

RCUWH

2014 ANNUAL REPORT

Four reflective spheres are arranged horizontally, each containing a different image. The first sphere (R) is red and shows a close-up of a mechanical part. The second sphere (C) is green and shows a close-up of a mechanical part. The third sphere (U) is blue and shows a close-up of a mechanical part. The fourth sphere (H) is white and shows a building with palm trees and the text 'JOHN A BURNETT SCHOOL'.

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



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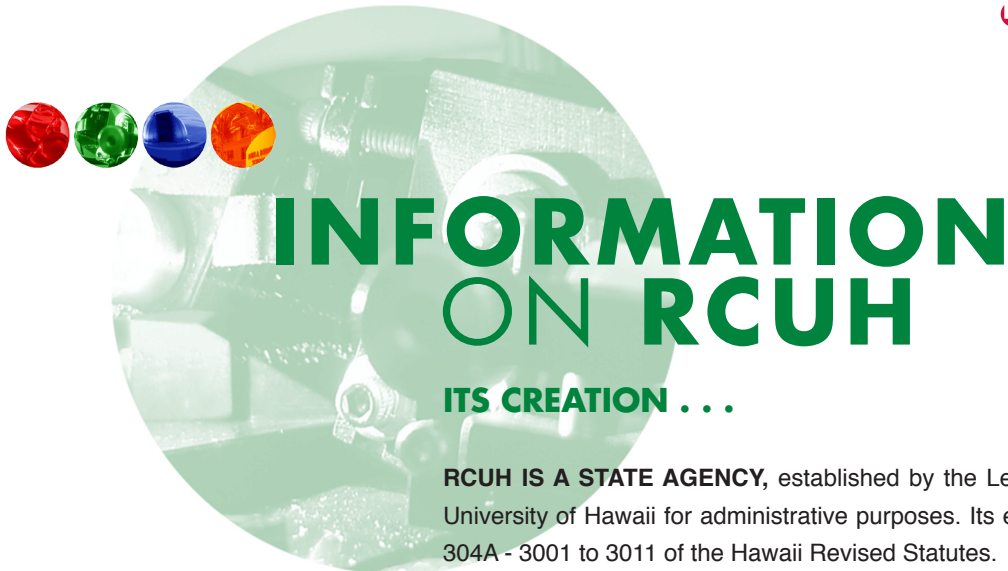
**The Research Corporation
of the University of Hawaii**

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www.rcuh.com

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in alternate format for persons with
print disabilities.

**For assistance, please call
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INFORMATION ON RCUH

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 ALMOST FIFTY 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.

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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 eight members:

- 3 members appointed by the Governor and confirmed by the Senate,
- 2 members of the UH Board of Regents selected by the Board of Regents,
- 1 member appointed by the President of the Senate,
- 1 member appointed by the House Speaker, and
- the University of Hawaii Vice President for Research who serves as an ex-officio, non-voting member.

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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.



EEO/AA POLICY

RCUH IS AN EQUAL EMPLOYMENT opportunity/affirmative action employer. It is the policy of RCUH to afford equal employment opportunity to all individuals without regard to race, color, religion, sex, sexual orientation, national origin, ancestry, age, disability, genetic information, pregnancy, arrest and court record, 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

IT CONTINUED TO BE A BUSY YEAR FOR RCUH! Besides the day-to-day operations, an IRS audit focusing on payroll taxes and worker classifications (employee vs. independent contractor) consumed a lot of staff time. There were no findings on the payroll taxes portion of the audit but there were some shortcomings in our 1099 reporting system. Therefore, the necessary corrective action was taken to address the deficiencies. This involved a change in the process for creating vendor records and the requirement for an IRS Form W-9 (taxpayer ID number/certification) for all vendors to ensure that future 1099 reporting is in compliance. This change in process is working well and has resulted in the clean-up of our vendor master file from which the 1099 reporting information is derived. RCUH was able to address all of the audit issues and the audit ended well for RCUH.

We continued our efforts to modernize our financial system based on user feedback, focusing on the “front-end” web interface and database to develop a more robust platform to accommodate additional enhancements, given today’s technological advances. Work continues in this area, and the results to date have been well-received.

Our volume of business was down approximately 16% from the year prior (\$349.6 million compared to \$416.7 million) mainly due to the final closeouts of the two major construction projects (UH West Oahu and UH Cancer Center) and the slight decline in awards received by the University.

The change in the RCUH Board composition took effect in July 2013 due to Act 288, Session Laws of Hawaii 2013. The Board composition changed from 10 members to 8 members representing specific categories:

- 2 members of the UH Board of Regents selected by the Board of Regents,
- 3 members appointed by the Governor and confirmed by the Senate:
 - (1) 1 member shall be a University of Hawaii system research faculty member,
 - (2) 1 member shall be from the business sector, and
 - (3) 1 member shall be a representative of a non-University of Hawaii research organization
- 1 member appointed by the President of the Senate,
- 1 member appointed by the Speaker of the House of Representatives,
- The Vice President for Research of the University of Hawaii System (non-voting, ex-officio)

So during the year, the Board was in transition as individuals from the above categories were appointed to fill the appropriate Board positions. Raynard Soon, Donna Ikeda, Vassilis Syrmos, Michael Maberry, and David Duffy joined the Board during the year. As the year drew to a close, we bid farewell to the two UH Board of Regents’ members, John Holzman, since his term came to an end, and Carl Carlson, who resigned. ***Our thanks and appreciation to them for their service to RCUH.***



BOARD OF DIRECTORS

(as of June 30, 2014)



Carl **Carlson**

Resigned in late June 2014



Dave **Duffy**



John **Holzman**



Donna **Ikeda**



James **Karins**



Michael **Maberry**



Raynard **Soon**



Vassilis **Syrmos**

PROJECT REVIEW

Advanced Studies in Genomics, Proteomics and Bioinformatics (ASGPB)

by **JENNIFER SAITO** and **MAQSUDUL ALAM**

OVER THE PAST THREE DECADES, the fields of genomics, proteomics, and bioinformatics have seen significant advances and have made contributions to all aspects of the life and medical sciences. These areas have grown exponentially with the constant development and application of new technologies, making it challenging for any research institution to keep pace. The University of Hawaii's aspiration to be a leader in the life and medical sciences was the motivation to take steps in forming a coherent, shared resource for genomics, proteomics, and bioinformatics research which supports top tier researchers and encourages cooperation and collaboration.

Supported by the University of Hawaii at Manoa Chancellor, the College of Natural Sciences' Advanced Studies in Genomics, Proteomics and Bioinformatics (ASGPB) was established in October 2003 with the objective of bringing together multidisciplinary life and medical science teams to develop and apply high-throughput genomic/proteomic-scale technologies with bioinformatic tools to compete successfully in performing cutting-edge research. RCUH has helped to efficiently manage the service, research, and education components of ASGPB. The flexibility of RCUH's procedures has greatly assisted ASGPB to grow and evolve.

In 2005, ASGPB began providing core genomic services to meet the increasing demand by UH life science faculty for high-throughput DNA sequencing and high-performance bioinformatic analysis services at a relatively low cost and fast turnaround. Since then, ASGPB has provided a variety of services utilizing both conventional Sanger sequencing and next-generation sequencing technologies to UH faculty and other private and public institutions throughout the United States. ASGPB's reputation also attracted large volume service requests from international laboratories in China, Malaysia, Bangladesh, and South Africa. On average, ASGPB processes 60,000-80,000 samples annually. The revenue generated has allowed ASGPB to be a self-sustainable operation.

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As part of ASGPB's research portfolio, the U.S. Department of Defense funded a Computational Proteomics Program to develop tools that could be used to establish links between diseases and the structure and function of uncharacterized proteins; to understand cell metabolism and hence the mechanism of disease; and to accelerate the development of military medical diagnostics and therapeutics. Combining the DNA sequencing infrastructure of ASGPB with the computational resources at the Maui High Performance Computing Center (MHPCC), this program covered the spectrum of wet lab research to *in silico* informatics: database creation, data mining, high-throughput genome sequencing and annotation, protein folding and modeling, and data visualization. Specific projects explored microbial hemoglobin-like proteins, *in silico* screening of large-scale compound libraries for potential anti-dengue drugs, and comparative genomics and proteomics of bacteria and other organisms. Most notably, ASGPB led an international consortium (85 researchers from 22 institutions) to decipher the genetic code of SunUp papaya, the first commercial virus-resistant transgenic fruit tree to be sequenced.

Through several collaborative projects over the years, ASGPB has built its strength in genome sequencing and analysis. ASGPB made contributions to the genomics of many different organisms, ranging from small microbes (pathogens, extremophiles, and environmental isolates) to large plants and animals. The genomes of extremophiles have been a particular focus for ASGPB, shedding insight into the unique mechanisms used by these organisms to survive the extreme conditions in certain areas of New Zealand. In the past five years, ASGPB generated the raw sequence data for the genomes of two economically important plants. First, in a project

led by the Centre for Chemical Biology at Universiti Sains Malaysia, sequencing of the rubber tree draft genome was completed. This tree is the primary source of natural rubber, an indispensable commodity used in thousands of products worldwide. Second, long-term collaboration with Bangladesh's National Jute Genome Project resulted in decoding the genomes of two major jute species. Jute is the second most important natural fiber next to cotton. The research done at ASGPB has generated numerous peer-reviewed publications including in the most prestigious journals *Nature* and *Science*.

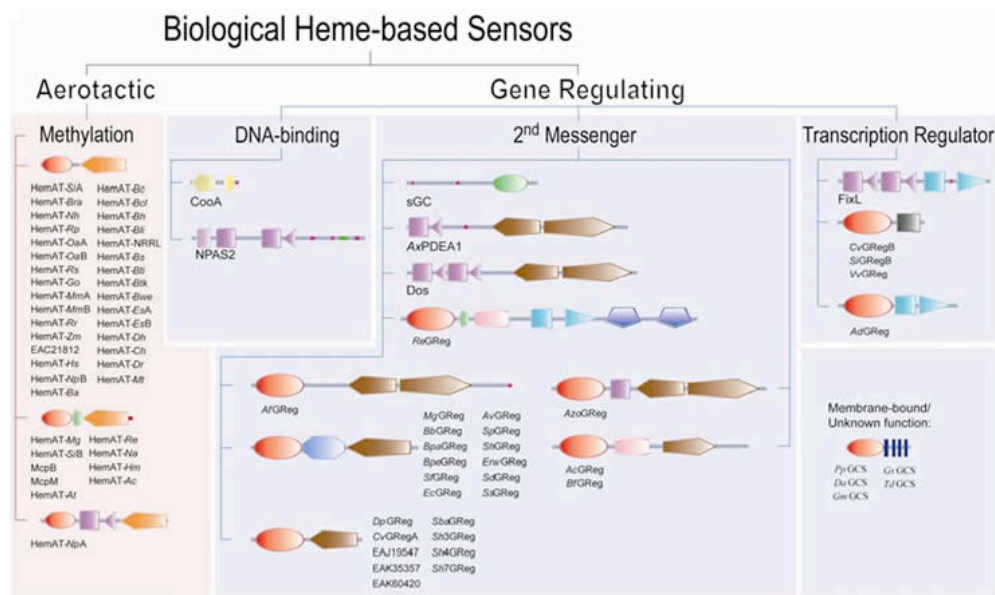


~ Journals featuring ASGPB's research ~

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(Since this article was written, it is with great sadness that we report that Dr. Maqsudul Alam passed away in December 2014 ... Aloha Maqs!)

www.hawaii.edu/microbiology/asgpb



PROJECT REVIEW

Center on Disability Studies

by **ROBERT STODDEN** and **KELLY ROBERTS**

THE MISSION OF THE CENTER ON DISABILITY STUDIES (CDS) is to “promote diverse abilities across the lifespan through interdisciplinary training, research, and service.” As a research unit housed in the University of Hawaii at Manoa College of Education, CDS covers a wide breadth of community-based needs, including: education and early intervention, community living and health, self-determination, capacity building, systems change, diversity, empowerment, literacy, technology, workplace supports, and family supports.

Strategically positioned in the Pacific, CDS is committed to building and supporting both a national and international disability community. This is led in part by the Pacific Basin University Center on Excellence in Developmental Disabilities, which is a CDS grant-supporting service in American Samoa and the Commonwealth of the Northern Mariana Islands.

In addition, CDS leads the graduate-level Certificate in Interdisciplinary Disability and Diversity Studies and an undergraduate Disability Studies certificate program, both of which continue to expand through online instruction and national and international student enrollment.

A SAMPLING OF OTHER PROJECTS INCLUDES:

- **Literacy through Digital Media:** Storytelling is a Native Hawaiian cultural practice with significant evidence to support its effectiveness when used for learning. The overarching goal of the Literacy through Digital Media project is to improve students’ cultural identity and literacy while integrating kupuna (elders). Animation and digital media will capture kupuna sharing mo’olelo and students will write and produce their own digital family stories.
- **Pacific Alliance for Supporting Individuals with Disabilities in Science, Technology, Engineering, Math (STEM) Fields:** This is a partnership which was designed to increase the number of individuals with disabilities in STEM postsecondary education programs and ultimately the STEM workforce in Hawai‘i.

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- **Hawai'i and Pacific Deaf/Blind Project:** Staff provide technical assistance, training, and support to teachers, families, children, and youth throughout the Pacific region.
- **Dual Enrollment with Individualized Supports for Students with Intellectual Disabilities (ID):** This project is designed to demonstrate and replicate a sustainable, comprehensive transition model supporting eligible students with ID to participate within and complete a program of study. DEIS provides individualized support and services for the academic and social inclusion of students with ID in academic courses, extracurricular activities, and other aspects of postsecondary education.
- **Pono Choices:** Pono Choices is designed to decrease teen pregnancy and sexually transmitted infections. This is a large-scale randomized control trial being implemented statewide.
- **Project Visions:** Project Visions is the official training to certify care providers who provide 24-hour care for adults with developmental or intellectual disabilities in the State of Hawaii. CDS is revising and updating the Visions curriculum to include best practices and updated standards.
- **Ne 'epapa Ka Hana:** This is a technology-enabled training model to improve inclusive mathematics pedagogy. The objective is to increase the engagement and achievement of middle school Native Hawaiian students with special needs (including those with disabilities). Ne 'epapa Ka Hana seeks to improve math learning behavior (attitude and persistence), learning skills (21st century learning skills), and learning outcomes (Algebra proficiency) by developing and testing the effects of socially and culturally responsive problem-based learning strategies supported by (1) ongoing professional development for math teachers and (2) an accessible online collaborative learning network for all students.

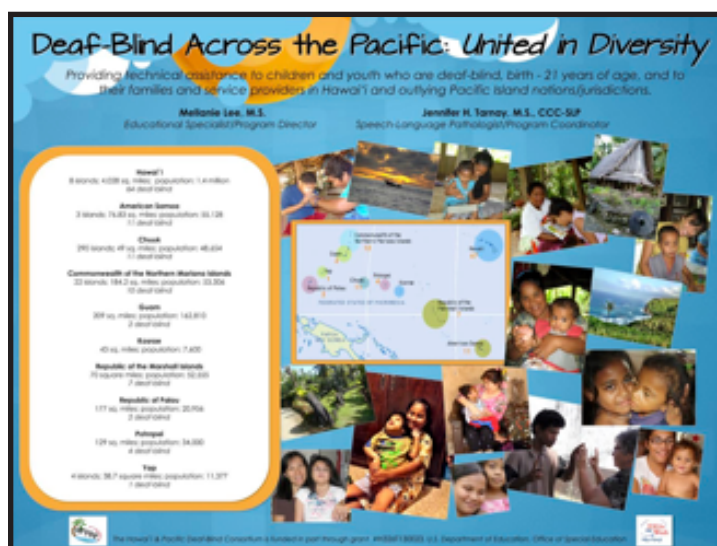


- **Project TEAMS:** TEAMS stands for twice exceptional students achieving and matriculating in science, technology, engineering and mathematics (STEM). 'Twice-exceptional' students served by the project are high school juniors and seniors who have disabilities (i.e., IEP or Section 504), but also have potential in science. The goal of Project TEAMS is to identify such students and support them to grow their potential and become "scientifically promising." Ultimately, the project intends to increase the number of students with disabilities (SWD) identified as scientifically promising. Project staff are conducting a cluster-randomized trial with 1,440 eligible students at 24 high schools in 5 regions (Hawaii, New York, Iowa, American Samoa, and the Commonwealth of the Northern Mariana Islands) to examine the effectiveness of the TEAMS model.

- **TeenACE for Science:** Improving Outcomes through Technology: TeenACE for Science used the framework of Universal Design for Learning (UDL) and Self Regulated Strategy Development (SRSD) to develop a structured writing process for middle school students.

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- **New Beginnings for English Language Learners (NB-ELL):** NB-ELL provides online professional development (PD) courses to in-service teachers in Hawaii, American Samoa, and The Republic of the Marshall Islands. The project develops and provides quality PD materials on instructional strategies to improve literacy skills in science, math, and technology for K-12 ELL students.
- **Ka Pilina:** AIM Together: Ka Pilina is designed to improve the math outcomes of secondary grade students. The specific goals of the projects are to: (1) strengthen students' interests and skills in Algebra; (2) encourage and improve the application of math skills in daily life and areas of Science, Technology, and Engineering; (3) help students become more successful in math as they transition from middle school to high school to college. To achieve these goals, students explore math using intelligent tutoring systems, participate in math camps and math community days, and their teachers participate in a professional development series focused on culturally responsive teaching/ethnomathematics, Universal Design for Learning, blended learning and differentiated teaching.
- **Hawai'i & Pacific Deaf-Blind Consortium:** The Hawai'i & Pacific Deaf-Blind Consortium provides free technical assistance to children and youth who are deaf-blind, birth through 21 years of age, and to their families and service providers here in Hawai'i and outlying Pacific Island nations/jurisdictions (American Samoa, Commonwealth of the Northern Mariana Islands, Federated States of Micronesia [Kosrae, Pohnpei, Chuuk, and Yap], Guam, Republic of Palau and Republic of the Marshall Islands). Technical assistance may include: in-home consultation, school consultation, family support, networking, inservices, bi-annual statewide trainings, referrals to other agencies, and resources. Services may be requested by families of children and youth with deaf-blindness, school personnel, and agencies providing services to children and youth with deaf-blindness.



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CDS depends on RCUH for project administration, procurement, human resources, and accounting support. This includes the expeditious processing of purchase orders, travel documentation, subcontracts, service agreements, and new hires as necessary. RCUH is instrumental in assuring efficient operations of CDS, which is highly important as a primarily externally-funded operation.

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



P R O J E C T R E V I E W

Hawai'i P-20

Partnerships for Education

Strengthening the education pipeline so that all students achieve college and career success.

- The Georgetown University Center on Education and the Workforce projects that 70% of all jobs in Hawai'i will require some post-secondary training beyond high school in 2020.
- Hawai'i ranks 12th in the nation in terms of the proportion of jobs that will require a Bachelor's degree by 2018.
- Yet, the 2013 U.S. Census data shows that only 44.3 percent of working-age adults in Hawai'i hold a college degree.
- The 2012 Career Ready Study commissioned by Hawai'i P-20 revealed that only:
 - ✓ 54% of Hawai'i employers found high school graduate, entry-level employees to be prepared in work habits/attitudes,
 - ✓ 61% found them prepared in communications skills, and
 - ✓ 38% found them prepared in mathematics skills.

HAWAI'I P-20 PARTNERSHIPS FOR EDUCATION ("Hawai'i P-20") is a partnership of the University of Hawai'i System, the Hawaii Department of Education, and the Executive Office on Early Learning to strengthen the education pipeline so that all students can achieve college and career success. It is a unit at the University of Hawai'i System, Office of the Executive Vice President for Academic Affairs, focused on the statewide goal to have 55 percent of working age adults (ages 25 – 64) hold a two- or four-year college degree by the year 2025. This goal was set by Hawai'i's educational and business leaders in 2008 to position our state for competitiveness in the 21st century.

To reach this goal, Hawai'i P-20 is committed to inter-agency policies, best practices programming, cross-agency longitudinal data, and communications/convening.



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Initiatives include but are not limited to:

- My Future Hawaii (<http://myfuturehawaii.org>), the statewide college and career portal, adopted by 35 public high schools in Hawaii, that allows students to explore careers, search Hawai'i salaries, compare colleges, and apply to college.
- College Application and Exploration Season, in which participating high schools work with students with the goal that every senior applies to at least one college.
- Early College High School Initiative, in which 12 selected high schools offer college-level courses with the goal that more students graduate from high school with at least 6 college credits.
- Hawaii Data eXchange Partnership (Hawaii DXP, <http://hawaiidxp.org>), the statewide cross-agency longitudinal data system that links information from infancy through all stages of education into the workforce.
- HIKIDS (Hawai'i Kindergarten Inventory of Developing Skills), a pilot of a kindergarten readiness assessment in Pre-K, kindergarten and first grade classes.
- Professional Development for Public Pre-K Teachers, in which Pre-K teachers are supported in teacher-child interactions, formative assessments of children, and developmentally appropriate practices for kindergarten readiness.
- Step Up Scholars Program, which includes continued support for students who pledged as 7th and 8th graders to complete the rigorous Board of Education high school diploma to be ready for college and careers.
- Core to College, an initiative to introduce the Common Core State Standards to higher education institutions and to create a definition for college and career readiness (<http://www.p20hawaii.org/programs/college-and-career-readiness/cccr-definition/>).
- STEM Support, in which science, technology, engineering and math innovations that increase STEM readiness and production of STEM degrees, are encouraged and financially support

Hawai'i P-20 is grateful to RCUH for its continued support of the various programs and contracts, which allows the organization to work and respond quickly to numerous partners and educational reforms.

SPECIAL HIGHLIGHT

"55 by '25," Hawai'i P-20 Partnerships for Education's signature communications campaign, was launched in March 2013 to raise community-wide awareness about the importance of a college degree and encourage statewide participation to achieve the statewide college attainment goal that 55% of working-age adults would have a college degree by 2025.



Hawai'i's goal to have 55% earn
a college degree by year 2025

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The 55 by '25 campaign urges businesses, community and civic organizations, parents and students to make education a high priority and to join the thousands of people in Hawai'i who are already working hard to achieve the 55 by '25 goal. Support is needed for students and teachers across the education spectrum -- from early childhood through college completion. To create community-wide participation in achieving this important goal, Hawai'i P-20's communications campaign includes an advertising schedule consisting of television, radio, print and online media, a community outreach program and public relations.



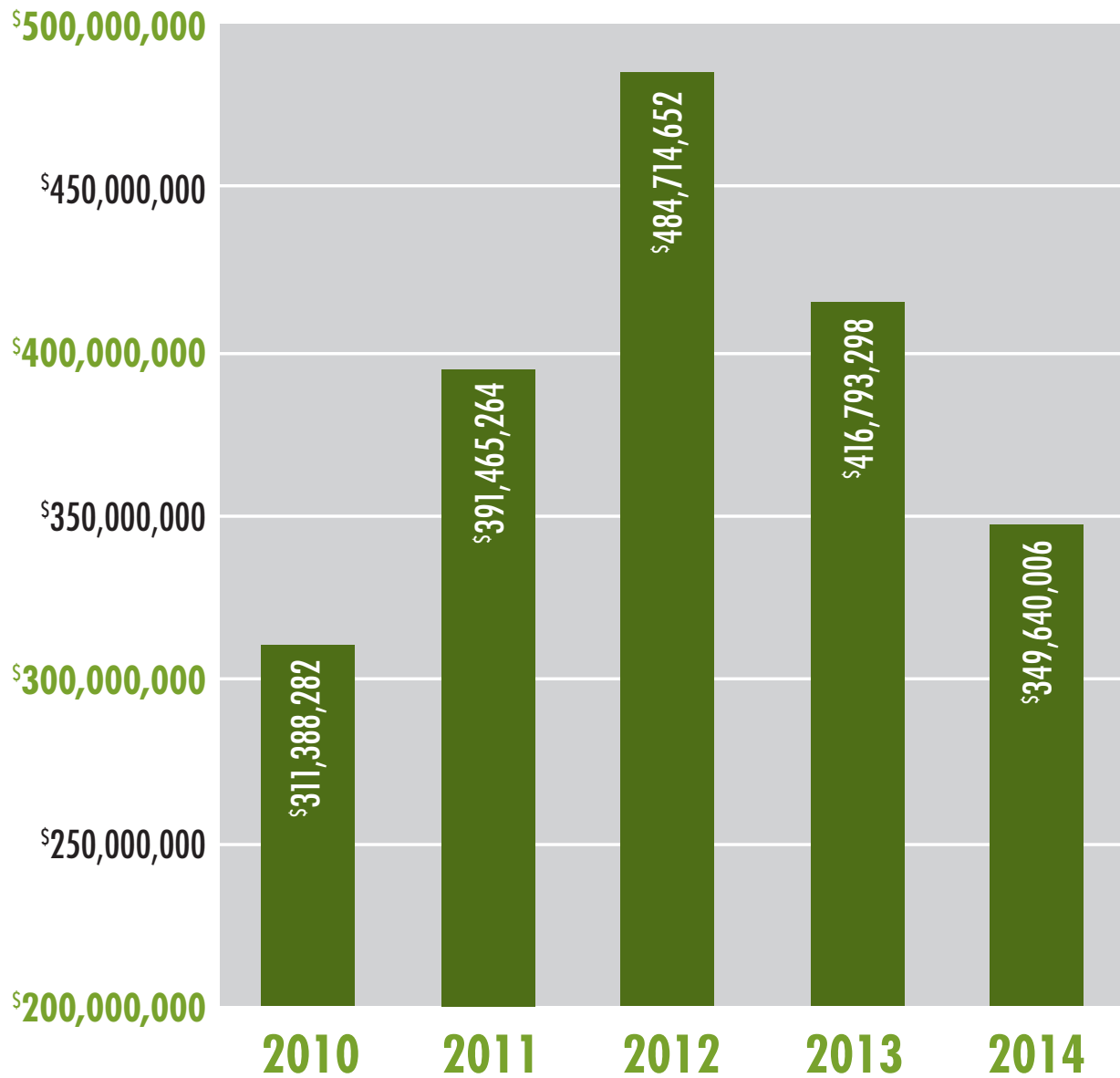
55 by '25 has garnered support from major corporate sponsors, including Hawai'i Pacific Health, First Insurance Company of Hawai'i, Hawaiian Airlines, Hawaiian Telcom, HMSA and The Queen's Health Systems. The Harold K.L. Castle Foundation and GEAR UP Hawai'i are also supporters. Together with these sponsors, Hawai'i Governor Neil Abercrombie, Director of Executive Office on Early Learning GG Weisenfeld, Hawaii State Department of Education Superintendent Kathryn Matayoshi, University of Hawai'i President David Lassner, Chair of the UH Student Caucus Richard Mizusawa and Hawai'i P-20 Executive Director Karen Lee launched the second year of the public-awareness and action campaign at a news conference in early 2014.

Pledge your support and take action to achieve 55 by '25 at: www.55by25.org

<http://www.p20hawaii.org/>

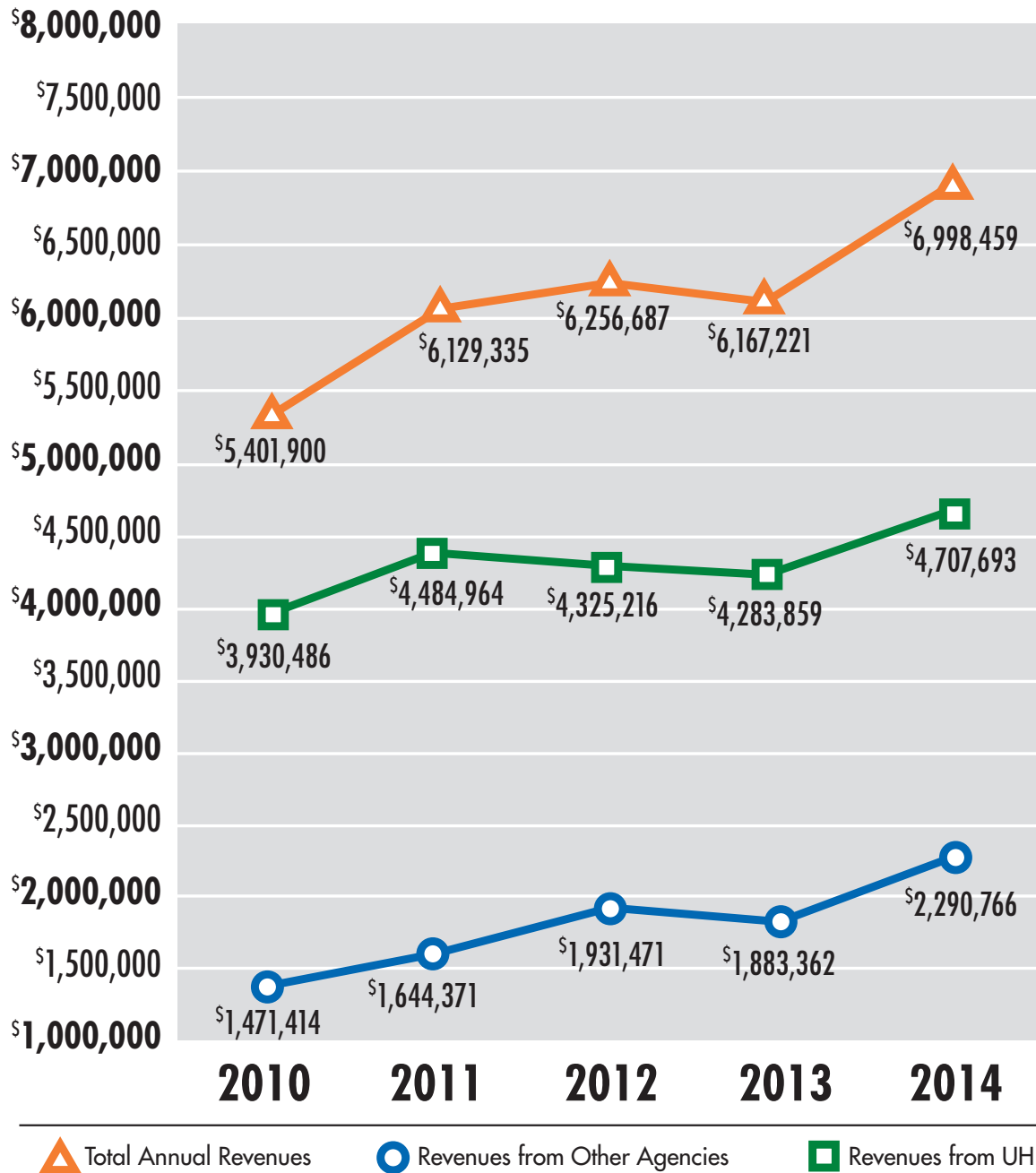


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DOLLAR VOLUME OF PROJECT ADMINISTRATION

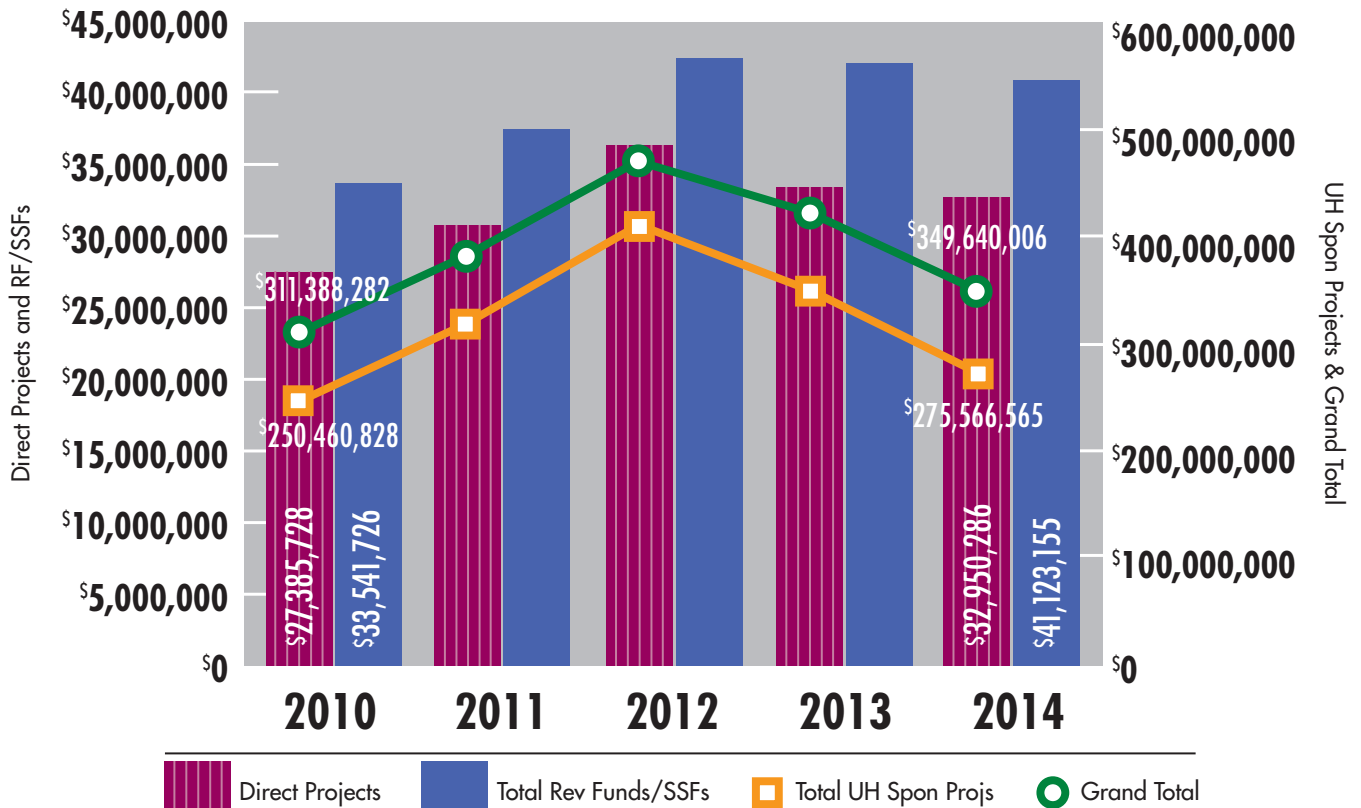
S T A T I S T I C A L D A T A

OPERATING REVENUES SUMMARY



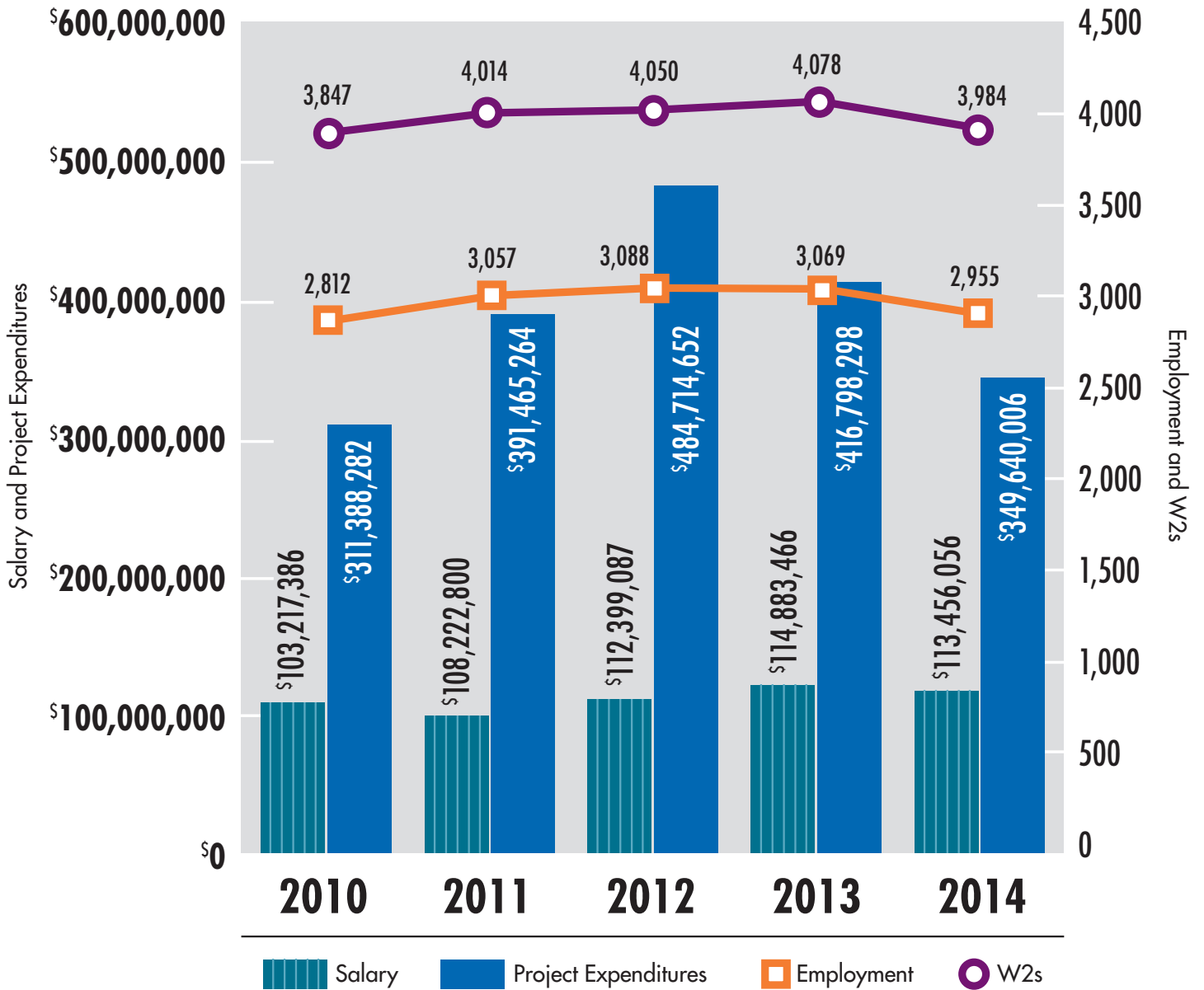
STATISTICAL DATA

PROJECT EXPENDITURES



STATISTICAL DATA

EMPLOYMENT / W2S / SALARIES / PROJECT EXPENDITURES



S T A T I S T I C A L D A T A

VOLUME OF BUSINESS BY SPONSORING AGENCY

UNIVERSITY PROJECTS	2014	%	2013	%	2012	%	2011	%	2010	%
Federal										
Dept of Health & Human Services	\$37,430,947	10.71	\$44,372,925	10.65	\$46,936,111	9.68	\$41,855,658	10.69	\$38,481,602	12.36
Dept of Defense	36,682,595	10.49	44,352,186	10.64	31,665,705	6.53	35,199,944	8.98	47,941,114	15.40
National Science Foundation	26,487,047	7.58	26,143,203	6.27	36,261,065	7.48	28,943,530	7.39	20,339,989	6.53
Dept of Commerce	26,416,250	7.56	30,564,001	7.33	42,362,575	8.74	28,727,020	7.34	21,929,131	7.04
Dept of Education	19,240,904	5.50	21,132,173	5.07	14,984,220	3.09	18,098,012	4.62	18,466,414	5.93
Dept of Labor	8,454,301	2.42	2,858,116	0.69	2,040,342	0.42	1,882,767	0.48	1,309,896	0.42
Natl Aeronautics & Space Adminis	8,051,804	2.30	6,459,155	1.55	7,249,022	1.50	7,274,115	1.86	5,654,337	1.82
Dept of Agriculture	7,641,593	2.19	7,623,672	1.83	6,681,664	1.38	5,600,502	1.43	4,821,373	1.55
Dept of Interior	6,581,629	1.88	6,692,941	1.61	6,902,424	1.42	7,085,493	1.81	5,709,702	1.83
Dept of Energy	5,700,864	1.63	9,408,620	2.27	6,318,607	1.31	4,044,951	1.03	2,722,910	0.87
Dept of State	1,236,460	0.35	902,579	0.23	362,510	0.08	383,578	0.10	403,254	0.13
Other Miscellaneous Federal	13,084,337	3.74	12,969,020	3.11	13,145,816	2.71	14,351,898	3.67	10,047,431	3.23
UH FEDERAL PROJECTS	\$197,008,731	56.35	\$213,478,591	51.25	\$214,910,061	44.34	\$193,447,468	49.40	\$177,827,153	57.11
Non-Federal State & County Governments										
University of Hawaii:										
Cancer Research Center of Hawaii	\$12,302,522	3.52	\$44,430,372	10.66	\$65,329,739	13.48	\$35,363,985	9.03	\$6,753,907	2.17
Sch of Ocean & Earth Sci and Tchnlgy	6,897,424	1.97	4,599,732	1.10	4,374,141	0.90	2,618,613	0.67	3,673,713	1.18
School of Medicine	3,151,739	0.90	3,118,273	0.75	2,926,260	0.60	2,657,121	0.68	2,475,810	0.80
UH-Hilo	2,703,628	0.77	1,802,649	0.43	3,028,975	0.62	3,826,244	0.98	3,900,592	1.25
West Oahu	2,335,962	0.67	30,656,679	7.36	79,599,022	16.42	34,708,439	8.86	4,126,277	1.33
Institute for Astronomy	1,144,023	0.33	3,183,198	0.76	1,732,793	0.36	2,282,359	0.58	2,326,501	0.75
Ofc of Tchnlgy Transfer & Econ Dev	103,094	0.03	214,405	0.05	330,070	0.07	453,611	0.12	630,772	0.20
UH-Other	10,454,721	2.99	4,394,362	1.05	7,105,826	1.47	21,371,678	5.46	14,584,742	4.68
Dept of Land & Natural Resources	6,337,761	1.81	4,972,295	1.19	3,970,774	0.82	3,234,322	0.83	5,210,141	1.67
Dept of Health	1,297,883	0.37	625,450	0.15	2,268,523	0.47	2,889,621	0.74	5,077,543	1.63
County Government	579,649	0.17	645,649	0.15	674,908	0.14	907,548	0.23	859,918	0.28
Dept of Education	524,557	0.15	653,290	0.16	929,525	0.19	231,957	0.06	259,883	0.08
Other State Government	8,782,441	2.51	10,270,806	2.46	2,143,608	0.44	1,171,772	0.30	2,087,527	0.67
Other Miscellaneous Non-Federal	21,942,430	6.28	16,607,001	3.98	16,279,852	3.36	18,223,426	4.66	20,666,349	6.64
UH NON-FEDERAL PROJECTS	\$78,557,834	22.47	\$127,727,558	30.63	\$190,694,014	39.34	\$129,940,696	33.19	\$72,633,675	23.33
TOTAL UH PROJECTS	\$275,566,565	78.82	\$341,206,149	81.88	\$405,604,075	83.68	\$323,388,164	82.59	\$250,460,828	80.44
DIRECT PROJECTS	2014	%	2013	%	2012	%	2011	%	2010	%
FEDERAL PROJECTS	\$5,694,743	1.63	\$5,898,439	1.42	\$5,565,437	1.15	\$4,046,976	1.03	\$3,810,816	1.22
Non-Federal State & County Governments										
Dept of Land & Natural Resources	\$1,448,666	0.41	\$1,647,550	0.40	\$1,596,816	0.33	\$1,479,376	0.38	\$1,615,186	0.52
Dept of Business, Econ Dev & Tourism	706,763	0.20	312,124	0.07	--	--	--	--	--	--
Dept of Health	617,064	0.18	709,884	0.17	877,811	0.18	816,672	0.21	867,508	0.28
County Government	172,900	0.05	--	--	--	--	--	--	--	--
Dept of Defense	63,798	0.02	213,393	0.05	831,090	0.17	1,002,690	0.26	--	--
Dept of Education	13,234	0.00	20,644	--	33,548	0.01	76,935	0.02	193,054	0.06
Others:										
Joint Astronomy Centre	3,948,386	1.13	3,903,050	0.94	4,100,836	0.85	4,684,618	1.20	4,999,980	1.61
Academia Sinica Inst of Astronomy	2,344,589	0.67	2,292,954	0.55	2,408,692	0.50	2,211,427	0.56	2,008,857	0.65
Natl Astronomical Observ of Japan	5,062,110	1.45	4,858,309	1.17	4,959,565	1.02	5,023,577	1.28	5,004,651	1.61
PICHTR	7,093,013	2.03	5,962,321	1.43	5,771,088	1.19	5,825,286	1.49	4,559,692	1.46
Hawaii Community Foundation	4,370,497	1.25	6,249,354	1.50	7,776,109	1.60	3,749,482	0.96	3,284,627	1.05
Other Sponsors	1,414,523	0.40	1,463,069	0.35	2,849,803	0.59	1,535,591	0.39	1,041,357	0.33
NON-FEDERAL PROJECTS	\$27,255,543	7.79	\$27,632,652	6.63	\$31,205,358	6.44	\$26,405,654	6.75	\$23,574,912	7.57
TOTAL DIRECT PROJECTS	\$32,950,286	9.42	\$33,531,091	8.05	\$36,770,795	7.59	\$30,452,630	7.78	\$27,385,728	8.79
REVOLVING FUNDS	2014	%	2013	%	2012	%	2011	%	2010	%
<i>(Including Specialized Service Facilities (SSFs))</i>										
Specialized Service Fac/Ship Ops	\$14,201,619	4.06	\$14,821,470	3.55	\$16,155,937	3.33	\$13,573,525	3.47	\$12,137,819	3.90
Revolving Funds & Other SSFs	26,921,536	7.70	27,234,588	6.52	26,183,845	5.40	24,050,945	6.14	21,403,907	6.87
Total Revolving Funds & SSFs	\$41,123,155	11.76	\$42,056,058	10.07	\$42,339,782	8.73	\$37,624,470	9.61	\$33,541,726	10.77
TOTAL PROJECTS	\$349,640,006	100.00	\$416,793,298	100.00	\$484,714,652	100.00	\$391,465,264	100.00	\$311,388,282	100.00



FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

Financial Statements
and report of independent
certified public accountants

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

June 30, 2014 and 2013



The Research Corporation of the University of Hawai'i State of Hawai'i

Financial and Compliance Audit
 June 30, 2014 and 2013

The Research Corporation of the University of Hawai'i State of Hawai'i Index June 30, 2014 and 2013

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SECTION 1 FINANCIAL



Report of Independent Auditors

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

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, 2014 and 2013, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditors consider 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.



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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, 2014 and 2013, 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 22 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 or to the basic financial statements 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 October 31, 2014, 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.

Accounty LLP

Honolulu, Hawai'i
October 31, 2014

The Research Corporation of the University of Hawai'i State of Hawai'i Management's Discussion and Analysis (Unaudited) June 30, 2014 and 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, 2014. It includes selected comparative information with the years ended June 30, 2013 and 2012. 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 Hawai'i. 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

For the past two years, the Corporation has seen a decrease in volume of business (project expenditures) compared to record volumes attained in 2012 and 2011. There was a 16% decrease from fiscal year 2013 to 2014, which followed a 14% decrease from fiscal year 2012 to 2013. The decrease in volume is mainly attributed to the completion of major construction projects, which are typically non-recurring in nature. 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. Excluding the effect of these major construction projects, the Corporation's volume of business decreased by 3% from fiscal year 2013 to 2014 and increased by 3% from fiscal year 2012 to 2013.

Fiscal Year	Project Expenditures	Annual	
		Amount (Decrease) Increase	Percentage (Decrease) Increase
2014	\$ 349,640,006	\$ (67,153,292)	-16%
2013	416,793,298	(67,921,354)	-14%
2012	484,714,652	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	286,347,922	(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%

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2014 and 2013**

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 condition 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, 2014, 2013 and 2012 are summarized below:

	2014	2013	2012
Current assets			
Cash	\$ 34,463,953	\$ 30,447,455	\$ 28,162,159
Time certificates of deposit	7,013,662	7,011,134	8,008,105
Receivables	8,263,073	17,688,415	42,876,105
Other assets	155,143	99,028	131,776
Restricted cash	2,846,616	3,371,592	4,435,451
Total current assets	52,742,447	58,617,624	83,613,596
Noncurrent assets			
Capital assets	1,273,038	982,920	1,055,407
	1,273,038	982,920	1,055,407
Total assets	\$ 54,015,485	\$ 59,600,544	\$ 84,669,003
Current liabilities	\$ 39,614,701	\$ 46,313,469	\$ 71,823,147
Noncurrent liabilities	4,222,488	3,868,646	3,790,856
Total liabilities	43,837,189	50,182,115	75,614,003
Net position			
Invested in capital assets	1,273,038	982,920	1,055,407
Unrestricted	8,905,258	8,435,509	7,999,593
Total net position	10,178,296	9,418,429	9,055,000
Total liabilities and net position	\$ 54,015,485	\$ 59,600,544	\$ 84,669,003

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, 2014 and 2013**

Assets

Cash increased from 2013 to 2014 and from 2012 to 2013 due to the timing of project cost reimbursements for University extramurally sponsored and internally funded accounts.

Receivables decreased by 53% from 2013 to 2014 and decreased by 59% from 2012 to 2013. 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 \$5,558,997 at June 30, 2014, compared to \$12,330,549 at June 30, 2013 and \$35,900,586 at June 30, 2012.

Fixed asset acquisitions were \$501,472 for 2014 compared to \$95,040 for 2013. Significant acquisitions were made in 2014 to develop software applications for human resources and financial services. Depreciation expense for 2014 and 2013 was \$211,354 and \$166,263, respectively.

Liabilities

Current liabilities decreased by 14% from 2013 to 2014 and 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.

Noncurrent liabilities increased by 9% from 2013 to 2014 and increased by 2% from 2012 to 2013. The increase was mainly due to the accrual for postemployment health care and life insurance benefits.

Net Position

Resources invested in capital assets at June 30, 2014 and 2013 were \$1,273,038 and \$982,920, 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, 2014 and 2013**

Condensed Statements of Revenues and Expenses and Changes in Net Position

The Corporation's statements of revenues and expenses and changes in net position for the fiscal years ended June 30, 2014, 2013 and 2012 are summarized as follows:

	2014	2013	2012
Operating revenues			
University of Hawai'i	\$ 4,707,693	\$ 4,283,859	\$ 4,325,216
Other sponsor agencies	<u>2,290,766</u>	<u>1,883,362</u>	<u>1,931,471</u>
Total operating revenues	<u>6,998,459</u>	<u>6,167,221</u>	<u>6,256,687</u>
Operating expenses			
Personnel costs	3,696,680	3,272,515	3,552,593
Data processing services	824,423	1,039,866	691,260
Office supplies and services	379,370	430,677	395,883
Insurance	296,661	268,328	281,131
Depreciation	211,354	166,263	101,511
Office and equipment rental	199,756	186,573	96,421
Retiree medical benefits	190,000	197,000	309,000
Other expenses	<u>532,902</u>	<u>309,643</u>	<u>535,017</u>
Total operating expenses	<u>6,331,146</u>	<u>5,870,865</u>	<u>5,962,816</u>
Operating income	667,313	296,356	293,871
Nonoperating revenues (expenses)			
Intergovernmental (Federal awards)			
Revenue	1,056,921	1,511,639	1,299,128
Expense	<u>(1,056,921)</u>	<u>(1,511,639)</u>	<u>(1,299,128)</u>
Interest income	92,554	67,073	94,961
Investment expense	<u>-</u>	<u>-</u>	<u>(297,747)</u>
Increase in net position	759,867	363,429	91,085
Net position			
Beginning of year	9,418,429	9,055,000	8,963,915
Ending of year	<u>\$ 10,178,296</u>	<u>\$ 9,418,429</u>	<u>\$ 9,055,000</u>

In fiscal year 2014, management fees earned from the University increased in comparison to fiscal year 2013 to cover an increase in administrative operating expenses incurred. Under the terms of the Internal Agreement, the management fee is based on a percentage of administrative operating expenses. The effective rate charged to the University by the Corporation was 2.5% for fiscal year 2014. Operating revenues earned from other sponsoring agencies increased as a result of higher negotiated indirect cost rates assessed on projects with those agencies. The blended indirect cost rate increased from 2.55% in 2013 to 3.25% in 2014.

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. Operating revenues earned from other sponsoring agencies decreased as a result of the decrease in volume of business.

Operating expenses in fiscal year 2014 increased by 8% as compared to the previous year's expenses. The increase in administrative operating expenses is primarily attributable to increased payroll costs which resulted from additions in core staff.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2014 and 2013**

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 Hilo office to the University of Hawai'i at Hilo ("UHH") in September 2012. The decrease in Hilo operating expenses was offset by an increase in data processing costs.

For fiscal year 2014, net position increased by \$759,867. For fiscal year 2013, net position increased by \$363,429.

Condensed Statement of Cash Flows

The Corporation's statements of cash flows for the fiscal years ended June 30, 2014, 2013 and 2012 are summarized as follows:

	2014	2013	2012
Operating activities			
Cash received from operations	\$ 6,820,200	\$ 7,020,177	\$ 7,196,383
Cash payments for operations	(5,531,319)	(5,522,688)	(5,426,810)
Project expenditures and reimbursements, net	<u>2,614,087</u>	<u>(1,245,056)</u>	<u>13,415,870</u>
Net cash provided by operating activities	<u>3,902,968</u>	<u>252,433</u>	<u>15,185,443</u>
Financing activities	<u>(501,472)</u>	<u>(95,040)</u>	<u>(706,902)</u>
Investing activities	<u>90,026</u>	<u>1,064,044</u>	<u>86,375</u>
Increase in cash	3,491,522	1,221,437	14,564,916
Cash			
Beginning of year	<u>33,819,047</u>	<u>32,597,610</u>	<u>18,032,694</u>
Ending of year	<u>\$ 37,310,569</u>	<u>\$ 33,819,047</u>	<u>\$ 32,597,610</u>

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 financing activities in 2014 and 2012 was due to fixed assets additions which included the development of software applications. The change in investing activities in 2013 was due to the redemption 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 2014, the University was awarded approximately \$392 million for extramural research and training, a decrease of 4% from 2013.

The financial outlook for the Corporation remains positive. The Corporation maintains operating expenses at conservative levels and in line with approved budgets. The budget for administrative operating expenses for fiscal year 2015 was approved with a 5% decrease below fiscal year 2014 budget. 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, 2014 and 2013**

	2014	2013
Assets		
Current assets		
Cash	\$ 34,463,953	\$ 30,447,455
Time certificates of deposit	7,013,662	7,011,134
Receivables		
University of Hawai'i, net	5,558,997	12,330,549
Other sponsoring agencies	2,704,076	5,357,866
Total receivables	<u>8,263,073</u>	<u>17,688,415</u>
Prepaid expenses	155,143	99,028
Restricted cash	<u>2,846,616</u>	<u>3,371,592</u>
Total current assets	<u>52,742,447</u>	<u>58,617,624</u>
Noncurrent assets		
Capital assets, net	<u>1,273,038</u>	<u>982,920</u>
Total noncurrent assets	<u>1,273,038</u>	<u>982,920</u>
Total assets	<u>\$ 54,015,485</u>	<u>\$ 59,600,544</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 20,628,028	\$ 26,564,226
Accrued salaries and other	14,016,466	14,190,875
Advances from other sponsoring agencies	2,935,052	3,470,910
Workers' compensation and unemployment claims reserve	1,880,155	1,957,458
Current portion of accrued supplemental retirement benefits	87,000	70,000
Current portion of accrued postemployment health care and life insurance benefits	<u>68,000</u>	<u>60,000</u>
Total current liabilities	<u>39,614,701</u>	<u>46,313,469</u>
Noncurrent liabilities		
Accrued supplemental retirement benefits	1,422,000	1,439,000
Postemployment health care and life insurance benefits	<u>2,800,488</u>	<u>2,429,646</u>
Total noncurrent liabilities	<u>4,222,488</u>	<u>3,868,646</u>
Total liabilities	<u>43,837,189</u>	<u>50,182,115</u>
Commitments and contingencies		
Net position		
Invested in capital assets	1,273,038	982,920
Unrestricted	<u>8,905,258</u>	<u>8,435,509</u>
Total net position	<u>10,178,296</u>	<u>9,418,429</u>
Total liabilities and net position	<u>\$ 54,015,485</u>	<u>\$ 59,600,544</u>

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 Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013**

	2014	2013
Operating revenues		
University of Hawai'i	\$ 4,707,693	\$ 4,283,859
Other sponsoring agencies	<u>2,290,766</u>	<u>1,883,362</u>
Total operating revenues	<u>6,998,459</u>	<u>6,167,221</u>
Operating expenses		
Personnel costs	3,696,680	3,272,515
Data processing services	824,423	1,039,866
Office supplies and services	379,370	430,677
Insurance	296,661	268,328
Depreciation	211,354	166,263
Office and equipment rental	199,756	186,573
Retiree medical benefits	190,000	197,000
Professional and technical support	139,117	97,109
Project development	122,289	14,849
Other expenses	80,404	39,432
Travel	68,158	45,395
Tuition support	67,960	72,400
Professional services	<u>54,974</u>	<u>40,458</u>
Total operating expenses	<u>6,331,146</u>	<u>5,870,865</u>
Operating income	<u>667,313</u>	<u>296,356</u>
Nonoperating revenues (expenses)		
Intergovernmental (Federal awards)		
Revenue	1,056,921	1,511,639
Expense	<u>(1,056,921)</u>	<u>(1,511,639)</u>
Interest income		
Cash and time certificates of deposit	<u>92,554</u>	<u>67,073</u>
Net nonoperating revenues	<u>92,554</u>	<u>67,073</u>
Increase in net position	<u>759,867</u>	<u>363,429</u>
Net position		
Beginning of year	<u>9,418,429</u>	<u>9,055,000</u>
End of year	<u>\$ 10,178,296</u>	<u>\$ 9,418,429</u>

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, 2014 and 2013**

	2014	2013
Cash flows from operating activities		
Receipts for		
University of Hawai'i management fee	\$ 4,526,915	\$ 4,817,334
Other sponsoring agencies indirect cost recoveries	2,290,766	1,883,362
Refund for workers' compensation insurance policy premium	2,519	319,481
Payments to vendors	(1,816,102)	(2,277,426)
Payments for employee compensation	(3,715,217)	(3,245,262)
Project expenditures and cost reimbursements, net	2,614,087	(1,245,056)
Net cash provided by operating activities	<u>3,902,968</u>	<u>252,433</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	<u>(501,472)</u>	<u>(95,040)</u>
Net cash used in capital and related financing activities	<u>(501,472)</u>	<u>(95,040)</u>
Cash flows from investing activities		
Redemption of time certificate of deposits	-	1,000,000
Interest income received on cash deposits	90,026	64,044
Net cash provided by investing activities	<u>90,026</u>	<u>1,064,044</u>
Increase in cash	3,491,522	1,221,437
Cash		
Beginning of year	<u>33,819,047</u>	<u>32,597,610</u>
End of year	<u>\$ 37,310,569</u>	<u>\$ 33,819,047</u>
Cash presented in the accompanying statements of net position		
Cash	\$ 34,463,953	\$ 30,447,455
Restricted cash	2,846,616	3,371,592
	<u>\$ 37,310,569</u>	<u>\$ 33,819,047</u>

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, 2014 and 2013**

	2014	2013
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 667,313	\$ 296,356
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	211,354	166,263
Loss on disposal of equipment	-	1,264
Change in assets and liabilities		
Receivables	9,425,342	25,187,690
Prepaid expenses	(56,115)	32,748
Accounts payable and accrued wages	(6,110,607)	(24,373,929)
Advances from other sponsors	(535,858)	(1,283,877)
Workers' compensation and unemployment claims reserve	(77,303)	168,128
Accrued supplemental retirement benefits	-	(322,521)
Postemployment health care and life insurance benefits	378,842	380,311
Net cash provided by operating activities	<u>\$ 3,902,968</u>	<u>\$ 252,433</u>

The accompanying notes are an integral part of these statements.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

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 of Hawai'i ("University"), the State, and other organizations ("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 ("Internal Agreement") or based on a predetermined indirect cost rate.

During the fiscal year ended June 30, 2013, 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.

On July 9, 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

Revenues are recognized when earned and expenses are recognized when liabilities are incurred. 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.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

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, 2014 or 2013.

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, 2014 and 2013 aggregated \$5,857,373 and \$5,705,267, respectively.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

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, 2014 or 2013.

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 certificates 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 the Internal 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 Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

The net receivable balance from the University was comprised of the following at June 30, 2014 and 2013:

	2014	2013
Extramurally sponsored accounts	\$ 27,967,417	\$ 37,547,106
Internally funded accounts	(13,570,649)	(15,750,415)
Revolving accounts	(7,973,622)	(9,864,752)
Miscellaneous agency accounts	1,461,762	2,227,919
Management fee	(1,740,911)	(1,244,309)
Advance	(585,000)	(585,000)
	<u>\$ 5,558,997</u>	<u>\$ 12,330,549</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$2,935,052 and \$3,470,910 at June 30, 2014 and 2013, respectively. Cash relating to a portion of the advances of \$2,846,616 and \$3,371,592 at June 30, 2014 and 2013, respectively, is restricted by the sponsors.

4. Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
2014				
Office equipment	\$ 359,423	\$ 18,502	\$ -	\$ 377,925
Computer software	3,732,871	482,970	-	4,215,841
	<u>4,092,294</u>	<u>501,472</u>	<u>-</u>	<u>4,593,766</u>
Less: Accumulated depreciation				
Office equipment	234,746	33,944	-	268,690
Computer software	2,874,628	177,410	-	3,052,038
	<u>3,109,374</u>	<u>211,354</u>	<u>-</u>	<u>3,320,728</u>
	<u>\$ 982,920</u>	<u>\$ 290,118</u>	<u>\$ -</u>	<u>\$ 1,273,038</u>
2013				
Office equipment	\$ 698,002	\$ 20,574	\$ (359,153)	\$ 359,423
Computer software	3,658,405	74,466	-	3,732,871
	<u>4,356,407</u>	<u>95,040</u>	<u>(359,153)</u>	<u>4,092,294</u>
Less: Accumulated depreciation				
Office equipment	556,814	35,821	(357,889)	234,746
Computer software	2,744,186	130,442	-	2,874,628
	<u>3,301,000</u>	<u>166,263</u>	<u>(357,889)</u>	<u>3,109,374</u>
	<u>\$ 1,055,407</u>	<u>\$ (71,223)</u>	<u>\$ (1,264)</u>	<u>\$ 982,920</u>

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

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, 2015. 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, 2014 and 2013. At June 30, 2014 and 2013, 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 2014 and 2013, the amount of the designation was increased by \$2,528 and \$3,029, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted resources at June 30, 2014 and 2013 were comprised of the following:

	2014	2013
Designated		
Working capital	\$ 7,891,596	\$ 7,424,375
Project contingent liabilities	<u>1,013,662</u>	<u>1,011,134</u>
	<u>\$ 8,905,258</u>	<u>\$ 8,435,509</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, 2014 and 2013 were \$4,030,313 and \$3,859,243, respectively, for extramurally sponsored projects, and \$677,380 and \$424,616, respectively, for internally funded projects.

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

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 employees' 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, 2014 and 2013 were \$218,029 and \$215,109, 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 service of 10 years or more, and have accumulated unused sick leave of 60 days or more. The supplemental retirement benefits amount to 10% of the value of the unused sick leave reduced by 1/2% for each month below the age of 62. The terminating employee may elect to purchase an annuity or receive the benefit in cash. At June 30, 2014 and 2013, the Corporation's accrued supplemental retirement benefits were \$1,509,000 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, 2014 and 2013 were \$143,947 and \$101,777, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2014 and 2013:

	2014	2013
Beginning balance	\$ 1,509,000	\$ 1,831,521
Additions	213,353	215,091
Deductions	(143,947)	(101,777)
Adjustment for actuarial valuation	<u>(69,406)</u>	<u>(435,835)</u>
Ending balance	1,509,000	1,509,000
Less: Current portion of accrued supplemental retirement benefits	<u>(87,000)</u>	<u>(70,000)</u>
Noncurrent portion of accrued supplemental retirement benefits	<u>\$ 1,422,000</u>	<u>\$ 1,439,000</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.

**The Research Corporation of the University of Hawai'i
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Notes to Financial Statements
June 30, 2014 and 2013**

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. Effective August 1, 2014, the \$50 per month subsidy was eliminated for participants not already receiving the benefit. Employees remain eligible to 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, 2014 and 2013 were \$36,158 and \$33,689, 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:

	2014	2013
Annual required contribution	\$ 481,000	\$ 462,000
Interest on net OPEB obligation	108,000	93,000
Adjustment to annual required contribution	(174,000)	(141,000)
Annual OPEB cost	415,000	414,000
Contributions made	(36,158)	(33,689)
Increase in net OPEB obligation	378,842	380,311
Net OPEB obligation – beginning of year	2,489,646	2,109,335
Net OPEB obligation – end of year	2,868,488	2,489,646
Less: Current portion of OPEB obligation – end of year	(68,000)	(60,000)
Noncurrent portion of postemployment health care and life insurance benefits	\$ 2,800,488	\$ 2,429,646

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 415,000	8.7%	\$ 2,868,488
June 30, 2013	\$ 414,000	8.1%	\$ 2,489,646
June 30, 2012	\$ 483,000	6.7%	\$ 2,109,335

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

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, 2014 was 13 years. As permitted by GASB Statement No. 45, an actuarial valuation was not obtained for the year ended June 30, 2014.

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.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2014 and 2013**

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, 2014 and 2013 were as follows:

	University Projects	Direct Projects	Other Projects	Total
2014				
Salaries and wages	\$ 79,954,949	\$ 17,997,524	\$ 15,901,501	\$ 113,853,974
Equipment	20,007,963	88,202	188,508	20,284,673
Other	175,603,653	14,864,560	25,033,146	215,501,359
	<u>\$ 275,566,565</u>	<u>\$ 32,950,286</u>	<u>\$ 41,123,155</u>	<u>\$ 349,640,006</u>
2013				
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	25,833,389	277,796,524
	<u>\$ 341,206,149</u>	<u>\$ 33,531,091</u>	<u>\$ 42,056,058</u>	<u>\$ 416,793,298</u>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net position were approximately \$79,121,000 and \$118,267,000 at June 30, 2014 and 2013, 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, 2014 and 2013 were \$199,756 and \$186,573, respectively, which includes \$180,506 and \$162,656, respectively, of office rental expense under the operating leases for the years ended June 30, 2014 and 2013.

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 Research Corporation of the University of Hawai'i
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Notes to Financial Statements
June 30, 2014 and 2013**

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 an estimate for claims that have been incurred but not reported. At June 30, 2014 and 2013, the workers' compensation reserve amounted to \$1,230,119 and \$1,179,861, 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, 2014 and 2013.

	2014	2013
Beginning balance	\$ 1,179,861	\$ 1,282,546
Payments on claims	(86,768)	(98,899)
Other (interest credits, etc.)	137,026	(3,786)
Ending balance	<u>\$ 1,230,119</u>	<u>\$ 1,179,861</u>

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, 2014 and 2013, the unemployment reserve was \$650,036 and \$777,597, respectively, and is reported as a current liability in the accompanying statements of net position.

13. Commitments

At June 30, 2014, the Corporation had the following outstanding contract commitments through May 31, 2016, related to computer software and hardware maintenance:

Years ending June 30	
2015	\$ 665,845
2016	350,887
	<u>\$ 1,016,732</u>

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2014**

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
State of Hawai'i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

	CFDA No.	Award Number	Federal Expenditures
U.S. Department of the Interior			
Coral Reef Initiative	15.875	D13AP00023	\$ 23,929
Reef Managers Handbook for Coral Impact	15.875	D13AP00140	<u>5,364</u>
			29,293
Executive Office of the President			
Office of National Drug Control Policy			
Hawai'i High Intensity Drug Trafficking Areas – FY11	95.001	G11HI0006A	119
Hawai'i High Intensity Drug Trafficking Areas – FY12	95.001	G12HI0006A	724,691
Hawai'i High Intensity Drug Trafficking Areas – FY13	95.001	G13HI0006A	<u>302,818</u>
			<u>1,027,628</u>
			<u>\$ 1,056,921</u>

The Research Corporation of the University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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 accrual 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*.

2. Subrecipients

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

Program Title	CFDA No.	Amount
Reef Managers Handbook for Coral Impact	15.875	<u>\$ 5,193</u>
		<u>\$ 5,193</u>

SECTION 2
INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE
AND OTHER MATTERS



**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, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 31, 2014.

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*.

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.

Acuity LLP

Honolulu, Hawai'i
October 31, 2014



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SECTION 3

COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS



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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to this matter.



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The Corporation's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Accounty LLP

Honolulu, Hawai'i
October 31, 2014

The Research Corporation of the University of Hawai'i State of Hawai'i Schedule of Findings and Questioned Costs Year Ended June 30, 2014

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of Major Programs

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

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, 2014**

Section III – Federal Award Findings and Questioned Costs

**Questioned
Costs**

\$ –

Finding No. 2014-01	Financial Reporting
Federal Agency	Executive Office of the President – Office of National Drug Control Policy
CFDA Number and Title	95.001 - High Intensity Drug Trafficking Areas Program

Finding and Cause

During our audit, we noted that the Corporation did not submit the Standard Form (SF)-425, *Federal Financial Report*, in a timely manner as follows:

- Award number G12HI0006A
 - The quarterly federal financial report for the period ended September 30, 2013 was not submitted by the Corporation until November 22, 2013, 23 days after the required deadline.
- Award number G13HI0006A
 - The quarterly federal financial report for the period ended September 30, 2013 was not submitted by the Corporation until November 22, 2013, 23 days after the required deadline.

Criteria

Federal financial reporting guidelines require the submission of interim financial reports on a quarterly, semi-annual or annual basis, as directed by the Federal agency.

Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period.

Effect

Federal financial reports not submitted in a timely manner can adversely affect funding received from the various awarding agencies.

Recommendation

We recommend that the Corporation ensure that the SF-425 report is submitted timely in accordance with Federal regulations.

SECTION 4
CORRECTIVE ACTION PLAN (UNAUDITED)

**The Research Corporation of the University of Hawaii
Corrective Action Plan
Year Ended June 30, 2014**

Finding No. 2014-01: **Financial Reporting**

Federal Agency: Executive Office of the President,
 Office of National Drug Control Policy

CFDA Number and Title: 95.001 – High Intensity Drug Trafficking Areas Program

Finding and Cause:
It was noted that the Corporation did not submit the Standard Form (SF)-425, Federal Financial Report, in a timely manner.

Effect:
Federal financial reports not submitted in a timely manner can adversely affect funding received from the various awarding agencies.

Recommendation:
The Corporation should ensure that the SF-425 report is submitted timely in accordance with Federal regulations.

Corrective Action Plan:
The Project Administration Manager will maintain a checklist of all federal awards and submission due dates for required reports. The checklist will be submitted for review to the Director of Finance & Project Administration on a monthly basis to ensure timely submission to agencies.