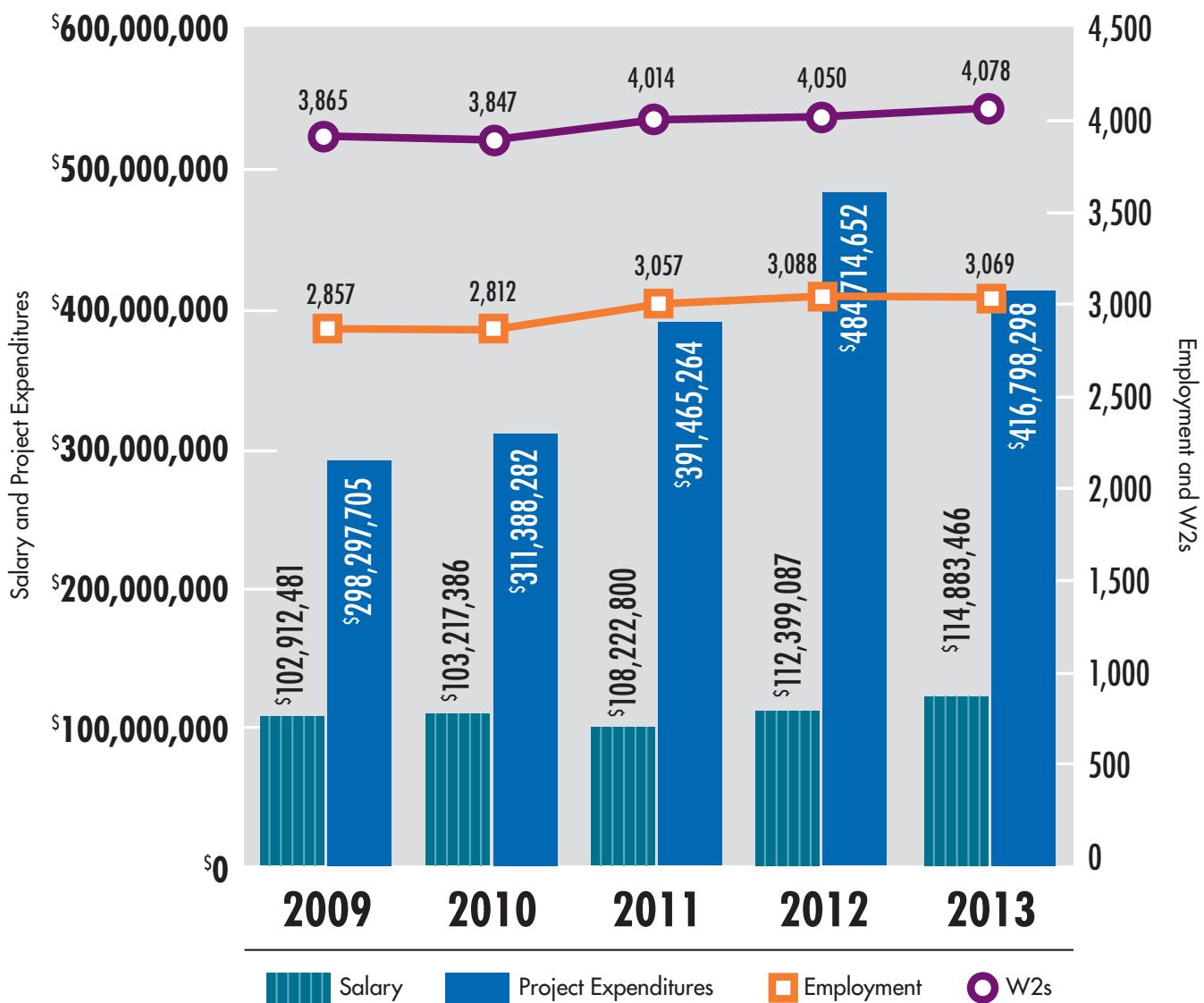
## Statistical Data

# Project Expenditures



## Statistical Data

# Employment / W2s / Salaries / Project Expenditures



## Statistical Data

# Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2013	%	2012	%	2011	%	2010	%	2009	%
<b>Federal</b>										
Dept of Health & Human Services	\$44,372,925	10.65	46,936,111	9.68	41,855,658	10.69	38,481,602	12.36	36,434,473	12.21
Dept of Commerce	30,564,001	7.33	42,362,575	8.74	28,727,020	7.34	21,929,131	7.04	17,828,453	5.98
National Science Foundation	26,143,203	6.27	36,261,065	7.48	28,943,530	7.39	20,339,989	6.53	18,329,030	6.14
Dept of Agriculture	7,623,672	1.83	6,681,664	1.38	5,600,502	1.43	4,821,373	1.55	4,207,894	1.41
Dept of Interior	6,692,941	1.61	6,902,424	1.42	7,085,493	1.81	5,709,702	1.83	6,410,302	2.15
Dept of Energy	9,408,620	2.27	6,318,607	1.31	4,044,951	1.03	2,722,910	0.87	2,362,731	0.79
Dept of Defense	44,352,186	10.64	31,665,705	6.53	35,199,944	8.98	47,941,114	15.40	46,260,920	15.51
Dept of Education	21,132,173	5.07	14,984,220	3.09	18,098,012	4.62	18,466,414	5.93	15,020,082	5.04
Natl Aeronautics & Space Adminis	6,459,155	1.55	7,249,022	1.50	7,274,115	1.86	5,654,337	1.82	5,553,813	1.86
Dept of State	902,579	0.23	362,510	0.08	383,578	0.10	403,254	0.13	1,170,695	0.39
Dept of Labor	2,858,116	0.69	2,040,342	0.42	1,882,767	0.48	1,309,896	0.42	1,207,515	0.40
Other Miscellaneous Federal	12,969,020	3.11	13,145,816	2.71	14,351,898	3.67	10,047,431	3.23	6,498,044	2.18
<b>UH FEDERAL PROJECTS</b>	<b>213,478,591</b>	<b>51.25</b>	<b>214,910,061</b>	<b>44.34</b>	<b>193,447,468</b>	<b>49.40</b>	<b>177,827,153</b>	<b>57.11</b>	<b>161,283,952</b>	<b>54.06</b>
<b>Non-Federal State &amp; County Governments</b>										
University of Hawai'i:										
Sch of Ocean & Earth Sci and Tchnlgy	4,599,732	1.10	4,374,141	0.90	2,618,613	0.67	3,673,713	1.18	5,604,628	1.88
Institute for Astronomy	3,183,198	0.76	1,732,793	0.36	2,282,359	0.58	2,326,501	0.75	3,995,871	1.34
Ofc of Tchnlgy Transfer & Econ Dev	214,405	0.05	330,070	0.07	453,611	0.12	630,772	0.20	796,689	0.27
Cancer Research Center of Hawaii	44,430,372	10.66	65,329,739	13.48	35,363,985	9.03	6,753,907	2.17	2,595,077	0.87
School of Medicine	3,118,273	0.75	2,926,260	0.60	2,657,121	0.68	2,475,810	0.80	2,574,661	0.86
UH-Hilo	1,802,649	0.43	3,028,975	0.62	3,826,244	0.98	3,900,592	1.25	4,144,359	1.39
West Oahu	30,656,679	7.36	79,599,022	16.42	34,708,439	8.86	4,126,277	1.33	16,081,809	5.39
UH-Other	4,394,362	1.05	7,105,826	1.47	21,371,678	5.46	14,584,742	4.68	8,992,101	3.01
Dept of Health	625,450	0.15	2,268,523	0.47	2,889,621	0.74	5,077,543	1.63	5,373,156	1.80
Dept of Land & Natural Resources	4,972,295	1.19	3,970,774	0.82	3,234,322	0.83	5,210,141	1.67	5,567,939	1.87
Dept of Education	653,290	0.16	929,525	0.19	231,957	0.06	259,883	0.08	230,287	0.08
Dept of Defense	--	--	--	--	--	--	47,292	0.02	617,065	0.21
County Government	645,649	0.15	674,908	0.14	907,548	0.23	859,918	0.28	800,620	0.27
OTHER SPONSORS	28,431,204	6.82	18,423,458	3.80	19,395,198	4.95	22,706,584	7.29	21,423,960	7.18
<b>UH NON-FEDERAL PROJECTS</b>	<b>127,727,558</b>	<b>30.63</b>	<b>190,694,014</b>	<b>39.34</b>	<b>129,940,696</b>	<b>33.19</b>	<b>72,633,675</b>	<b>23.33</b>	<b>78,798,222</b>	<b>26.42</b>
<b>TOTAL UH PROJECTS</b>	<b>341,206,149</b>	<b>81.88</b>	<b>405,604,075</b>	<b>83.68</b>	<b>323,388,164</b>	<b>82.59</b>	<b>250,460,828</b>	<b>80.44</b>	<b>240,082,174</b>	<b>80.48</b>

DIRECT PROJECTS	2013	%	2012	%	2011	%	2010	%	2009	%
<b>FEDERAL PROJECTS</b>										
	5,898,439	1.42	5,565,437	1.15	4,046,976	1.03	3,810,816	1.22	4,538,938	1.73
<b>Non-Federal State &amp; County Governments</b>										
Dept of Health	709,884	0.17	877,811	0.18	816,672	0.21	867,508	0.28	863,918	0.29
Dept of Land & Natural Resources	1,647,550	0.40	1,596,816	0.33	1,479,376	0.38	1,615,186	0.52	2,065,677	0.69
Dept of Education	20,644	--	33,548	0.01	76,935	0.02	193,054	0.06	191,173	0.06
Dept of Defense	213,393	0.05	831,090	0.17	1,002,690	0.26	--	--	--	--
County Government	312,124	0.07	--	--	--	--	--	--	783	--
<b>Others:</b>										
Joint Astronomy Centre	3,903,050	0.94	4,100,836	0.85	4,684,618	1.20	4,999,980	1.61	4,947,293	1.66
Academia Sinica Inst of Astronomy	2,292,954	0.55	2,408,692	0.50	2,211,427	0.56	2,008,857	0.65	1,824,166	0.61
Natl Astronomical Observ of Japan	4,858,309	1.17	4,959,565	1.02	5,023,577	1.28	5,004,651	1.61	5,313,418	1.78
PICHTR	5,962,321	1.43	5,771,088	1.19	5,825,286	1.49	4,559,692	1.46	3,804,747	1.28
Hawaii Community Foundation	6,249,354	1.50	7,776,109	1.60	3,749,482	0.96	3,284,627	1.05	2,444,542	0.82
Other Sponsors	1,463,069	0.35	2,849,803	0.59	1,535,591	0.39	1,041,357	0.33	2,382,674	0.80
<b>NON-FEDERAL PROJECTS</b>	<b>27,632,652</b>	<b>6.63</b>	<b>31,205,358</b>	<b>6.44</b>	<b>26,405,654</b>	<b>6.75</b>	<b>23,574,912</b>	<b>7.57</b>	<b>23,838,391</b>	<b>7.99</b>
<b>TOTAL DIRECT PROJECTS</b>	<b>33,531,091</b>	<b>8.05</b>	<b>36,770,795</b>	<b>7.59</b>	<b>30,452,630</b>	<b>7.78</b>	<b>27,385,728</b>	<b>8.79</b>	<b>28,377,329</b>	<b>9.72</b>

REVOLVING FUNDS	2013	%	2012	%	2011	%	2010	%	2009	%
<i>(Including Specialized Service Facilities (SSFs))</i>										
Specialized Service Fac/Ship Ops	14,821,470	3.55	16,155,937	3.33	13,573,525	3.47	12,137,819	3.90	9,627,413	3.23
Revolving Funds & Other SSFs	27,234,588	6.52	26,183,845	5.40	24,050,945	6.14	21,403,907	6.87	20,210,789	6.78
<b>Total Revolving Funds &amp; SSFs</b>	<b>42,056,058</b>	<b>10.07</b>	<b>42,339,782</b>	<b>8.73</b>	<b>37,624,470</b>	<b>9.61</b>	<b>33,541,726</b>	<b>10.77</b>	<b>29,838,202</b>	<b>10.01</b>
<b>TOTAL PROJECTS</b>	<b>416,793,298</b>	<b>100.00</b>	<b>\$484,714,652</b>	<b>100.00</b>	<b>391,465,264</b>	<b>100.00</b>	<b>311,388,282</b>	<b>100.00</b>	<b>298,297,705</b>	<b>100.00</b>



For the Years Ended June 30, 2013 and 2012

Financial Statements  
and report of independent  
certified public accountants

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

June 30, 2013 and 2012

**The Research Corporation of  
the University of Hawai‘i  
State of Hawai‘i**  
Financial and Compliance Audit  
June 30, 2013 and 2012

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CERTIFIED PUBLIC ACCOUNTANTS

## Report of Independent Auditors

To the Board of Directors of  
The Research Corporation of the University of Hawai'i

# SECTION 1 FINANCIAL

### Report on the Financial Statements

We have audited the accompanying financial statements, as listed in the index of The Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation"), a component unit of the University of Hawai'i, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

999 Bishop Street, Suite 1900  
Honolulu, Hawai'i 96813  
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**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Management’s Discussion and Analysis (Unaudited  
June 30, 2013 and 2012)**

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and the schedule of funding progress on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements generally accepted themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Corporation's internal control over financial reporting and compliance.

*Accuracy LLP*

Honolulu, Hawaii  
November 22, 2013

**Introduction**

The following discussion and analysis provides an overview of the financial position and results of operations for The Research Corporation of the University of Hawai‘i, State of Hawai‘i (“Corporation”) for the year ended June 30, 2013. It includes selected comparative information from the years ended June 30, 2012 and 2011. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes.

The Corporation is a State agency, established by the Legislature in 1965, with a mission to support the research and training programs of the University of Hawai‘i (“University”) and to enhance research, development and training in Hawaii. The Corporation's exemption from the State statutes in regards to procurement and human resources gives it flexibility to function more like a business allowing research and training programs to operate in an efficient manner. The Corporation is not funded by the State and thereby must be self-supporting. The Corporation's viability is contingent on proper management of revenues earned from administrative service fees and other income and controlling operating expenses.

The Corporation is attached to the University for administrative purposes as dictated by statute. The Internal Agreement between the University and the Corporation defines the basic responsibilities of each party and fee arrangements for services rendered.

**Financial Highlights**

After four consecutive years of increases, the volume of business (project expenditures) decreased in fiscal year 2013. The decrease is mainly attributed to the completion of major construction projects. The University of Hawai‘i at West Oahu campus opened in August 2012 and the University of Hawai‘i Cancer Center opened in February 2013. There was a 24% increase from fiscal year 2011 to 2012, which followed a 26% increase from fiscal year 2010 to 2011.

Fiscal Year	Project Expenditures	Amount	Annual	
			Percentage Increase (Decrease)	Percentage Increase (Decrease)
2013	\$ 416,793,298	\$ (67,921,354)	-14%	
2012	484,714,632	93,249,388	24%	
2011	391,465,264	80,076,982	26%	
2010	311,388,282	13,090,577	4%	
2009	298,297,705	24,317,455	9%	
2008	273,980,250	(12,367,672)	-4%	
2007	266,347,922	(5,023,449)	-2%	
2006	291,371,371	(31,044,805)	-10%	
2005	322,416,176	62,009,111	24%	
2004	260,407,065	47,764,398	22%	
2003	212,642,667	48,579,784	30%	

The financial information for fiscal year 2011 has been restated to correct an error in accounting for intergovernmental revenues and expenses. The restatement did not have an effect on previously reported net position.

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Management’s Discussion and Analysis (Unaudited)  
June 30, 2013 and 2012**

**Using the Financial Statements**

The financial reports of the Corporation include three statements:

- The statements of net position summarize assets, liabilities and net position, and present the financial position of the Corporation at year end.
- The statements of revenues, expenses and changes in net position summarize the financial results of operations for the fiscal year.
- The statements of cash flows identify the nature and extent of the sources and uses of cash.

Additional information essential for obtaining an understanding of the Corporation’s financial statements are provided in the accompanying footnotes.

**Condensed Statements of Net Position**

The Corporation’s assets, liabilities and net position at June 30, 2013, 2012 and 2011 are summarized below:

	2013	2012	2011
<b>Current assets</b>			
Cash	\$ 30,447,455	\$ 28,162,159	\$ 12,510,070
Time certificates of deposit	7,011,134	8,008,105	7,999,519
Receivables	17,688,415	42,876,105	40,286,275
Other assets	99,028	131,776	122,822
Restricted cash	3,371,592	4,435,451	5,522,624
Total current assets	<u>58,617,624</u>	<u>83,613,596</u>	<u>66,441,310</u>
<b>Noncurrent assets</b>			
Investment	-	-	297,747
Capital assets	982,920	1,055,407	450,016
Total assets	<u>59,600,544</u>	<u>84,669,003</u>	<u>747,763</u>
<b>Current liabilities</b>			
Unrestricted liabilities	\$ 46,313,469	\$ 71,823,147	\$ 55,157,071
Noncurrent liabilities	3,868,646	3,790,866	3,068,087
Total liabilities	<u>50,182,115</u>	<u>75,614,003</u>	<u>58,225,158</u>
<b>Net position</b>			
Invested in capital assets	982,920	1,055,407	450,016
Unrestricted, as restated	8,435,509	7,989,593	8,513,899
Total net position	<u>9,418,429</u>	<u>9,055,000</u>	<u>8,963,915</u>
Total liabilities and net position	<u>\$ 59,600,544</u>	<u>\$ 84,669,003</u>	<u>\$ 67,189,073</u>

Overall, the Corporation’s financial condition remains stable.

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Management’s Discussion and Analysis (Unaudited)  
June 30, 2013 and 2012**

**Assets**

Cash increased from 2012 to 2013 and from 2011 to 2012 due to the timing of project cost reimbursements for University extramurally sponsored and internally funded accounts.

- Receivables decreased by 59% from 2012 to 2013 and increased by 6% from 2011 to 2012. The changes are primarily due to the timing of receipts from the University for cost reimbursable and advance funded projects. The decrease in receivables for 2013 is also due to the completion of the major construction projects and related project cost reimbursements. The net receivable due from the University was \$12,330,549 at June 30, 2013, compared to \$35,900,586 at June 30, 2012 and \$33,857,658 at June 30, 2011.

Investment includes funds invested with the Hawaii Strategic Development Corporation. The investment was written off in 2012.

Fixed asset acquisitions were \$95,040 for 2013 compared to \$706,902 for 2012. Significant acquisitions were made in 2012 for software applications. The Corporation’s financial system was significantly modified to maintain compatibility with the University’s new financial information system, Kuali Financial System, and a new interface was developed to transmit information between these financial systems. Depreciation expense for 2013 and 2012 was \$166,263 and \$101,511, respectively.

**Liabilities**

Current liabilities decreased by 36% from 2012 to 2013. The change was the result of a decrease in accounts payable to vendors, which relates to the decrease in the Corporation’s volume of business. Conversely, current liabilities increased by 30% from 2011 to 2012. The change was the result of an increase in accounts payable to vendors, which relates to the increase in the Corporation’s volume of business.

Noncurrent liabilities increased by 2% from 2012 to 2013 and 24% from 2011 to 2012. The increase from 2011 to 2012 is mainly due to the accrual for postemployment health care and life insurance benefits.

**Net Position**

Resources invested in capital assets at June 30, 2013 and 2012 were \$982,920 and \$1,055,407, respectively. There was no debt financing on capital assets.

Resources that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. Although unrestricted resources are not subject to externally imposed restrictions, the Corporation’s unrestricted resources are internally designated for working capital and project contingent liabilities.

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Management’s Discussion and Analysis (Unaudited)  
June 30, 2013 and 2012**

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Management’s Discussion and Analysis (Unaudited)  
June 30, 2013 and 2012**

**Condensed Statements of Revenues and Expenses and Changes in Net Position**

The Corporation’s statements of revenues and expenses and changes in net position as of June 30, 2013, 2012 and 2011 are summarized as follows:

	2013	2012	(Restated) 2011
<b>Operating revenues</b>			
University of Hawai‘i	\$ 4,283,859	\$ 4,325,216	\$ 4,484,964
Other sponsor agencies	1,883,362	1,931,471	1,644,371
<b>Total operating revenues</b>	<b>6,167,221</b>	<b>6,256,687</b>	<b>6,129,335</b>
<b>Operating expenses</b>			
Personnel costs	3,272,515	3,552,593	3,612,265
Data processing services	1,039,866	691,260	935,255
Office supplies and services	430,677	395,883	411,708
Insurance	268,328	281,131	275,510
Retiree medical benefits	197,000	309,000	316,000
Office and equipment rental	186,573	96,421	92,788
Depreciation	166,263	101,511	132,818
Other expenses	309,643	535,017	431,177
<b>Total operating expenses</b>	<b>5,870,865</b>	<b>5,982,816</b>	<b>6,207,521</b>
Operating income (loss)	296,356	293,871	(73,186)
<b>Nonoperating revenues (expenses)</b>			
Intergovernmental (Federal awards)	1,511,639	1,299,128	1,133,139
Revenue	(1,511,639)	(1,299,128)	(1,133,139)
Expense	67,073	94,961	119,413
Interest income	-	(297,747)	(117,277)
Investment expense	363,429	91,085	23,950
Increase in net position			
<b>Net position</b>	<b>9,055,000</b>	<b>8,963,915</b>	<b>8,939,965</b>
Beginning of year	\$ 9,418,429	\$ 9,065,000	\$ 8,963,915
Ending of year			

In fiscal year 2013, operating revenues earned from the University for management fees decreased in comparison to fiscal year 2012 due to a decrease in administrative operating expenses incurred. Under the terms of the Internal Agreement, the management fee is based on a percentage of administrative operating expenses. Operating revenues earned from other sponsoring agencies decreased as a result of the decrease in volume of business.

In fiscal year 2012, operating revenues earned from the University for management fees decreased in comparison to fiscal year 2011 due to a decrease in administrative operating expenses incurred. Operating revenues earned from other sponsoring agencies increased as a result of the increase in volume of business.

Operating expenses in fiscal year 2013 decreased by 2% as compared to the previous year’s expenses. The decrease was mainly due to the transfer of the Corporation’s Hillo office to the University of Hawai‘i at Hillo (“UHH”) in September 2012. The decrease in Hillo operating expenses was offset by an increase in data processing costs.

Operating expenses in fiscal year 2012 decreased by 4% over the previous year’s expenses. The decrease was mainly attributed to a decrease in data processing costs. Although significant costs were expended to develop software applications in connection with the University’s new financial information system, these costs were capitalized as fixed assets.

For fiscal year 2013, net position increased by \$363,429. For fiscal year 2012, net position increased by \$91,085.

**Condensed Statement of Cash Flows**

The Corporation’s statement of cash flows for the fiscal years ended June 30, 2013, 2012 and 2011 are summarized as follows:

	2013	2012	2011
<b>Operating activities</b>			
Cash received from operations	\$ 7,020,177	\$ 7,196,383	\$ 5,386,102
Cash payments for operations	(5,522,886)	(5,426,810)	(5,426,572)
Project expenditures and reimbursements, net	(1,245,056)	(13,415,870)	(889,166)
Net cash provided by (used in) operating activities	<b>252,433</b>	<b>15,185,443</b>	<b>(929,636)</b>
<b>Financing activities</b>			
Investing activities	(95,040)	(706,902)	(194,970)
Increase (decrease) in cash			
<b>Cash</b>			
Beginning of year	\$ 32,597,610	\$ 18,032,694	\$ 20,040,081
Ending of year	\$ 33,819,047	\$ 32,597,610	\$ 18,032,694

The increase in cash received from operations from 2011 to 2012 was due to the collection of the management fee from the University. Changes in net project expenditures and reimbursements stem from the timing of receipts from the University for cost reimbursable and advance funded projects. The change in investing activities in 2013 and 2011 was due to the redemption and purchase of time certificate of deposits.

**Looking Forward**

Management projects the volume of business to decrease in the coming years. Although the University is working to increase the volume of extramural funding, this will be particularly challenging given expected declines in Federal research funding. During the fiscal year 2013, the University received approximately \$410 million in extramural research and training awards, a decrease of 6% from 2012.

The Corporation has maintained operating expenses at conservative levels while continuing to service a high volume of business. Management strives to continue improving operational efficiency and maximizing its resources while ensuring that the Corporation meets the needs of the University research community and other clients.

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Statements of Net Position  
June 30, 2013 and 2012**

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2013 and 2012**

	2013	2012	2013	2012
<b>Assets</b>				
Current assets				
Cash	\$ 30,447,455	\$ 28,162,159		
Time certificates of deposit	7,011,134	8,008,105		
Receivables				
University of Hawai‘i, net	12,330,549	35,900,586		
Other sponsoring agencies	5,357,866	6,975,519		
Total receivables	<u>17,688,415</u>	<u>42,876,105</u>		
Prepaid expenses	99,028	131,776		
Restricted cash	3,371,592	4,435,451		
Total current assets	<u>58,617,624</u>	<u>83,613,596</u>		
Noncurrent assets				
Capital assets, net	982,920	1,055,407		
Total noncurrent assets	<u>982,920</u>	<u>1,055,407</u>		
Total assets	<u>\$ 59,600,544</u>	<u>\$ 84,669,003</u>		
<b>Liabilities</b>				
Current liabilities				
Accounts payable	\$ 26,564,226	\$ 51,815,042		
Accrued salaries and other	14,190,875	13,313,988		
Advances from other sponsoring agencies	3,470,910	4,754,787		
Workers’ compensation and unemployment claims reserve	1,957,458	1,789,330		
Current portion of accrued supplemental retirement benefits	70,000	64,000		
Current portion of accrued postemployment health care and life insurance benefits	60,000	86,000		
Total current liabilities	<u>46,313,469</u>	<u>71,823,147</u>		
Noncurrent liabilities				
Accrued supplemental retirement benefits	1,439,000	1,767,521		
Postemployment health care and life insurance benefits	2,429,646	2,023,335		
Total noncurrent liabilities	<u>3,888,646</u>	<u>3,790,856</u>		
Total liabilities	<u>50,182,115</u>	<u>75,614,003</u>		
Commitments and contingencies				
<b>Net position</b>				
Invested in capital assets	982,920	1,055,407		
Unrestricted	8,435,509	7,999,593		
Total net position	<u>9,418,429</u>	<u>9,055,000</u>		
Total liabilities and net position	<u>\$ 59,600,544</u>	<u>\$ 84,669,003</u>		

The accompanying notes are an integral part of these statements.

The accompanying notes are an integral part of these statements.

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Statements of Cash Flows  
Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Cash flows from operating activities</b>		
Receipts for		
University of Hawai‘i management fee	\$ 4,817,334	\$ 4,909,250
Other sponsoring agencies indirect cost recoveries	1,883,362	1,931,471
Refund for workers’ compensation insurance policy premium	319,481	355,682
Payments to vendors	(2,277,426)	(1,813,685)
Payments for employee compensation	(3,245,262)	(3,613,125)
Project expenditures and cost reimbursements, net	(1,245,056)	(3,415,870)
	<u>252,433</u>	<u>15,185,443</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	<u>(95,040)</u>	<u>(706,902)</u>
Net cash used in capital and related financing activities	<u>(95,040)</u>	<u>(706,902)</u>
<b>Cash flows from investing activities</b>		
Redemption of time certificate of deposits	1,000,000	-
Interest income received on cash deposits	64,044	86,375
Net cash provided by investing activities	1,064,044	86,375
Increase in cash	1,221,437	14,564,916
<b>Cash</b>		
Beginning of year	<u>32,597,610</u>	<u>18,032,694</u>
End of year	<u>\$ 33,819,047</u>	<u>\$ 32,597,610</u>
<b>Cash presented in the accompanying statements of net position</b>		
Cash	\$ 30,447,455	\$ 28,162,159
Restricted cash	3,371,592	4,435,451
	<u>\$ 33,819,047</u>	<u>\$ 32,597,610</u>

	2013	2012
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 296,356	\$ 293,871
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	166,263	101,511
Loss on disposal of equipment	1,264	-
Change in assets and liabilities		
Receivables	25,187,690	(2,589,830)
Prepaid expenses	32,748	(8,954)
Accounts payable and accrued wages	(24,373,929)	16,998,662
Advances from other sponsors	(1,283,877)	(1,013,096)
Workers’ compensation and unemployment claims reserve	168,128	677,510
Accrued supplemental retirement benefits	(322,521)	275,287
Postemployment health care and life insurance benefits	380,311	450,482
Net cash provided by operating activities	<u>\$ 252,433</u>	<u>\$ 15,185,443</u>

The accompanying notes are an integral part of these statements.

The accompanying notes are an integral part of these statements.

**The Research Corporation of the University of Hawai‘i  
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**1. Organization and Summary of Significant Accounting Policies**

The Legislature of the State of Hawai‘i (“State”) established The Research Corporation of the University of Hawai‘i (“Corporation”) in 1965 for the purposes 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 (“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 under an agreement between the Corporation and the University or predetermined indirect cost rate.

During the fiscal years ended June 30, 2013 and 2012, the Corporation’s Board of Directors consisted of five members of the University Board of Regents and five members appointed by the Governor. Additionally, the President of the University served as President of the Corporation. Subsequent to June 30, 2013, a measure passed by the State Legislature became law and modified the composition of the Corporation’s Board of Directors, requiring two members of the University Board of Regents, three members appointed by the Governor, one member appointed by the Senate President, and one member appointed by the Speaker of the House of Representatives. Additionally, the Vice President for Research of the University serves as a nonvoting ex officio member of the Board.

**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. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, 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.

As defined by Statement No. 61, the nature and significance of the relationship between the University and the Corporation is such that exclusion would cause the financial statements of the University to be misleading. Accordingly, the financial statements of the Corporation are included in the University’s financial statements.

**Measurement Focus and Basis of Accounting**

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**Revenue Recognition**

Operating revenues and expenses generally result from providing services or goods in connection with the Corporation’s principal ongoing operations. The principal operating revenues of the

Corporation are management fees and indirect cost recoveries. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Cash Equivalents**

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments with original maturities of 90 days or less to be cash equivalents. There were no cash equivalents at June 30, 2013 or 2012.

**Time Certificates of Deposit**

Time certificates of deposit with an original maturity greater than 90 days are separately reported.

**Restricted Cash**

The Corporation considers a portion of the advances for other sponsoring agencies as restricted cash. These advances are for project expenditures that will occur within one year or less.

**Capital Assets**

Capital assets, which include office furniture and equipment and computer software acquired for 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 one year. Purchased capital assets are valued at cost.

Depreciation expense is recorded in the financial statements using the straight-line method over the assets’ estimated useful lives. Generally, the useful life used for office furniture and equipment and computer software costs is six 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.

**Deferred Inflows and Deferred Outflows**

The Corporation accounts for deferred inflows of resources and deferred outflows of resources as an acquisition of resources that are applicable to future reporting periods and a consumption of resources that are applicable to future reporting periods, respectively.

**Retirement Plan**

The Corporation sponsors a retirement plan for substantially all employees. The Corporation’s policy is to contribute 10% of eligible employees’ regular compensation, as defined, to the plan, subject to certain limitations.

**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 is convertible to pay upon termination of employment. Accumulated vacation for administrative and project personnel has been accrued and reflected in the accompanying statements of net position. Accumulated vacation at June 30, 2013 and 2012 aggregated \$5,705,267 and \$5,784,201, respectively.

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**Supplemental Retirement Benefits**

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.

**Net Position**

Resources 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 resources. 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. There were no restricted resources at June 30, 2013 or 2012.

**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.

**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.

**Risks and Uncertainties**

Some agreements with direct projects define the Corporation as the party responsible for administering all aspects of the award, including fulfilling the terms and agreements of the award and assuring compliance with all requirements. Transactions related to these agreements are reported as intergovernmental activities on the statements of revenues, expenses and changes in net position.

**2. Cash and Time Certificate of Deposits**

The portion of cash and time certificate of deposits not covered by federal depository insurance is covered by collateral held in the name of the Corporation by third party custodians.

**3. Receivables and Advances**

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 funding. 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.

The net receivable balance from the University was comprised of the following at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Externally sponsored accounts	\$ 37,547,106	\$ 24,342,949
Internally funded accounts	(15,750,415)	19,575,407
Revolving accounts	(9,864,752)	(9,009,446)
Miscellaneous agency accounts	2,227,919	1,862,894
Management fee	(1,244,309)	(286,218)
Advance	(585,000)	(585,218)
	<u>\$ 12,330,549</u>	<u>\$ 35,900,586</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$3,470,910 and \$4,754,787 at June 30, 2013 and 2012, respectively. Cash relating to a portion of the advances of \$3,377,592 and \$4,435,451 at June 30, 2013 and 2012, respectively, is restricted by the sponsors.

**4. Capital Assets**

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Ending Balance</b>
<b>2013</b>				
Office equipment	\$ 698,002	\$ 20,574	\$ (359,153)	\$ 359,423
Computer software	3,658,405	74,466	-	3,732,871
Less: Accumulated depreciation	<u>4,356,407</u>	<u>95,040</u>	<u>(359,153)</u>	<u>4,092,294</u>
Office equipment	556,814	35,821	(357,889)	234,746
Computer software	2,744,186	130,442	-	2,874,628
3,301,000	186,263	(357,889)	3,109,374	
	<u>\$ 1,055,407</u>	<u>\$ (71,223)</u>	<u>\$ (1,264)</u>	<u>\$ 982,920</u>
<b>2012</b>				
Office equipment	\$ 604,099	\$ 109,218	\$ (15,315)	\$ 698,002
Computer software	3,060,721	597,684	-	3,658,405
Less: Accumulated depreciation	<u>3,664,820</u>	<u>706,902</u>	<u>(15,315)</u>	<u>4,356,407</u>
Office equipment	537,390	34,739	(15,315)	556,814
Computer software	2,677,414	66,772	-	2,744,186
3,214,804	101,511	(15,315)	3,301,000	
	<u>\$ 450,016</u>	<u>\$ 605,391</u>	<u>\$ -</u>	<u>\$ 1,055,407</u>

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**5. Line of Credit**

The Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$5,000,000 for short-term working capital, expiring on February 1, 2014. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security interest in the Corporation's accounts receivable. The rate of interest on borrowings outstanding was 3.28% at June 30, 2013 and 2012. At June 30, 2013 and 2012, there were no borrowings outstanding under this line.

**6. Net Position**

**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 resources for this purpose.

**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. The Board of Directors designated resources 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 2013 and 2012, the amount of the designation was increased by \$3,029 and \$8,586, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted resources at June 30, 2013 and 2012 were comprised of the following:

	2013	2012
Designated		
Working capital	\$ 7,424,375	\$ 6,990,593
Project contingent liabilities	1,011,134	1,008,105
Undesignated	895	895
	<hr/> <u>\$ 8,435,509</u>	<hr/> <u>\$ 7,999,593</u>

**7. Operating Revenues**

Under the terms of the Internal Agreement, the Corporation is reimbursed for administrative expenses incurred to provide specialized administrative services to projects of the University. Operating revenues from the University for the years ended June 30, 2013 and 2012 were \$3,859,243 and \$4,060,296, respectively, for extramurally sponsored projects and \$424,616 and \$264,920, respectively, for internally funded projects.

Direct agreements with other sponsoring agencies allow for indirect cost recoveries based on a predetermined indirect cost rate.

**8. Retirement Plan**

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 eligible employee's regular compensation, as defined. All contributions are fully vested and non-forfeitable 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, 2013 and 2012 were \$215,109 and \$260,813, respectively.

The Corporation offers supplemental retirement benefits in addition to benefits available under the previously mentioned retirement plan. To be eligible, a terminating employee must be at least age 45 years 4 months, have services 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, 2013 and 2012, the Corporation's accrued supplemental retirement benefits were \$1,509,000 and \$1,531,521, respectively, in the accompanying statements of net position. 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, 2013 and 2012 were \$101,777 and \$70,004, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2013 and 2012:

	2013	2012
<b>Beginning balance</b>	\$ 1,831,521	\$ 1,556,234
Additions	215,091	345,291
Deductions	(101,777)	(70,004)
Adjustment for actuarial valuation	(435,835)	-
<b>Ending balance</b>	<hr/> <u>1,509,000</u>	<hr/> <u>1,831,521</u>
Less: Current portion of accrued supplemental retirement benefits	<hr/> <u>(70,000)</u>	<hr/> <u>(64,000)</u>
<b>Noncurrent portion of accrued supplemental retirement benefits</b>	<hr/> <u>\$ 1,439,000</u>	<hr/> <u>\$ 1,767,521</u>

**9. Postemployment Health Care and Life Insurance Benefits**

The Corporation provides a single employer defined benefit postemployment benefit program. The program provides healthcare and life insurance to eligible employees and/or spouses. To be eligible for these benefits, a retiree must have 10 years of continuous service, 10 years total participation in the retirement plan/term life insurance program, be age 59 1/2 or older, an annuitant of the RCUH retirement program at the time of application, and retirement status must be in good standing.

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For health insurance, the Corporation contributes a maximum of \$50 per month per participant (employee and spouse). The retiree and spouse are responsible for payments of any remaining premium balance due. The program was established by the Board of Directors and may be changed or rescinded at the Board's discretion. Employees hired after June 30, 2009 are not eligible to receive the \$50 per month subsidy but may participate in the postemployment health insurance program by paying the entire premium costs themselves. Term life insurance in the amount of \$5,000 is provided for the retiree only. The amounts paid for health care and life insurance benefits for the years ended June 30, 2013 and 2012 were \$32,689 and \$32,518, respectively.

The annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation to the program:

	2013	2012
Annual required contribution	\$ 462,000	\$ 516,000
Interest on net OPEB obligation	93,000	74,000
Adjustment to annual required contribution	<u>(141,000)</u>	<u>(107,000)</u>
Annual OPEB cost	414,000	483,000
Contributions made	<u>(33,689)</u>	<u>(32,518)</u>
Increase in net OPEB obligation	380,311	450,482
Net OPEB obligation – beginning of year	2,109,335	1,658,853
Net OPEB obligation – end of year	2,489,646	2,109,335
Less: Current portion of OPEB obligation – end of year	(60,000)	(86,000)
Noncurrent portion of postemployment health care and life insurance benefits	\$ 2,429,646	\$ 2,023,335

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2012 and 2011 were as follows:

	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
	Annual OPEB Cost	Cost Contributed	
June 30, 2013	\$ 414,000	8.1%	\$ 2,489,646
June 30, 2012	\$ 483,000	6.7%	\$ 2,109,335
June 30, 2011	\$ 465,000	6.6%	\$ 1,658,853

Refer to Required Supplementary Information Other Than Management's Discussion and Analysis for the schedule of funding progress.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5% discount rate, which is the expected rate of return on short and long-term investments. The unfunded actuarial accrued liability is being amortized as a percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 was 14 years.

#### 10. Project Expenditures and Commitments

##### University Projects

University projects are comprised of extramurally sponsored and internally funded projects with the University. The internal agreement between the University and the Corporation defines the basic responsibilities of each party. For extramurally sponsored projects, including research and training awards, the University is responsible for fulfilling the terms and conditions of the awards and for assuring compliance with all sponsor requirements, including, but not limited to compliance with applicable laws and regulations. For internally funded projects, the University retains all decision-making responsibility. While the Corporation is authorized to act as the agent for the University, the Corporation's responsibilities are limited to providing all necessary and required administrative and financial management services in support of the University's projects. All commitments and disbursements of project funds must be authorized and approved by the University's designated official.

##### Direct Projects

Direct projects are projects assigned to and accepted by the Corporation from organizations other than the University, including federal and state agencies, international organizations, and other not-for-profit organizations. These projects normally remain under the general and technical supervision of personnel employed by the sponsors and the Corporation's responsibilities are limited to providing administrative services.

##### Other Projects

Other projects consist of the University's revolving funds and specialized service facilities. Revolving accounts are self-sustaining, income-generating projects that are established for the purpose of supporting a specialized service facility, a recharge center, or other sales and service activities.

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Project expenditures, less advances and reimbursements from sponsors, are accounted for within project accounts which are reflected on the Corporation's statements of net position. Except for direct intergovernmental projects that fall under the Corporation's responsibility, these transactions are not reflected on the Corporation's statements of revenues and expenses. Project expenditures for the years ended June 30, 2013 and 2012 were as follows:

	<b>University Projects</b>	<b>Direct Projects</b>	<b>Other Projects</b>	<b>Total</b>
<b>2013</b>				
Salaries and wages	\$ 80,363,380	\$ 17,599,931	\$ 15,734,215	\$ 113,697,526
Equipment	24,512,421	298,373	488,454	25,299,248
Other	236,330,348	15,632,787	25,835,389	277,796,524
	<b>\$ 341,206,149</b>	<b>\$ 33,531,091</b>	<b>\$ 42,056,058</b>	<b>\$ 416,793,298</b>
<b>2012</b>				
Salaries and wages	\$ 80,674,158	\$ 18,040,610	\$ 15,430,350	\$ 114,145,118
Equipment	22,307,179	117,488	527,122	229,951,789
Other	302,622,738	18,612,697	26,382,310	347,617,745
	<b>\$ 405,604,075</b>	<b>\$ 36,770,795</b>	<b>\$ 42,339,782</b>	<b>\$ 484,714,652</b>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net position were approximately \$118,267,000 and \$162,247,000 at June 30, 2013 and 2012, respectively.

**11. Operating Leases**

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 premises. Total office and equipment rental expenses for the years ended June 30, 2013 and 2012 were \$186,573 and \$96,421, respectively, which includes \$162,656 and \$55,418, respectively, of office rental expense under the operating leases for the years ended June 30, 2013 and 2012.

**12. Risk Management**

**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.

**Property and General Liability Insurance**

The Corporation is covered under the statewide insurance program of the State of Hawai‘i. Under this program, the Corporation has property damage insurance for all risk losses including windstorm losses, losses from earthquake, flood, boiler and machinery, and terrorism.

The Corporation has general liability insurance under the State. Major exclusions include pollution, asbestos, airport, aircraft and medical-professional losses. The State program also includes crime insurance.

The Corporation also purchases commercial insurance policies to supplement the State of Hawai‘i insurance program, as needed.

The Corporation's insurance policies and those in which it is covered under the statewide insurance program are subject to various deductibles.

**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, 2013 and 2012, the workers' compensation reserve amounted to \$1,179,861 and \$1,282,546, respectively, and is reported as a current liability in the accompanying statements of net position. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

The following is a summary of changes in the workers' compensation reserve for the years ended June 30, 2013 and 2012.

	<b>2012</b>	<b>2013</b>
Beginning balance		\$ 1,282,546
Adverse claims development		\$ 511,290
Payments on claims		-
Other (interest credits, etc.)		(92,513)
Ending balance		\$ 1,179,861
		<b>\$ 1,282,546</b>

For workers' compensation losses incurred after June 30, 1997, including employer's liability losses, the Corporation has a retrospective rated insurance plan. 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.

**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, 2013 and 2012, the unemployment reserve was \$77,597 and \$56,784, respectively, and is reported as a current liability in the accompanying statements of net position.

**13. Commitments**

At June 30, 2013, the Corporation had outstanding contract commitments through May 31, 2014, related to computer software and hardware maintenance of \$134,396.

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**14. Internal Revenue Service Examination**

The Corporation is undergoing an examination by the U.S. Internal Revenue Service for the year ended December 31, 2010. Since the examination has not concluded, the outcome is uncertain. Accordingly, the Corporation has not recorded any liability for potential penalties.

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**The Research Corporation of the University of Hawai‘i  
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Schedule of Funding Progress (Unaudited)  
Year Ended June 30, 2013**

**Postemployment Benefits Other than Pensions**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2012	\$ -	\$ 3,974,000	\$ 3,974,000	0%	\$ 102,700,000	3.9%
July 1, 2011	\$ -	\$ 4,511,000	\$ 4,511,000	0%	\$ 101,500,000	4.4%
July 1, 2010	\$ -	\$ 4,150,000	\$ 4,150,000	0%	\$ 95,000,000	4.4%

**SUPPLEMENTARY INFORMATION**

**The Research Corporation of the University of Hawai‘i  
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Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013**

**The Research Corporation of the University of Hawai‘i  
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Note to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013**

	CFDA No.	Award Number	Federal Expenditures
<b>U.S. Department of Defense</b> Army Proposal to Direct and Coordinate the 12th International Symposium on Wave Hindcasting and Forecasting and Coastal Hazards	12.000	W912HZ-10-2-0048	\$ 284
<b>U.S. Department of the Interior</b> Fish and Wildlife Service Hawaii Conservation Alliance Pacific Islands Climate Change Cooperative Coral Reef Initiative	15.649 15.650 15.875	12200AJ203 12200AJ001 D13AP00023	17,247 21,793 1,983 <hr/> 41,033
<b>Executive Office of the President</b> Office of National Drug Control Policy Hawaii High Intensity Drug Trafficking Areas – FY09 Hawaii High Intensity Drug Trafficking Areas – FY10 Hawaii High Intensity Drug Trafficking Areas – FY11 Hawaii High Intensity Drug Trafficking Areas – FY12 Hawaii High Intensity Drug Trafficking Areas – FY13	95.001 95.001 95.001 95.001 95.001	G09HI0006A G10HI0006A G11HI0006A G12HI0006A G13HI0006A	20,135 128,981 1,107,090 206,199 7,917 <hr/> 1,470,322 <hr/> \$ 1,511,639

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the actual basis of accounting. 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*.



CERTIFIED PUBLIC ACCOUNTANTS

**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**

To the Board of Directors of  
The Research Corporation of the University of Hawai'i

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 22, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in *internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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*.



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**Purpose of this Report**  
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Accuity LLP*

Honolulu, Hawai'i  
November 22, 2013

## SECTION 3

# COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS



CERTIFIED PUBLIC ACCOUNTANTS

#### **Report on Internal Control over Compliance**

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

#### **Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors of  
The Research Corporation of the University of Hawai'i

#### **Report on Compliance for Each Major Federal Program**

We have audited the Research Corporation of the University of Hawai'i's, State of Hawai'i ("Corporation") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2013. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits, contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

*Acuity LLP*

Honolulu, Hawai'i  
November 22, 2013

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INTERNATIONAL

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013**

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued  
Internal control over financial reporting:  
Material weaknesses identified?  
Significant deficiencies identified that are not considered to be material weaknesses?  
Noncompliance material to financial statements noted?

Unqualified  
No  
No  
No  
No

**Federal Awards**

Internal control over major programs:  
Material weaknesses identified?  
Significant deficiencies identified that are not considered to be material weaknesses?  
Type of auditors’ report issued on compliance for major programs  
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

No  
No  
Unqualified  
No

**Identification of Major Programs**

<b>CFDA Number</b>	<b>Federal Program or Cluster</b>	
95.001	Hawaii High Intensity Drug Trafficking Areas	\$300,000
	Dollar threshold used to distinguish between Type A and Type B programs	
	Auditee qualified as low-risk auditee under Section .530 of OMB Circular A-133?	No

**Section II – Financial Statement Findings**

There were no findings related to the financial statements. However, we noted other matters involving compliance and internal control over financial reporting that we will be reporting to the Board of Directors and management of the Corporation in a separate letter.

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013**

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**Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings and questioned costs. However, we noted other matters involving compliance and internal control over financial reporting that we will be reporting to the Board of Directors and management of the Corporation in a separate letter.

**SECTION 4**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding numbers relate to the sequence reported in the respective years.

**The Research Corporation of the University of Hawai‘i  
State of Hawai‘i  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2013**

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
2012-01	Restatement of Intergovernmental Revenues and Expenses	Material Weakness	X		
2012-02	Unrecorded Liabilities	Significant Deficiency		*	

\* Refer to Comment No. 1 in the Corporation's Internal Control and Business Issues Report.