

Annual Report 2007

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

<http://www.rcuh.com>

Table of Contents

Information on the Research Corporation of the University of Hawaii	1
EEO/AA Policy	2
The Year in Review	3
Board of Directors	4
Project Review	5
Statistical Data	9
Financial Statements	FS-1

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The Research Corporation of the University of Hawaii

Its creation . . .

RCUH is a State agency, established by the Legislature in 1965, and is attached to the University of Hawaii for administrative purposes. Its enabling legislation is codified as Chapter 304A - 3001 to 3011 of the Hawaii Revised Statutes.

Its mission . . .

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

Its need . . .

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

Standing Committee Report 809, House Committee on Higher Education, 1965

. . . Increasingly, research contracts accepted by the University require rapidity of action and flexibility in operational and financial activities more characteristic of business firms than of governmental agencies. State regulations of many types which control the University's normal functioning do not provide the expeditious managerial environment needed to function in the highly competitive area of science-related activities now involving universities, federal government and private industry.

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

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

Its function . . .

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

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

Its relationship with the UH . . .

RCUH is attached to the University of Hawaii (UH) for administrative purposes (per statute). The Internal Agreement between the UH and RCUH defines the basic responsibilities of each party and the financial arrangement to pay for the cost of services rendered.

Its funding . . .

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

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

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

Its governance . . .

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

The President of the University of Hawaii also serves as President of RCUH.

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

Its employees . . .

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

The RCUH Hilo Office has a staff of 5, and they are located in the Institute for Astronomy building in the UH Hilo Research Park.

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

EEO/AA Policy

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

The Year in Review

Stability probably best describes the 2006-07 fiscal year. Our volume of business was \$286,347,922, a modest decrease of 2% from the prior year's volume. Nationally, the availability of federal dollars has decreased or remained relatively flat because of the many other priorities facing our nation (war efforts, homeland security, etc.). A review of the University of Hawaii's research activities over the past several years confirms this trend. Despite this trend, the University of Hawaii at Manoa maintains its standing as one of the top 50 public universities in federal research funding. RCUH's success is reflective of the University's success, as approximately 85% of our business is with the University.

Continual enhancements and refinements were made to both our financial and human resources systems. The benefits of electronic processing have contributed significantly to our overall efficiency and effectiveness. It's been ten years since we launched our on-line financial system. We wonder how we managed when things were done manually!

Training of project staff on our on-line systems has been an ongoing activity. We launched the first of our on-line training videos on our financial system, and they have been very well received. We are working on more videos covering our financial as well as human resources processes as this is a cost-effective way to provide as-needed training on many of the routine processes.

In early 2007, the University requested that the Internal Agreement Between the UH and RCUH be renegotiated; in particular, the management fee structure. The management fee is the fee RCUH charges the University for the administrative support services it provides to University sponsored research and training contracts and grants. Negotiations concluded in May, and the RCUH Board of Directors approved the amendment to the fee structure to be effective July 1, 2007. However, this amendment also required the approval of the University Board of Regents. As the fiscal year came to a close, we were awaiting the University's approval of this amendment.

As the year concluded, Gilbert Oshima, our long-time Director of Finance and Project Management, retired. During his 35-year association with RCUH, a lot has

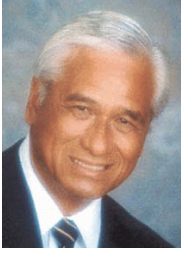





happened, to say the least. He worked with five Executive Directors, numerous Board members and staff, and contributed immensely to the growth and success of RCUH. His "can do" attitude is his legacy to RCUH. Gilbert will be sorely missed ... but he has agreed to continue to assist RCUH on a part-time basis. Thank you Gilbert!

Our warm welcome to Shanlyn Park and Donn Takaki who joined the RCUH Board of Directors on July 1, 2006. We thank them and the rest of the Board members for their commitment to public service and helping us carry out the mission of RCUH. During the year, Board Member David Easa resigned. We thank him for his service and wish him well.

We continue to look for ways to improve our service, so let us hear from you. We look forward to the new year and continuing to make a positive difference in the research arena for the University of Hawaii and the State of Hawaii.

Board of Directors

(as of 6/30/07)

 Andres Albano Vice Chairman & Director	 Byron Bender Director	 Joelle Kane Chairman & Director	 Kitty Lagareta Director	 Allan Landon Director	 Ronald Migita Director
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 Guy Ontai Director	photo unavailable Shanlyn Park Director	 Donn Takaki Director	1 vacancy
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Project Review

We are pleased to highlight the following three projects:

A “UH Service Ordered” Project

Pacific Disaster Center

Fostering Disaster-Resilient Communities through Information, Science, and Technology

After Hurricane Iniki devastated the island of Kauai in 1992, the U.S. Congress established the Pacific Disaster Center (PDC).

Headquartered on the island of Maui and in operation since 1996, PDC has assisted in disaster preparation, mitigation, response, and recovery efforts of emergency managers and decision makers throughout the Asia-Pacific and Indian Ocean regions. PDC is an applied science, information and technology center, working to reduce disaster risks and impacts to peoples' lives and property, and to local, national and regional economies.

Throughout its existence, PDC has worked to improve disaster early warning systems and to develop better risk mitigation practices.

PDC's evolving approach to emergency management shifts the emphasis from being reactive, focusing on response and recovery operations, to being proactive, with the focus on mitigation and preparedness. This strategy is built on the United Nations approach to loss reduction that acknowledges public awareness and community partnerships, better assessments of natural hazard risks, and preventative action priorities as critical components that minimize identified risks. The Center's overall goal is to promote disaster management as an integral part of national-to-local economic and social development.

By providing applied information research and analysis support to a broad customer base, including policy makers, planners, and executive disaster managers, PDC serves as a bridge between the scientific and decision-maker communities.

The Center's work is accomplished by integrating technologies in remote sensing, modeling, visualization, and communications; and developing new tools and applications in these areas. Using these advanced techniques and technologies, PDC transforms bits of data and disparate information into actionable knowledge useful to the public and to decision makers. This involves acquiring and interpreting complex data streams, combining datasets and creating new information through



techniques such as field inspections and revisiting historical records.

As a result of PDC's dedication to preserving lives and assisting communities in recovery from disaster, the Center now has a mature set of systems and tools to provide disaster managers, decision makers, and planners with the information they need to better plan, prepare for, and respond to disasters.

PDC has produced numerous new products and applications, and automated and streamlined data management to provide the latest information, science, and technical capabilities to the disaster management community in five program areas:

- Decision and Policy Support
- Institutional Capacity Development
- Risk and Vulnerability
- Humanitarian Assistance Support
- Security and Sustainability

Through these programs, PDC promotes the partnerships and technology required to create disaster information networks and disaster-resilient communities.

Although, PDC's primary focus has been on the Asia-Pacific and Indian Ocean regions, an area where the Center remains profoundly engaged, PDC also has active projects around the world. The Center works and partners with international and regional organizations and with national, local, and city governments, ranging from the United Nations to county councils and mayors. PDC also has active partnerships in the private sector to deliver and scale its solutions for various constituencies.

PDC's ultimate goal is to *foster disaster-resilient communities* around the world *through better use of science, information, and technology*.

[Note: The content of this article does not reflect the position or policy of the US government.] <http://www.pdc.org>

A “Direct” Project

The Western States Genetic Services Collaborative

The Western States Regional Genetics Services Collaborative (WSGSC) is a federally-funded multi-state project that seeks to improve the health of children living in the western states (Alaska, California, Guam, Hawaii, Idaho, Oregon, and Washington) and Guam. By working together as a region to coordinate and increase access to genetic services, the collaborating states and territory will improve the health of children with disorders detected by newborn screening blood tests, birth defects and other genetic disorders. Due to its strong public health genetics program, Hawaii is the lead for the project, which is housed at the State Department of Health.

The project has three main goals:

- Goal A: Establish and maintain the infrastructure needed to support the Western States Regional Genetic Services Collaborative activities.
- Goal B: Refine, pilot, and evaluate a regional practice model that improves access to specialty genetic services, comprehensive primary care, and care coordination for children with heritable conditions living far away from comprehensive genetics and metabolic centers.
- Goal C: Increase the capacity of the collaborating states' and territory's public health agencies to perform their genetics-related assessment, policy development, and assurance functions.

The project is a cooperative agreement funded by the U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA), Maternal and Child Health Bureau, Children with Special Health Needs Program, Genetic Services Branch.

The WSGSC is one of seven HRSA funded Regional Genetic Collaboratives across the nation. The other regions are:

- Region 1: New England Regional Genetics Group, Inc. (NERGG)
Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont
- Region 2: The New York/Mid-Atlantic Region (NYMAC)
Delaware, District of Columbia, Maryland, New



Jersey, New York, Pennsylvania, Virginia and West Virginia

- Region 3: Southeastern Regional Genetics Group TN, Inc. (SERGG)
Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, and the Virgin Islands
- Region 4: The Region 4 Genetics Collaborative
Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio and Wisconsin
- Region 5: Heartland Genetics and Newborn Screening Collaborative
Arkansas, Iowa, Kansas, Missouri, North Dakota, Nebraska, Oklahoma, and South Dakota
- Region 6: Mountain States Genetics Regional Collaborative Center
Arizona, Colorado, Montana, New Mexico, Nevada, Texas, Utah, and Wyoming

The American College of Medical Genetics serves as the HRSA funded National Coordinating Center (NCC) for the Genetics and Newborn Screening Regional Collaborative (RC) Groups. The NCC enhances the activities of the seven RCs by providing the infrastructure, coordination, technical assistance and resources necessary to address issues of universal importance, thereby avoiding duplication of efforts and allowing the regions to focus on their unique areas of need. The NCC also facilitates local projects, and uses communities identified through the RCs to pilot test materials for policymakers, health professionals and families.

Among the WSGSC activities being conducted in Hawaii are: genetics and metabolic outreach clinics on the neighbor islands, telegenetics sessions on the neighbor islands, and collection of data to ensure that these services are sustainable beyond grant funding.

http://www.westernstatesgenetics.org/Hawaii_Page.htm

A “Revolving Fund” Project

Archimedes

The Archimedes project was founded in 1991 at the Center for the Study on Language and Information (CSLI) at Stanford University to study ways of preventing people with disabilities from becoming disadvantaged in a world in which the information of daily living is stored and delivered electronically. Taking its name from the Greek philosopher Archimedes who said, "Give me a lever long enough and a place to stand and I will move the world," the Archimedes Project develops technologies that give individuals with special needs the leverage they need to move their world.

Discover Magazine featured the Total Access System (TAS), invented by the Archimedes Project, as one of the five top advances in computer technology and electronics in 1997. The TAS enables special user interfaces such as speech recognition and head tracking to be added to off-the-shelf computer systems. Stanford received a patent for the TAS in 2000. Two more patents are pending for a new version, called the iTASK, that uses artificial intelligence to enable people to control a computer by simply stating an intended action or outcome instead of entering the sequence of commands required to make it happen.

In addition to technology research and development, the Archimedes Project has worked closely with disabled students to make it easier for them to participate in normal class activities, particularly in science, technology, engineering and mathematics (STEM) subjects. Since many of the problems faced by disabled students also impact non-disabled students, the solutions are usually designed to help all students.

In response to an invitation from the Chancellor of the University of Hawaii at Manoa, three of the Stanford researchers moved to Hawaii to establish the Archimedes Hawaii Project in September 2003. The mandate for the project was to increase the range of opportunities and practical experiences available to U.H. students by involving them in hands-on projects related to disability and aging. Strategies for achieving these goals include outreach and recruitment for middle and high school students, project mentoring for engineering students, and technology research projects. Two grants from the National Science Foundation (NSF) and two from the Department of Education currently support these activities.



The primary focus for project activities is provided by a three-year NSF grant called the Invention Factory. Working with the Curriculum Research and Development Group within the College of Education, the Archimedes Hawaii Project is developing and testing a curriculum for teaching middle and high school students how to invent solutions to real problems. The goal is to increase their interest and participation in STEM classes. Students learn about basic electronics, microprocessors and engineering principles and then use what they have learned to invent practical solutions to problems faced by disabled and aging people. During the first year, they invent something that will help a child who is disabled; in their second year they invent something that will help an elderly person and in their third year, they can choose any project that develops their passion for engineering and invention.

Previous generations of technology-minded students learned by pulling things apart to see how they worked and cobbling salvaged parts together to make new devices. This is no longer an option because microcircuits and modern construction techniques make it virtually impossible to understand what is happening inside the box or to reuse most of the components. Most of the students participating in the Invention Factory have never used hand tools, have never designed or made anything substantial, have a short attention span and expect instant gratification using ready-to-go products. The idea of spending several weeks cutting out and gluing together parts to make a model airplane, for instance, is completely foreign to them. Sloppy workmanship appears to be the norm. An alarmingly high proportion of the students refuse to read or write more than a few paragraphs at a time. Until project personnel figured out what was happening and changed the way in which information was presented, most of the class notes prepared for the students were left unopened in the classroom. Googling for information as it is needed appears to have replaced the practice of learning and banking knowledge for future use.

The Invention Factory has developed several successful strategies to counter the traits observed among the sections, each of which fits on a seven-inch by four-inch



page containing a concept, an explanation of the concept, the underlying mathematics or science students. Learning materials are divided into small concepts, and a hands-on activity that reinforces their understanding of the concept. Hands-on activities are deliberately designed to involve skill-developing activities such as measuring, cutting, drilling and screwing things together; along with identifying, assembling and soldering electronic components and circuits. Students receive a personal toolkit and a collection of components to encourage hobby activities. To help them understand the importance of quality workmanship, safety and reliability, all of the students build switches, accessible toys, and accessible gadgets for disabled children and elderly people.

The ability to invent has turned out to be a powerful motivating factor for the students, but to achieve the full impact, they must also be able to make their inventions. The home workshop and the woodworking and metal working shops at school have all but vanished so the Archimedes Project is exploring options for creating an environment in which students can safely learn how to make things. These efforts focus on the use of small computer numerically controlled (CNC) machines, partly to capitalize on the student's natural interest and enthusiasm with computers, but more importantly, to prepare them for what is actually being used in industry. A pilot program was conducted over the summer of 2007, during which nine middle and high school students used CNC machines to construct electric Hawaiian steel guitars. This confirmed expectations that the ability to make real things can break through the current layers of apathy and disinterest and actually stimulate ongoing enquiry into how and why things work.

Enabling students to use CNC machines opens up almost unlimited learning, hobby, job or entrepreneurial opportunities. The same skills can be used to make educational equipment, jewelry, musical instruments, souvenirs, toys, puzzles, product prototypes, product components, replacement parts for other machinery, and so on. It seems obvious that if Hawaii is to be competitive in the global economy, it will need innovative workers and entrepreneurs who can design and manufacture small, high quality, high-value products that the world wants.

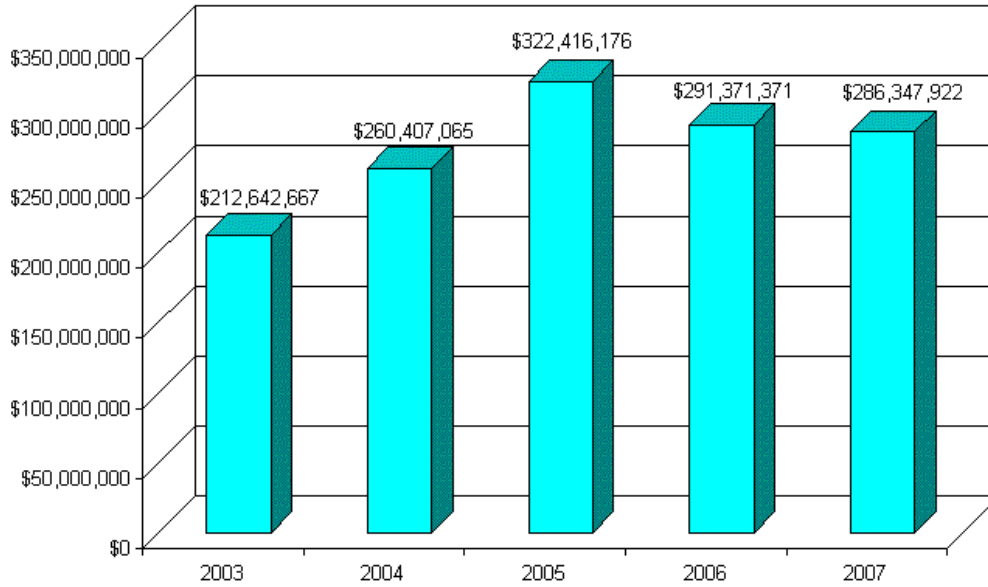
The project welcomes ideas and opportunities for involving the business community in what now appears

to be a crucial step in preparing Hawaii's students for the future (808-956-9678 or email: ngscott@hawaii.edu).

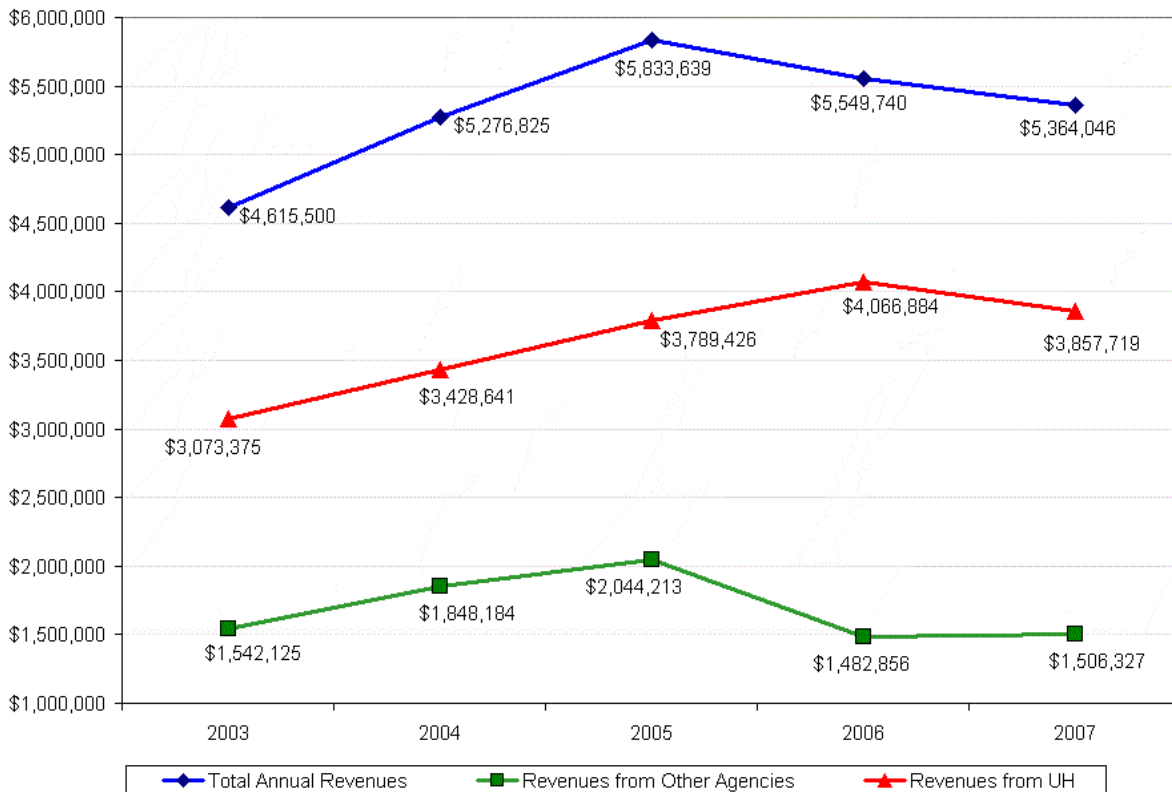
<http://archimedes.hawaii.edu/>

Statistical Data - Fiscal Years 2003-2007

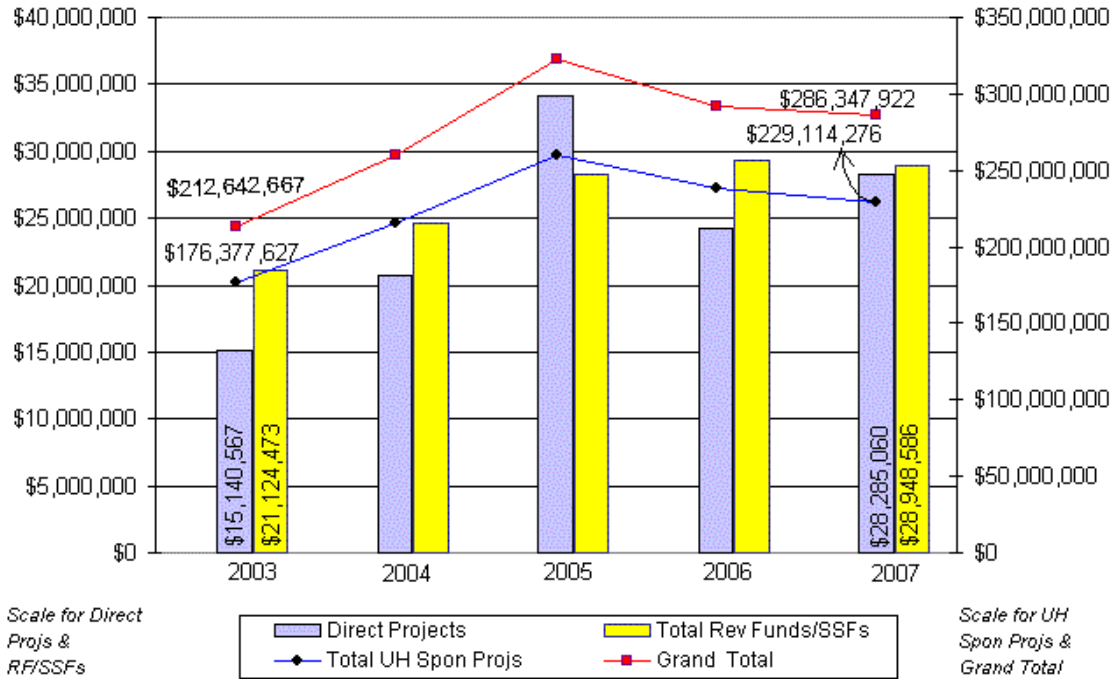
Dollar Volume of Project Administration



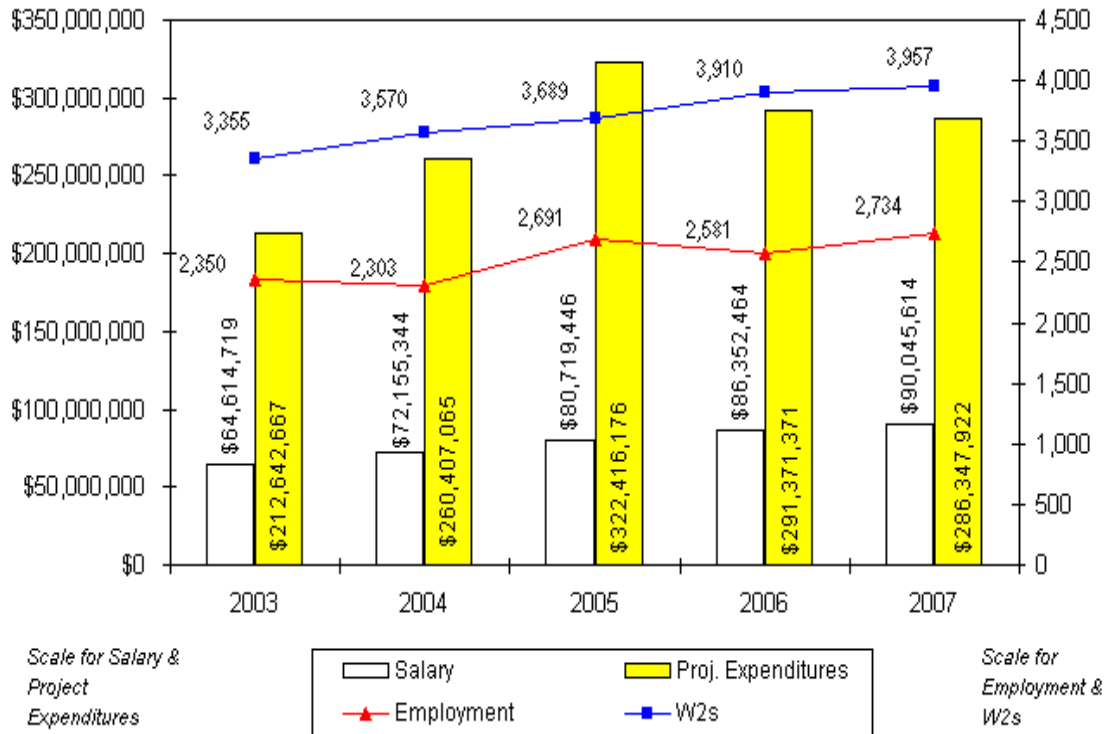
Operating Revenues Summary



Project Expenditures



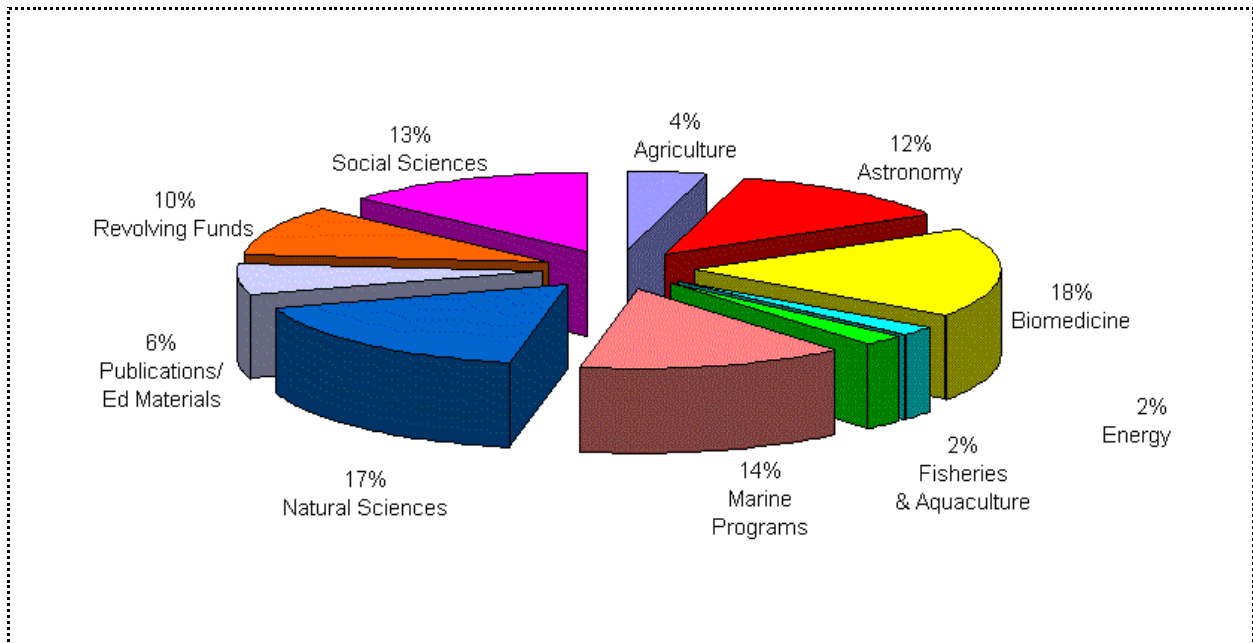
Employment/W2s/Salaries/Project Expenditures



Distribution of Expenditures by Project Disciplines

	2003	2004	2005	2006	2007
Agriculture	\$5,435,998	\$5,854,099	\$8,830,182	\$10,431,532	\$10,724,639
Astronomy	\$21,348,650	\$26,364,139	\$37,610,210	\$41,804,796	\$35,224,226
Biomedicine	\$56,348,128	\$79,129,196	\$108,701,839	\$66,585,904	\$51,924,565
Energy	–	–	\$4,025,284	\$4,976,355	\$6,060,529
Fisheries & Aquaculture	\$4,277,010	\$6,690,703	\$8,183,804	\$7,155,596	\$6,339,362
Marine Programs	\$30,583,309	\$32,656,256	\$40,049,360	\$37,935,005	\$41,279,052
Natural Sciences	\$35,559,791	\$39,580,388	\$43,952,086	\$43,717,876	\$49,736,783
Publications/Educ Materials	\$17,373,216	\$18,826,363	\$14,549,562	\$16,606,953	\$17,363,632
Revolving Funds	\$21,101,406	\$24,684,636	\$28,265,058	\$29,458,112	\$29,184,948
Social Sciences	\$20,615,159	\$26,621,285	\$28,248,791	\$32,699,242	\$38,510,186
TOTAL	\$212,642,667	\$260,407,065	\$322,416,176	\$291,371,371	\$286,347,922

2007 Distribution of Expenditures



Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2003	%	2004	%	2005	%	2006	%	2007	%
FEDERAL										
Dept of Health & Human Services	29,751,403	13.99	30,640,504	11.77	31,201,604	9.68	36,785,607	12.62	34,283,944	11.97
Dept of Commerce	11,716,908	5.51	15,200,894	5.84	16,150,922	5.01	16,401,296	5.63	17,089,703	5.97
National Science Foundation	12,798,076	6.02	5,930,906	6.12	19,262,297	5.97	18,381,284	6.31	21,198,574	7.40
Dept of Agriculture	5,228,131	2.46	4,440,861	1.71	4,221,081	1.31	4,574,674	1.57	5,927,800	2.07
Dept of Interior	6,909,207	3.25	8,356,279	3.21	11,158,249	3.46	10,379,711	3.56	8,172,546	2.85
Dept of Energy	779,864	0.37	878,729	0.34	1,198,935	0.37	1,582,202	0.54	2,382,267	0.83
Dept of Defense	31,728,095	14.92	27,767,432	10.66	36,205,734	11.23	47,185,666	16.19	57,183,981	19.97
Dept of Education	10,781,062	5.07	10,636,720	4.08	9,644,551	2.99	13,746,101	4.72	13,519,384	4.72
Natl Aeronautics & Space Adminis	5,884,155	2.77	9,858,790	3.79	15,215,154	4.72	11,964,741	4.11	6,756,116	2.36
Dept of State	2,280,616	1.07	3,117,950	1.20	4,831,498	1.5	4,171,711	1.43	3,767,101	1.32
Other Miscellaneous Federal	6,251,654	2.94	7,765,837	2.98	6,260,387	1.94	6,620,824	2.27	6,245,623	2.18
TOTAL UH Federal Projects	124,109,171	58.37	134,594,902	51.69	155,350,412	48.18	171,793,817	56.96	176,527,039	61.65
NON-FEDERAL										
<u>State & County Governments:</u>										
University of Hawaii										
Sch of Ocean & Earth Sci & Techn	1,100,217	0.52	1,389,231	0.53	2,196,879	0.68	1,690,654	0.58	2,459,292	0.86
Institute for Astronomy	3,022,320	1.42	4,012,728	1.54	3,455,506	1.07	2,801,434	0.96	2,951,578	1.03
Ofc of Tech Transf & Econ Dev	777,509	0.37	580,256	0.22	907,455	0.28	1,073,944	0.37	1,088,039	0.38
Cancer Research Center of HI	845,942	0.40	1,016,548	0.39	1,510,994	0.47	1,553,813	0.53	1,668,812	0.58
School of Medicine	20,439,334	9.61	44,306,537	17.01	65,500,159	20.32	24,546,408	8.42	6,152,077	2.15
UH Hilo	883,937	0.42	1,490,325	0.57	3,429,663	1.06	4,022,044	1.38	3,384,750	1.18
UH Other	5,807,279	2.73	9,699,963	3.72	9,056,934	2.81	8,885,135	3.05	12,496,410	4.36
Dept of Health	6,189,969	2.91	4,739,824	1.82	5,647,763	1.75	6,194,191	2.13	6,561,666	2.29
Dept of Land & Natural Resrcs	1,375,640	0.65	1,368,195	0.53	1,409,161	0.44	3,196,687	1.1	4,213,730	1.47
Dept of Education	221,692	0.10	226,938	0.09	399,125	0.12	410,995	0.14	299,639	0.10
Dept of Defense	518,079	0.24	1,522,162	0.58	872,314	0.27	0	-	231,717	0.08
County Government	306,999	0.14	192,615	0.07	243,447	0.08	761,886	0.26	603,602	0.21
<u>Other Sponsors</u>	10,779,539	5.07	9,804,540	3.77	9,900,956	3.07	10,870,223	3.73	10,475,927	3.66
TOTAL UH Non-Federal Projects	52,268,456	24.58	80,349,862	30.86	104,530,356	32.42	66,007,414	22.65	52,587,239	18.36
TOTAL UH PROJECTS	176,377,627	82.95	214,944,764	82.54	259,880,768	80.6	237,801,231	81.61	229,114,278	80.01
DIRECT PROJECTS										
FEDERAL	2,064,179	0.58	5,181,583	1.99	8,989,143	2.79	5,685,622	1.95	7,203,921	2.52
NON-FEDERAL										
<u>State & County Governments:</u>										
Dept of Health	1,407,029	0.67	1,369,250	0.53	751,457	0.23	1,107,781	0.38	1,153,002	0.40
Dept of Bus, Econ Dev & Tour	-	-	-	-	-	-	0	-	0	-
Dept of Land & Natural Res	1,160,987	0.77	1,399,813	0.54	1,425,889	0.44	1,546,472	0.53	1,841,986	0.64
Dept of Education	93,031	0.05	75,509	0.03	80,050	0.02	116,531	0.04	111,817	0.04
County Government	-	-	-	-	7,512,403	2.33	463,252	0.16	18,340	0.01
<u>Others:</u>										
Joint Astronomy Centre	4,229,975	2.21	4,556,688	1.75	4,441,265	1.38	4,510,732	1.55	4,323,743	1.51
Academia Sinica Instit of Astron	1,666,639	0.89	1,153,123	0.44	1,271,675	0.39	1,573,576	0.54	2,069,149	0.72
Kuakini Medical Center	186,693	0.21	-	-	-	-	0	-	0	-
Natl Astronomical Observ of Japan	3,029,500	1.27	4,024,469	1.55	4,735,971	1.47	5,774,183	1.98	5,516,458	1.93
Other Sponsors	1,302,534	1.51	3,017,230	1.16	4,994,090	1.55	3,458,748	1.19	6,046,643	2.11
TOTAL Non-Federal Projects	13,076,388	7.58	15,596,082	5.99	25,212,800	7.82	18,551,275	6.37	21,081,138	7.36
TOTAL DIRECT PROJECTS	15,140,567	8.16	20,777,665	7.98	34,201,943	10.61	24,236,897	8.32	28,285,059	9.88
REVOLVING FUNDS & SSF's										
Specialized Service Fac/Ship Ops	7,674,420	1.97	8,920,660	3.43	12,320,439	3.82	9,561,339	3.28	9,004,842	3.14
Revolving Funds & Other SSF's	13,450,053	8.16	15,763,976	6.05	16,013,026	4.97	19,771,904	6.79	19,943,743	6.96
TOTAL REVOL FUNDS & SSF's	21,124,473	10.13	24,684,636	9.48	28,333,465	8.79	29,333,243	10.07	28,948,585	10.11
TOTAL PROJECTS	212,642,667	100.0	260,407,065	100.0	322,416,176	100.0	291,371,371	100.0	286,347,922	100.0

Financial Statements for the Years Ended June 30, 2007 and 2006

Financial statements and report of independent certified public accountants

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

June 30, 2007 and 2006

CONTENTS

	Page
I. FINANCIAL	
Report of Independent Certified Public Accountants	4
Required Supplementary Information	
Management's Discussion and Analysis	5
Financial Statements	
Balance Sheets	10
Statements of Revenues and Expenses and Changes in Net Assets	11
Statements of Cash Flows	12
Notes to Financial Statements	13
Supplementary Information	
Report of Independent Certified Public Accountants	
on Supplementary Information	24
Schedule of Expenditures of Federal Awards	25
Note to the Schedule of Expenditures of Federal Awards	26
II. INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and	
Other Matters Based on an Audit of Financial Statements Performed in Accordance	
with <i>Government Auditing Standards</i>	28
III. COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS	
Report on Compliance With Requirements Applicable to Each Major Program and	
on Internal Control Over Compliance in Accordance with OMB Circular A-133	30
Schedule of Findings and Questioned Costs	31

SECTION I – FINANCIAL

Report of Independent Certified Public Accountants

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

We have audited the accompanying balance sheets of The Research Corporation of the University of Hawaii, State of Hawaii (Corporation), a component unit of the University of Hawaii, as of June 30, 2007 and 2006, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. *Our* responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis *for* designing audit procedures that are appropriate in the circumstances, but not *for* the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Research Corporation of the University of Hawaii, State of Hawaii, as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2007 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 6 to 12* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/ Grant Thornton LLP
Honolulu, Hawaii
October 31, 2007

* Due to repagination for this report, referenced pages are 5-9.

The Research Corporation of the University of Hawaii
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007 and 2006

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 Hawaii (Corporation) for the year ended June 30, 2007. It includes selected comparative information with the years ended June 30, 2006 and 2005. 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 Hawaii (University) and to enhance research development and training in Hawaii. The Corporation's exemption from the State statutes in regards to procurement and human resources gives it flexibility to function more like a business allowing research and training programs to operate in an efficient manner. The Corporation is not funded by the State and thereby must be self-supporting. The Corporation's viability is contingent on proper management of revenues earned from service fees and other income and controlling costs.

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

Financial Highlights

- The Corporation's volume of business (project expenditures) is stabilizing with a slight 2% decrease from fiscal years 2007 and 2006. There was a 10% decrease between fiscal years 2006 and 2005. However with the record volume increases attained from fiscal years 2001 to 2005 the Corporation is \$178 million above fiscal year 2001 volume with a net 164% increase to date.

Fiscal year	Amount	Annual	
		Amount increase (decrease)	Percentage increase (decrease)
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%
2003	212,642,667	48,579,784	30%
2002	164,062,883	55,507,834	51%
2001	108,555,049	-	-

- The significant growth in volume of project expenditures has contributed to the Corporation's positive financial health. Due to its healthy financial position the Board of Directors approved a one-time rebate payment to the University up to \$3.2 million with the condition that an adequate working capital position is maintained. As of June 30, 2007, \$3 million was paid to the University.
- The management fee rate charged to the University was reduced from 3% to 2.5% for the fiscal year 2007. Per the internal agreement between the University and the Corporation, if the University's total modified total direct cost (MTDC) exceeds \$100 million in a year, the subsequent year's fee will be adjusted to 2.5%; the University's MTDC for fiscal year 2006 totaled \$103 million.

Using the Financial Statements

The financial reports of the Corporation include three statements:

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

The Research Corporation of the University of Hawaii
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2007 and 2006

In addition to these statements are notes that provide additional information essential in obtaining a complete understanding of the Corporation's financial reports.

Balance Sheets

The Corporation's assets, liabilities and net assets at June 30, 2007, 2006, and 2005 are summarized below:

	2007	2006	2005
Current Assets			
Cash and cash equivalents	\$ 2,400,886	\$10,557,591	\$ 8,928,707
Investments	9,400,833	9,258,701	8,661,985
Receivables	23,159,070	18,526,819	11,469,327
Other assets	401,329	156,953	179,997
	<u>35,362,118</u>	<u>38,500,064</u>	<u>29,240,016</u>
Noncurrent Assets			
Receivables	-	89,610	239,390
Capital assets	546,127	765,772	890,105
Restricted assets	4,453,070	4,530,202	4,158,795
	<u>4,999,197</u>	<u>5,385,584</u>	<u>5,288,290</u>
Total Assets	<u>\$40,361,315</u>	<u>\$43,885,648</u>	<u>\$34,528,306</u>
Current Liabilities	\$29,743,292	\$31,448,504	\$23,523,269
Noncurrent Liabilities			
Long-term debt	-	89,610	239,390
Accrued liability	958,449	921,818	880,770
	<u>30,701,741</u>	<u>32,459,932</u>	<u>24,643,429</u>
Net Assets			
Capital investment	546,127	765,772	890,105
Unrestricted	9,113,447	10,659,944	8,994,772
	<u>9,659,574</u>	<u>11,425,716</u>	<u>9,884,877</u>
Total Net Assets	<u>9,659,574</u>	<u>11,425,716</u>	<u>9,884,877</u>
Total Liabilities & Net Assets	<u>\$40,361,315</u>	<u>\$43,885,648</u>	<u>\$34,528,306</u>

A review of the Corporation's balance sheets shows an 15% decrease in total net assets between fiscal years 2007 and 2006. The decrease resulted from the \$3 million rebate payment issued to the University. Overall the Corporation's financial position remains sound.

Assets

Cash and cash equivalents balances decreased significantly from June 30, 2006 to June 30, 2007 due to the \$3 million rebate payment to the University and a reduction in the amount of advance payments from University service ordered accounts. This is a change from June 30, 2005 to June 30, 2006 when the cash balance increased due to cash generated from operating profits and interest income.

Investments include funds invested with the University of Hawaii Foundation, the Hawaii Strategic Development Corporation, and in TCD's with maturity terms exceeding 90 days. The fair value of the Corporation's investments with the University of Hawaii Foundation and the Hawaii Strategic Development Corporation increased by 7% from the fiscal year 2006 to 2007. At June 30, 2007 and June 30, 2006, outstanding TCD's with maturity terms exceeding 90 days were \$7,916,740 and \$7,874,833, respectively.

The Research Corporation of the University of Hawaii
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2007 and 2006

Receivables increased by 25% from fiscal years 2006 to 2007 and 62% from fiscal years 2005 and 2006. The increases stem from the net receivable balance due from the University. The net receivable due from the University at June 30, 2007 was \$16,385,370 compared to \$14,456,886 at June 30, 2006 and \$7,592,018 at June 30, 2005.

Fixed asset acquisitions amounted to \$29,186 for the year ended June 30, 2007 compared to \$158,054 for the year ended June 30, 2006. Depreciation expense for the years ended June 30, 2007 and June 30, 2006 amounted to \$248,831 and \$282,387, respectively.

Liabilities

Total liabilities decreased by 5% from June 30, 2006 to June 30, 2007. The decrease resulted from the reduction of advances due to other sponsoring agencies and program costs incurred within the fiscal year that are paid in the subsequent period. This is the opposite of the prior period from June 30, 2005 to June 30, 2006 when liabilities increased by 32%. There was no outstanding long term debt at June 30, 2007 as the balance of an equipment loan is scheduled to be paid off in fiscal year 2008. At June 30, 2006, long term debt, including current installments, on an equipment loan amounted to \$239,380 compared to \$383,915 at June 30, 2005.

Net Assets

Net assets invested in capital assets at June 30, 2007 and 2006 were \$546,127 and \$765,772, respectively. There was no debt financing on capital assets.

Net assets that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, the Corporation's unrestricted net assets are internally designated: working capital, quasi-endowment, supplemental retirement benefits, and project contingent liabilities. Significant change in net assets resulted from the reduction of working capital caused by the one time rebate payment to the University of Hawaii.

The Research Corporation of the University of Hawaii
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2007 and 2006

Statements of Revenues and Expenses and Changes in Net Assets

The Corporation's statements of revenues, expenses and changes in net assets as of June 30, 2007, 2006, and 2005 are summarized as follows:

	2007	2006	2005
Operating Revenues			
University of Hawaii	\$ 3,857,719	\$ 4,066,884	\$3,789,426
Other sponsor agencies	1,506,327	1,482,856	2,044,213
Total Operating Revenues	5,364,046	5,549,740	5,833,639
Operating Expenses			
Payroll costs	3,028,547	2,596,898	2,186,406
Data processing services	844,916	998,275	753,235
Insurance	344,176	327,523	389,255
Depreciation	248,831	282,387	277,138
Strategic plan implementation	-	3,000	294,464
Other expenses	640,414	607,926	789,724
Total Operating Expenses	5,106,884	4,816,009	4,690,222
Operating Income carried forward	\$ 257,162	\$ 733,731	\$1,143,417
Nonoperating revenues			
Interest income	884,488	743,479	368,148
Quasi-endowment income	92,208	63,629	23,187
Income before transfers	1,233,858	1,540,839	1,534,752
Transfers			
UH rebate	(3,000,000)	-	-
(Decrease) increase in net assets	(1,766,142)	1,540,839	1,534,752
Net Assets			
Beginning of year	11,425,716	9,884,877	8,350,125
End of year	<u>\$ 9,659,574</u>	<u>\$11,425,716</u>	<u>\$9,884,877</u>

In fiscal year 2007, operating revenues earned from management fees decreased slightly in comparison to fiscal year 2006. The decrease resulted from the rate change in management fees charged to the University from 3% to 2.5%. In fiscal year 2006, operating revenues were lower by 5% over 2005 levels due to a reduction in the management fee rate assessed to non-University projects from 5.2% to 3.1%.

Operating expenses in fiscal year 2007 increased by 6% over the previous year's expenses. A major increase in expenditure levels is attributable to payroll costs which resulted from planned annual employee pay adjustments and additions in core staff. An additional factor contributing to the expenditure level increase was costs incurred by the Research and Training Facilitators program whose cost was incorporated in the general operating expenses. This strategic implementation program was in full operation in fiscal year 2007 with nine participants. In fiscal year 2006 in its implementation phase, the program was operational for eight months starting with four participants.

Operating expenses in fiscal year 2006 increased by 3% over the previous year's expenses. Increases in expenditure levels were incurred in payroll costs and data processing. Payroll costs increased as a result of additions in core staff and planned annual employee pay adjustments. Data processing costs were higher due to the Human Resource Peoplesoft system upgrade as budgeted for in the fiscal year. In fiscal year 2005, strategic plan implementation costs were incurred to support the University with the purchase of the InfoEd system.

For the current fiscal year, net assets decreased by \$1.8 million due to the one time rebate transfer made to the University. The Corporation's net income prior to the transfer was \$1,233,858. For fiscal years 2006 and 2005 net assets increased by \$1.5 million in both years.

Statement of Cash Flows

The Corporation's statement of cash flows for the fiscal years ended June 30, 2007, 2006 and 2005 are summarized as follows:

	2007	2006	2005
Operating Activities			
Cash received from operations	\$ 274,278,906	\$ 288,797,790	\$ 311,596,245
Cash payments for operations	(280,168,353)	(286,705,302)	(317,053,066)
Net cash (used in) provided by	(5,889,447)	2,092,488	(5,456,821)
Financing Activities			
Noncapital	(3,149,768)	(144,535)	383,915
Capital	(29,186)	(158,054)	(227,132)
Net cash (used in) provided by	(3,178,954)	(302,589)	156,783
Investing Activities	834,564	210,392	(3,141,629)
(Decrease) increase in cash	(8,233,837)	2,000,291	(8,441,667)
Cash			
Beginning of year	15,087,793	13,087,502	21,529,169
End of year	\$ 6,853,956	\$ 15,087,793	\$ 13,087,502

Fluctuations in operating activities are in direct correlation with the growth in business. The decrease in the volume of business from fiscal year 2005 to 2007 reduced the cash receipts as well as cash outlay. The increase in financing activities was due to the rebate transfer paid to the University. Major changes in investing activities resulted from new purchases of TCDs and reclassification of TCDs reducing cash and increasing investments.

Future Budgets and Rates

- Management projects the volume of business in the coming year to remain steady. The budget for fiscal year 2008 was approved with a 4% increase in operating expenses above fiscal year 2007 budget. Management strives to continue improving operational efficiency and maximize use of its resources to ensure the research community needs are met
- In the latest renegotiation of the internal agreement between the University of Hawaii and the Corporation, the Board of Directors approved the revision of the management fee calculation effective July 1, 2007. The revised fee formula will charge the University of Hawaii their proportion of operating costs based on the rate of UH MTDC over total RCUH MTDC. This change was reflected in the fiscal year 2008 budget.
- In 2004 the Government Accounting Standards Board (GASB) issued new standards for financial reporting for other post employment benefits (OPEB). OPEB is defined as "post employment benefits other than pension benefits and includes (a) post employment healthcare benefits and (b) other types of post employment benefits (for example, life insurance) if provided separately from a pension plan." Under these new standards, all state and local governments are required to report long-term actuarial cost of these benefits and disclose future liabilities. The Corporation will implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* by fiscal year June 30, 2008.

The Research Corporation of the University of Hawaii
State of Hawaii

BALANCE SHEETS
June 30,

ASSETS	2007	2006	LIABILITIES AND NET ASSETS	2007	2006
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash (note B)	\$ 2,400,886	\$10,557,591	Accounts payable	\$15,915,111	\$18,982,600
Investments (note C)	9,400,833	9,258,701	Accrued salaries and other	7,842,219	5,295,617
Receivables:			Advances for other sponsoring		
University of Hawaii projects (note D)	16,385,370	14,456,886	agencies (note D)	4,883,554	6,126,518
Other sponsoring agencies (note D)	6,684,088	3,920,163	Workers' compensation and		
Current portion of receivables under			unemployment claims reserve (note O)	965,796	869,999
lease agreements, net of deferred			Current installments of long-term debt		
credits (note E)	<u>89,612</u>	<u>149,770</u>	(note H)	89,612	149,770
Total Receivables	23,159,070	18,526,819	Current portion of accrued		
Prepaid expenses	<u>401,329</u>	<u>156,953</u>	supplemental retirement benefits		
Total Current Assets	35,362,118	38,500,064	(note K)	<u>47,000</u>	<u>24,000</u>
			Total current liabilities	29,743,292	31,448,504
			NONCURRENT LIABILITIES:		
			Long-term debt - net (note H)	--	89,610
			Accrued supplemental retirement		
			benefits - net (notes I and K)	<u>958,449</u>	<u>921,818</u>
			Total Noncurrent Liabilities	<u>958,449</u>	<u>1,011,428</u>
			Total Liabilities	30,701,741	32,459,932
			COMMITMENTS AND		
			CONTINGENCIES		
			(notes G, I, K, L, M, N, O and P)	-	-
NONCURRENT ASSETS:			NET ASSETS (note I):		
Receivables under lease agreements,			Investment in capital assets	546,127	765,772
net of deferred credits (note E)	-	89,610	Unrestricted	<u>9,113,447</u>	<u>10,659,944</u>
Capital assets (note F)	546,127	765,772	Total Net Assets	<u>9,659,574</u>	<u>11,425,716</u>
Restricted assets - cash (notes B and D)	<u>4,453,070</u>	<u>4,530,202</u>	TOTAL LIABILITIES AND NET		
Total Noncurrent Assets	<u>4,999,197</u>	<u>5,385,584</u>	ASSETS	<u>\$40,361,315</u>	<u>\$43,885,648</u>
TOTAL ASSETS	<u>\$40,361,315</u>	<u>\$43,885,648</u>			

The accompanying notes are an integral part of these statements.

The Research Corporation of the University of Hawaii
State of Hawaii
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
Year ended June 30,

	2007	2006
Operating revenues — administrative expense recoveries:		
University of Hawaii (note J)	\$ 3,857,719	\$ 4,066,884
Other sponsoring agencies	<u>1,506,327</u>	<u>1,482,856</u>
Total operating revenues	5,364,046	5,549,740
Operating expenses:		
Salaries and wages	2,416,287	2,089,947
Data processing services	844,916	998,275
Employee fringe benefits (note K)	612,260	506,951
Insurance	344,176	327,523
Depreciation	248,831	282,387
Office supplies and services	225,885	213,319
Office and equipment rental (note N)	86,960	66,127
Tuition support	62,836	44,072
Professional and technical support	53,876	42,338
Travel	51,190	51,956
Staff development	44,946	35,435
Professional services	42,192	38,996
Communications	23,647	24,325
UH Research awards	16,500	16,500
Retiree medical benefits (note L)	15,650	13,768
Discretionary fund	12,894	11,669
Transportation	3,717	6,619
Board of Directors' meetings	114	2,869
Project overruns and disallowances	7	10,929
Project development	—	29,004
Strategic plan implementation	<u>—</u>	<u>3,000</u>
Total operating expenses	<u>5,106,884</u>	<u>4,816,009</u>
Operating profit carried forward	257,162	733,731
Nonoperating revenues (expenses):		
Interest income:		
Cash, certificates of deposit and investment	884,488	743,479
Lease (note E)	6,123	11,358
Interest expense — long-term debt (note H)	(6,123)	(11,358)
Intergovernmental (Federal Awards):		
Revenue	5,208,013	3,567,127
Expense	(5,208,013)	(3,567,127)
Quasi-endowment income (expenses):		
Increase in fair value of investments (note C)	92,208	63,629
Investment (note I)	38,824	35,589
Research assistantships expense (note I)	(38,824)	(35,589)
Total nonoperating revenues, net	<u>976,696</u>	<u>807,108</u>
Income before transfers	1,233,858	1,540,839
Transfers: University of Hawaii rebate (note J)	<u>(3,000,000)</u>	—
Total transfers	<u>(3,000,000)</u>	—
(DECREASE) INCREASE IN NET ASSETS	(1,766,142)	1,540,839
Net assets at beginning of year	<u>11,425,716</u>	<u>9,884,877</u>
Net assets at end of year	<u>\$ 9,659,574</u>	<u>\$11,425,716</u>

The accompanying notes are an integral part of these statements.

The Research Corporation of the University of Hawaii
State of Hawaii
STATEMENTS OF CASH FLOWS
Year ended June 30,

	2007	2006
Cash flows from operating activities:		
Project cost reimbursements received from:		
University of Hawaii	\$222,243,373	\$236,308,692
Other sponsors	43,022,722	46,032,282
Management fees received from:		
University of Hawaii	4,769,452	4,370,500
Other sponsors	1,506,879	1,482,856
Payments to vendors	(188,056,625)	(199,200,553)
Payments to employees	(62,240,290)	(59,623,154)
Payments of federal and state payroll taxes	(27,748,796)	(26,203,077)
Project cost reimbursements to the University of Hawaii	(2,122,642)	(1,678,518)
Cash received under equipment lease agreements, including interest	157,092	157,092
Other receipts	<u>2,579,388</u>	<u>446,368</u>
Net cash (used in) provided by operating activities	(5,889,447)	2,092,488
Cash flows from noncapital financing activities:		
Rebate to the University of Hawaii	(3,000,000)	--
Principal and interest payments on debt	<u>(149,768)</u>	<u>(144,535)</u>
Net cash used in noncapital financing activities	(3,149,768)	(144,535)
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(29,186)</u>	<u>(158,054)</u>
Net cash used in capital and related financing activities	(29,186)	(158,054)
Cash flows from investing activities:		
Purchase of investments	(49,924)	(533,087)
Interest income received on cash deposits and investment income	923,312	779,068
Contribution to University of Hawaii assistantships	<u>(38,824)</u>	<u>(35,589)</u>
Net cash provided by investing activities	<u>834,564</u>	<u>210,392</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,233,837)	2,000,291
Cash and cash equivalents at the beginning of the year	<u>15,087,793</u>	<u>13,087,502</u>
Cash and cash equivalents at the end of the year	<u>\$ 6,853,956</u>	<u>\$ 15,087,793</u>
Cash and cash equivalents are presented in the accompanying balance sheets as follows:		
Cash and cash equivalents	\$ 2,400,886	\$ 10,557,591
Restricted assets - cash	<u>4,453,070</u>	<u>4,530,202</u>
	<u>\$ 6,853,956</u>	<u>\$ 15,087,793</u>
Reconciliation of operating profit to net cash (used in) provided by operating activities:	\$ 257,162	\$ 733,731
Operating profit		
Adjustments to reconcile operating (loss) profit to net cash (used in) provided by operating activities:	248,831	282,387
Depreciation expense		
Change in assets and liabilities:		
Receivables	(4,542,641)	(6,907,712)
Prepaid expenses	(244,376)	23,044
Accounts payable and accrued wages	(520,887)	6,811,230
Advances from other sponsors	(1,242,964)	1,420,094
Workers' compensation and unemployment claims reserve	95,797	(313,334)
Accrued supplemental retirement benefits	<u>59,631</u>	<u>43,048</u>
Net cash (used in) provided by operating activities	<u>\$ (5,889,447)</u>	<u>\$ 2,092,488</u>

The accompanying notes are an integral part of these statements.

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. Financial Statement Presentation and Financial Reporting Entity

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

GASB Statement No. 14, *The Financial Reporting Entity* (Statement No. 14), as amended by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* established standards for defining and reporting on the financial reporting entity. This statement requires that the financial statements of the University include the financial statements of organizations for which the University is financially accountable and other organizations for which the nature and significance of their relationship are such that exclusion would cause the financial statements of the University to be misleading.

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

2. Measurement Focus and Basis of Accounting

The accounting policies of the Corporation conforms to accounting principles generally accepted in the United States of America as applicable to enterprise activities of governmental units as promulgated by the GASB. In accordance with GASB standards, the Corporation has elected not to apply all applicable Financial Accounting Standards Board pronouncements on accounting and reporting that were issued after November 30, 1989.

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

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

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

3. Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2007 and 2006.

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

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

4. Investments

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

5. Capital Assets

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

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

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

6. Retirement Plan

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

7. Vacation

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

8. Accumulated Sick Leave

Sick leave accumulates at the rate of 14 hours per month of service without limit and is not convertible to pay upon termination of employment. However, an employee who retires in good standing and meets certain eligibility requirements may be entitled to supplemental retirement benefits (see note K). Accumulated sick leave at June 30, 2007 and 2006 aggregated approximately \$1,135,000 and \$1,246,000, respectively.

9. Risk Management

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

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE B – CASH

At June 30, 2007 and 2006, the carrying amount of total bank deposits was \$6,723,052 and \$15,000,502, respectively, while the corresponding bank balances which are represented were \$15,511,000 and \$21,523,000, respectively. The portion of such deposits not covered by federal depository insurance or invested in U.S. treasury notes are covered by collateral held in the name of the Corporation by third party custodians.

NOTE C – INVESTMENTS

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Fair value	Cost	Fair value	Cost
Investments	\$1,484,093	\$1,419,386	\$1,383,868	\$1,411,369
Certificates of deposit	7,916,740	7,916,740	7,874,833	7,874,833
	<u>\$9,400,833</u>	<u>\$9,336,126</u>	<u>\$9,258,701</u>	<u>\$9,286,202</u>

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

Investments at the Foundation consist primarily of foreign and domestic equity and fixed income securities. At June 30, 2007 and 2006, the Corporation had 26,961 shares in the investment pool. The fair value of these investments are primarily based on quoted market prices reported to the Corporation by the Foundation. The investments at the Foundation amounted to \$1,064,707 and \$972,499 at June 30, 2007 and 2006, respectively. The increase in fair value of investments (unrealized gains) for the years ended June 30, 2007 and 2006 amounted to \$92,208 and \$63,629, respectively.

In 2003, \$406,265 was transferred from the investment pool at the Foundation to HSDC. In June 2007 and November 2005, HSDC invested \$40,627 and \$40,627 in Pipeline Investments 2007 and 2005 LLC, respectively. Pipeline Investment LLC is a special purpose entity formed to invest in the securities of Pipeline Communications and Technology, Inc., a Hawaii company focusing on navigational software solutions for maritime safety and advanced antenna solutions for secure mobile communications. The core technology was developed at the University of Hawaii and is licensed to the Company. The balance in HSDC is held in an interest bearing demand deposit account for additional future investment in University of Hawaii developed technologies. At June 30, 2007 and 2006, funds invested with HSDC amounted to \$419,386 and \$411,369, respectively.

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

Custodial credit risk is the risk that in the event of a financial institution failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. The Corporation's investments were exposed to custodial credit risk at June 30, 2007 and 2006 as follows:

	2007	2006
Uninsured and collateral held by trust department or agent not in the Corporation's name	<u>\$1,484,093</u>	<u>\$1,383,868</u>

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE C – INVESTMENTS (continued)

At June 30, 2007 and 2006, more than 5% of the Corporation's total investments were as follows:

	2007	2006
Certificates of deposit held with First Hawaiian Bank	84%	85%

NOTE D – RECEIVABLES AND ADVANCES FROM OTHER SPONSORING AGENCIES

The Corporation's projects are divided into two groups: those administered under an agreement with the University, and those administered under direct agreements with other sponsors. Projects are either funded on a cost reimbursable basis or through advance fundings. Under cost reimbursable projects, expenditures are initially paid for by the Corporation and are later reimbursed by the sponsors. Under advance funded projects, the Corporation receives cash in advance of expenditures. Advances under direct agreements in excess of project expenditures totaled \$4,883,554 and \$6,126,518 at June 30, 2007 and 2006, respectively. Cash relating to a portion of the advances, amounting to \$4,453,070 and \$4,530,202 at June 30, 2007 and 2006, respectively, is restricted by the sponsors. Direct agreements allow for indirect cost recoveries based on a predetermined indirect cost rate. All claims are subject to audit and adjustments by the sponsoring agencies.

Project expenditures less advances, and reimbursements from sponsors are accounted for within project accounts which are reflected on the Corporation's balance sheets. Except for direct federal awards, these transactions are not reflected on the Corporation's statements of revenues and expenses.

NOTE E – RECEIVABLES UNDER LEASE AGREEMENTS

In January 2005, the Corporation borrowed funds and purchased certain equipment. It simultaneously entered into an agreement to lease the equipment to the University for the amount of the debt repayment installments with an option to purchase the equipment for \$1 at the end of the lease term. Maturities of receivables under the lease agreements at June 30, 2007 are as follows:

June 30, 2008 \$89,612

The following lists the components of receivables under lease agreements as of June 30, 2007 and 2006:

	2007	2006
Total minimum lease payments receivable	\$ 91,637	\$ 248,729
Less deferred credits	(2,025)	(9,349)
Net investment in receivables under lease agreements	89,612	239,380
Less current portion	(89,612)	(149,770)
	\$ -	\$ 89,610

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE F – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 is as follows:

	Beginning balance	Acquisition	Disposition	Ending balance
Office equipment	\$ 603,75	\$ 29,186	\$ –	\$ 632,9
Computer software	2,487,905	–	–	2,487,90
	<u>3,091,656</u>	<u>29,186</u>	<u>–</u>	<u>3,120,84</u>
Less accumulated depreciation				
Office equipment	211,297	20,734	–	232,031
Computer software	2,114,587	228,097	–	2,342,68
	<u>2,325,884</u>	<u>248,831</u>	<u>–</u>	<u>2,574,71</u>
	<u>\$ 765,772</u>	<u>\$ (219,645)</u>	<u>\$ –</u>	<u>\$ 546.12</u>

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

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

Depreciation expense for the years ended June 30, 2007 and 2006 amounted to \$248,831 and \$282,387, respectively.

NOTE G – LINE OF CREDIT

The Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$2,000,000 for short-term working capital, expiring on February 1, 2008. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over accounts receivable. The rate of interest on borrowings outstanding was 6.19% at June 30, 2007 and 2006. At June 30, 2007 and 2006, there were no borrowings outstanding under this line.

NOTE H – LONG-TERM DEBT

A summary of long-term debt at June 30, 2007 and 2006 is as follows:

	2007	2006
3.57% note payable to First Hawaiian Bank, secured by IBM processor, monthly payments of \$12,991 including interest, due January 2008, by the University of Hawaii, Information Technology Services	\$89,612	\$239,380
Less current installments of long-term debt	89,612	149,770
	<u>\$ –</u>	<u>\$ 89,610</u>

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE H – LONG-TERM DEBT (continued)

The following is a summary of changes in long-term debt for the two years ended June 30, 2007:

Balance as of June 30, 2005	\$383,915
Additions	–
Deductions	144,535
	239,380
Balance as of June 30, 2006	239,380
Additions	–
Deductions	149,768
	89,612
Balance as of June 30, 2007	\$ 89,612

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

Year ending June 30, 2008	\$90,698
	90,698
Amount representing interest	(1,086)
	\$89,612

NOTE I – NET ASSETS

1. Working Capital

Many of the projects administered by the Corporation are cost reimbursable. The time lag in receiving reimbursements makes the creation of a reserve for working capital necessary. The Board of Directors authorized the establishment of designated net assets for this purpose. The Corporation's working capital at June 30, 2007 decreased by \$1,592,355 due to a decrease in net assets. In fiscal year 2006, \$1,469,000 was transferred from undesignated net assets to the designated net assets for working capital.

2. Quasi-Endowment

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

For the years ended June 30, 2007 and 2006, investment income of \$38,824 and \$35,589, respectively, was earned from investments administered by the Foundation. Research assistantship expenditures deducted from the quasi-endowment reserve during 2007 and 2006 amounted to \$38,824 and \$35,589, respectively.

3. Supplemental Retirement Benefits

As described in note K, the Corporation offers supplemental retirement benefits. The liability as of June 30, 2007 and 2006 associated with the supplemental retirement benefits are accrued in the accompanying balance sheets. The supplemental retirement benefits designated net assets balance represents supplemental retirement benefits surcharge collected in excess of supplemental retirement benefits paid or accrued in the balance sheets as of June 30, 2007 and 2006.

4. Project Contingent Liabilities

The Corporation and the University enter into contracts and agreements with a multitude of organizations, both public and private, locally, nationally and internationally. These organizations often require terms and conditions in the contract or

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE I - NET ASSETS (continued)

agreement, which if breached, may require reimbursement of expenses or payment of expenses. On March 13, 1998, the Board of Directors designated net assets to cover such reimbursements or expenses, which may include, but are not limited to project overruns and disallowances, litigation expenses, professional services and other project-related expenses. In 2007 and 2006, the amount of the designation was increased by \$36,077 and \$30,986, respectively. A separate interest-bearing account is maintained for this reserve.

Net assets at June 30, 2007 and 2006 are summarized as follows:

	2007	2006
Designated		
Working capital	\$7,122,873	\$ 8,715,228
Quasi-endowment	1,064,707	972,499
Supplemental retirement benefits	2,383	85,106
Project contingent liabilities	923,171	887,094
Undesignated	313	17
	\$9,113,447	\$10,659,944

NOTE J – OPERATING REVENUES – UNIVERSITY OF HAWAII

Operating revenues received from the University of Hawaii for the years ending June 30, 2007 and 2006 amounted to \$3,664,894 and \$3,919,751, respectively, for extramurally sponsored projects and \$192,825 and \$147,133, respectively, for internally funded projects.

In the latest internal agreement re-negotiation between of the University of Hawaii and the Corporation agreement, the Board of Directors approved a one-time rebate payment to the University of Hawaii up to \$3.2 million with the condition that an adequate reserve is maintained by the Corporation.

NOTE K – PENSION INFORMATION

The Corporation participates with other institutions in the Teachers Insurance and Annuity Association and College Retirement Equities Fund, a noncontributory defined contribution retirement plan which covers substantially all qualified employees. Employees are eligible to participate in this plan upon completion of one year of service. Required contributions by the Corporation to the retirement plan are based on 10% of the gross salary of each employee. All contributions are fully vested and nonforfeitable when made. While it is expected that this retirement plan will continue indefinitely, the Board of Directors of the Corporation reserves the right to modify or discontinue the plan at any time. Total contributions to the retirement plan for the years ended June 30, 2007 and 2006 were \$192,803 and \$157,877, respectively.

The Corporation offers supplemental retirement benefits in addition to benefits available under the previously mentioned pension plan. To be eligible, a terminating employee must be at least age 45 years 4 months, have service of 10 years or more and have accumulated unused sick leave of 60 days or more. The supplemental retirement benefits amount to 10% of the value of the unused sick leave reduced by 1/2% for each month below the age of 62. The terminating employee may elect to purchase an annuity or receive the benefit in cash. At June 30, 2007 and 2006, the Corporation's accrued supplemental retirement benefits were \$1,005,449 and \$945,818, respectively, in the accompanying balance sheets. The accrual represents the Corporation's best estimate of future supplemental retirement benefits based on available information. Supplemental retirement benefits paid during the years ended June 30, 2007 and 2006 were \$82,724 and \$22,200, respectively.

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE K – PENSION INFORMATION (continued)

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2007 and 2006:

	2007	2006
Beginning balance	\$ 945,818	\$902,770
Additions	142,355	65,248
Deductions	(82,724)	(22,200)
	1,005,449	945,818
Less current portion of accrued supplemental retirement benefits	47,000	24,000
	\$ 958,449	\$921,818

NOTE L – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Corporation provides a single employer defined benefit post-employment 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 55, an annuitant of the RCUH retirement program at the time of application, and retirement status must be in good standing. The program was established by the Board of Directors and may be changed or rescinded at the Board's discretion.

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. RCUH 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, 2007 and 2006 aggregated to \$15,650 and \$13,768, respectively.

NOTE M – PROJECT EXPENDITURES AND COMMITMENTS

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

	University projects	Direct projects	Other projects	Total
2007:				
Salaries and wages	\$ 63,185,490	\$13,999,409	\$12,113,636	\$ 89,298,535
Equipment	24,981,508	5,913,711	259,977	31,155,196
Other	140,947,280	8,371,939	16,574,972	165,894,191
	\$229,114,278	\$28,285,059	\$28,948,585	\$286,347,922
2006:				
Salaries and wages	\$ 61,003,674	\$13,044,658	\$10,469,094	\$ 84,517,426
Equipment	21,149,432	1,475,198	233,917	22,858,547
Other	155,648,125	9,717,041	18,630,232	183,995,398
	\$237,801,231	\$24,236,897	\$29,333,243	\$291,371,371

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

Commitments in the form of outstanding project purchase orders that are not reflected on the accompanying balance sheets amounted to approximately \$65,435,000 and \$71,129,000 at June 30, 2007 and 2006, respectively.

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE N – OPERATING LEASE

The Corporation occupies office space under month-to-month operating leases. The leases provide that the Corporation pay taxes, maintenance and certain other operating expenses applicable to the leased premise. Total office and equipment rental expense for the years ended June 30, 2007 and 2006 was \$86,960 and \$66,127, respectively, which includes \$73,869 and \$50,676, respectively, of office rental expense under the operating leases for the years ended June 30, 2007 and 2006.

NOTE O – RISK MANAGEMENT

1. Torts

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

2. Property and General Liability Insurance

The Corporation is covered under the statewide insurance program of the State of Hawaii. Under this program, the Corporation has property damage insurance for all risk losses including \$100 million per occurrence for windstorm losses, \$40 million for losses from earthquake and flood, and terrorism loss of \$50 million per occurrence. Deductibles for windstorm losses are 3% of values at each location, subject to a minimum of \$1 million per occurrence. Deductible for losses caused by earthquake, flood, tsunami and volcanic action is 3%, subject to \$1 million per occurrence. For other lines of coverage the deductible is \$1 million per occurrence.

The Corporation has general liability insurance under the State with loss coverage of \$10 million for each occurrence. Exclusions include pollution, asbestos, airport and medical-professional losses. The deductible is \$3 million per occurrence. The State program includes crime insurance with loss coverage of \$10 million for criminal losses. The deductible is \$500,000 per occurrence.

The Corporation has an additional general liability policy with loss coverage of \$1 million for each occurrence and \$2 million in the annual aggregate; coverage is \$100,000 for fire legal liability. Exclusions include professional liability, pollution, employment related practices, sexual abuse, fiduciary liability, securities and financial interest. The deductible is \$25,000 per occurrence. In addition, the Corporation has a \$10 million umbrella liability policy in excess of the \$1 million coverage for general liability. The Corporation has a \$10 million insurance policy for directors' and officers' liability losses, with a deductible of \$15,000 and \$50,000 for employment practices claim.

3. Workers' Compensation Policy

The Corporation is self-insured for workers' compensation losses incurred prior to July 1, 1997 and unpaid as of June 30, 1997, and is liable for all workers' compensation claims filed by its employees for that period. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. These liabilities include amounts for claims that have been incurred but not reported. At June 30, 2007 and 2006, the workers' compensation reserve amounted to \$520,376 and \$575,828, respectively, and is reported as a current liability in the accompanying balance sheets. The change in workers' compensation reserve resulted from the payments for workers' compensation claims of \$82,177 and \$38,717 during the year ended June 30, 2007 and 2006, respectively. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

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

4. Unemployment Claims Reserve

The Corporation is self-insured for unemployment claims. Liabilities for unemployment claims are established if information indicates that it is probable that liabilities have been incurred and the amount for those claims can be reasonably estimated. At June 30, 2007 and 2006, the unemployment reserve amounted to \$445,420 and \$294,171, respectively, and is reported as a current liability in the accompanying balance sheets.

The Research Corporation of the University of Hawaii
State of Hawaii
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2007 and 2006

NOTE P – COMMITMENTS

At June 30, 2007, the Corporation had an outstanding stand-by letter of credit commitment in the amount of \$575,000. The commitment is collateral for the deductible portion of a workers' compensation insurance policy obtained by the Corporation in relation to the administration of a University of Hawaii project to construct a new medical center.

At June 30, 2007, the Corporation had the following outstanding contract commitment through May 31, 2009 related to computer software and hardware maintenance:

Year ending June 30,	
2008	\$157,081
2009	<u>143,991</u>
	<u><u>\$301,072</u></u>

SUPPLEMENTARY INFORMATION

Report of Independent Certified Public Accountants
on Supplementary Information

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

We have audited the financial statements of The Research Corporation of the University of Hawaii, State of Hawaii, as of and for the years ended June 30, 2007 and 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ Grant Thornton LLP

Honolulu, Hawaii
October 31, 2007

The Research Corporation of the University of Hawaii
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant Number	Federal Program Award Amount	Federal Expenditures
DEPARTMENT OF COMMERCE Economic Development Administration Stimulation, Telemedicine, Applied Technology and Incubator Center	11.300	07-01-05270	\$3,000,000	\$ 2,862,627
U.S. DEPARTMENT OF DEFENSE Office of Naval Research Seafarers Training Center	12.300	N00014-03-1-0957	2,363,850	374,044
Next Generation Optimized Radar	12.000	N00421-03-C-0013	1,163,028	399
Mapping & Detection of UXO	12.000	N00164-05-C-0654	2,985,211	1,388,623
U.S. DEPARTMENT OF INTERIOR Office of Insular Affairs Secretariat US All Islands Coral Reef Initiative Committee	15.875	CRI-RCUH-1-05	149,982	60,338
Secretariat US All Islands Committee of the Coral Reef Task Force	15.000	CRI-RCUH-3-06	151,876	51,655
Supp for FAS Participation in Coral Reef Task Force Meeting in St. Thomas	15.000	CRI-RCUH-4-06	17,000	12,257
Sunia Award Summer Internship	15.000	CRI-RCUH-5	25,000	14,380
Pass through Programs from Pacific Post-Secondary Education Council (PPEC): PPEC Building Regional Capacity	15.875	GEN-182	235,240	122,749
U.S. Geological Survey Hawaii GAP Analysis Project	15.808	01HQAG0195	894,787	(1,908)
Hawaii GAP Analysis Program's Land Cover Map Products	15.811	06HQAG0007	39,580	45,275
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES Health Resources and Service Administration: Regional Collaborative Pacific Basin-Yr 2	93.224	1U1BOA04137-02-00	218,758	46,445
Regional Collaborative Pacific Basin-Yr 3	93.224	5U1BOA04137-03-00	270,021	<u>162,183</u>
NATIONAL SCIENCE FOUNDATION Teaching Handwriting to Persons Who Are Blind	47.070	IIS-0628794	100,869	58,911
U.S. DEPARTMENT OF LABOR Pass through Hawaii Community Foundation: Job Creation for Cruise Line/Building Trade Industries	17.000	AF-13699-04-60	496,750	<u>10,035</u>
				<u>\$ 5,208,013</u>

The Research Corporation of the University of Hawaii
State of Hawaii
NOTE TO THE SCHEDULE OF EXPENDITURES AND FEDERAL AWARD
Year ended June 30, 2007

NOTE 1 – BASIS OF PRESENTATION

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

SECTION II –
INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

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

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

We have audited the financial statements of The Research Corporation of the University of Hawaii, State of Hawaii (Corporation), as of and for the year ended June 30, 2007 and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

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

We noted certain matters that we have reported to management of The Research Corporation of the University of Hawaii, State of Hawaii, in a separate letter dated October 31, 2007.

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

/s/ Grant Thornton LLP

Honolulu, Hawaii
October 31, 2007

SECTION III –
COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS

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

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

Compliance

We have audited the compliance of The Research Corporation of the University of Hawaii, State of Hawaii (Corporation), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal control over compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of providing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

/s/ Grant Thornton LLP

Honolulu, Hawaii
October 31, 2007

The Research Corporation of the University of Hawaii
 State of Hawaii
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2007

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: Unqualified opinion.

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
11.300	Stimulation, Telemedicine, Applied Technology and Incubator Center
12.300	Seafarer’s Training Center
93.224	Regional Collaborative Pacific Basin

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133? __ yes no

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.