Annual Report

2008

The Research Corporation
of the University of Hawaii
http://www.rcuh.com

Table of Contents

Upon request, this report is available in alternate format for persons with print disabilities. For assistance, please call 988-8300.

The Research Corporation of the University of Hawaii
2800 Woodlawn Drive, Suite 200 ■ Honolulu, HI 96822

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

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

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

EEO/AA Policy

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

The Year in Review

The fiscal year ending June 30, 2008 marked another slight decrease (4.3%) in RCUH's volume of business from $286,347,922 to $273,980,250. RCUH's volume is based on actual expenditures, not award amounts, that are processed through our financial system. It's interesting to note that the University of Hawaii, on the other hand, experienced an almost 7% increase in the dollar amount of contracts and grants awarded for the fiscal year just ended. RCUH's success obviously depends on the University's ability to secure extramural funding as the University is our major client. Vying for available federal dollars is becoming more competitive as the pool of such dollars continues to shrink because of other national priorities. We will hope that the University's upward spiral continues. As RCUH's mission is to support the research enterprise, we continue to look for ways to remove administrative burdens for the researchers and allow them to devote more time to proposal development and consequently more awards.

RCUH continued to enhance its financial and human resources systems, and we are confident that investments in our on-line systems are simplifying processes for our clients. In the human resources area, we launched the electronic hiring system which allows projects to initiate and complete recruitments, new hires to complete all of the required employment documents on line, and the processing of personnel action changes, to name a few of the features. The financial system went through more "back-end" upgrades to improve system performance and minor enhancements to processes such as journal entries and travel reporting.

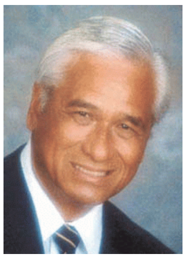
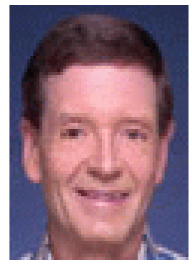
The Research and Training Facilitators program, which was initiated as a pilot three years ago, was evaluated in FY 2008. It was concluded that revamping the program into a training program for principal investigators and support staff was a more cost-effective approach to building fiscal and administrative capacity at the University. The training effort is being further refined.

The new management fee structure negotiated with the University of Hawaii at the end of the last fiscal year went into effect on July 1, 2007. The management fee covers the expenses incurred by RCUH for the administrative support services it provides to University sponsored research and training projects. The new fee structure is based on a formula as opposed to a flat percentage of volume of business. RCUH continues to operate a lean organization in order to be self-supporting.

The term of Board member Andres Albano came to an end at the close of the fiscal year and subsequently that of Byron Bender also ended. We express our thanks and appreciation to both gentlemen for their service over the past several years. The support of the RCUH Board is critical to RCUH's ability to carry out its mission of enhancing the research enterprise for the University of Hawaii as well as other agencies and organizations in the State of Hawaii.

We look forward to the new year and continuing to provide exceptional service to the research community.

Board of Directors
(as of 6/30/08)

 Andres Albano Vice Chairman & Director	 Byron Bender Director	 Joelle Kane Chairman & Director	 Kitty Lagareta Director	 Allan Landon Director	 Ronald Migita Director

 Guy Ontai Director	photo unavailable Shanlyn Park Director	 Donn Takaki Director	1 vacancy

Project Review

We are pleased to highlight the following three projects:

A "UH Service Ordered" Project

Panoramic Survey Telescope and Rapid Response System (Pan-STARRS)

The University of Hawaii, a qualifying Minority Institution (HBCU/MI), through its Institute for Astronomy (IfA), responded to a Broad Area Announcement (BAA) in 2002 by proposing a multi-year program to develop and deploy a telescope and data management system that will provide an extremely comprehensive all-sky digital image survey. This project, the Panoramic Survey Telescope and Rapid Response System or Pan-STARRS, will provide numerous research opportunities at the forefront of astronomy ranging from the structure of the Solar System to the properties of the Universe on the largest scales. A unique combination of wide field of view and time-resolution capability will allow detection of a wide range of transient, variable, or moving objects. In particular, as a primary component of its scientific mission, Pan-STARRS will be able to detect and calculate orbits for large numbers of earth-orbit crossing asteroids, or near earth objects (NEOs), that present a potential threat to mankind.

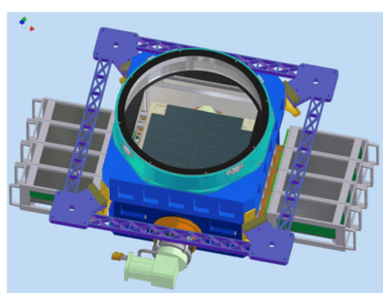
Pan-STARRS represents literally the dawn of a new era in what is known as "survey astronomy," the branch of astronomy that maps the sky as completely as possible in order to give a more globally-oriented perspective of objects in our Universe. This is in contrast to the mission of the world's largest telescopes, some of which are located on the summit of Mauna Kea, that study small areas on the sky in exquisite detail. In one sense, the survey data serve as a detailed map that allow the big telescopes to know where to point in order to find the most interesting objects to study. However, the resolution and sensitivity of Pan-STARRS enables a tremendous amount of scientific research to be conducted using only Pan-STARRS data. The powerful synergy between Pan-STARRS initial survey data and later follow-up by larger telescopes or more specialized instruments such as spectrographs is one of the important features and benefits provided by Pan-STARRS. This is especially true relative to the "time domain" component of the observations where the discoveries of exploding stars, moving objects, and other transient phenomena discovered by Pan-STARRS need to be communicated to the astronomy community within hours or days to enable rapid follow-up by other observatories.

Pan-STARRS

The innovative concepts that form the foundation of the Pan-STARRS design will result in the development of a range of new technologies that include

- An array of a new class of wide-field imaging telescopes with a combined distributed aperture equal to that of a much larger single telescope,
- Charge-coupled device (CCD) detectors incorporating new technologies,
- Massively parallel computer systems and software for processing image data,
- Data storage, retrieval, and search of the very large databases resulting from science operations,
- Advanced robotic observatory operation.

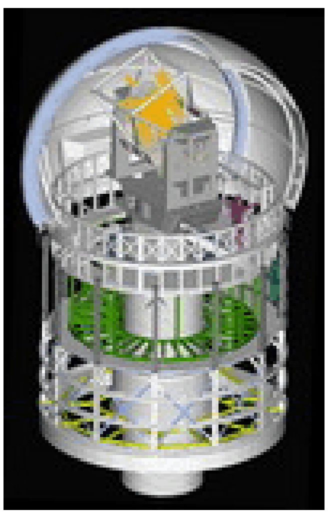
Pan-STARRS will be composed of four individual optical systems (PS4), each with a 1.8 meter diameter mirror observing the same region of sky simultaneously. This is the "distributed aperture" concept mentioned above, and leverages the benefits of combining relatively small mirrors with very large digital cameras to be able to develop and deploy an economical observing system with the capability to observe the entire available sky several times each month. It is much faster, cheaper, and less risky to design and build several small optical systems than one large one with the same collecting area. The downside to using four mirrors is that we need four cameras and a lot more computing power, but the cost of electronic chips and of computers is dropping so rapidly that the multi-system approach is far more economical.



Gigapixel Camera

The four Pan-STARRS cameras will be the largest digital cameras ever built. Each camera will have about 1.4 billion pixels spread over an area about 40 square centimeters. For comparison, a typical domestic digital camera contains about 5-10 million pixels on a chip a few millimeters across. The first "Gigapixel Camera" is such an advance over previously existing cameras that it was recently acknowledged as one of the "20 Marvels of Modern Engineering" (for more details on that, please visit http://www.gizmowatch.com/entry/20-marvels-of-modern-engineering).

A prototype system, PS1, has been built on the site of the south dome of the old LURE observatory on Haleakala, Maui.First light occurred in June 2006 and the telescope was formally dedicated on June 30, 2006. The first of the Gigapixel cameras, GPC1, was installed in August 2007. PS1 is essentially one quarter of the Pan-STARRS PS4 and has been built to test many of the features of the full PS4 system including the telescope and camera designs as well as the data reduction software. Even as a prototype, it represents a world-class research facility beyond anything previously available to the astronomy community. For example, PS1 will discover more asteroids in its first month of full science operations than the current total of all known asteroids.



PS1

In full survey mode, typical exposures last 30 seconds, so the raw data rate is 2-3 terabytes per night for PS1 and four times that much for PS4. The amount of data produced by Pan-STARRS is so large that it will not be practical to archive every image. Software techniques are therefore being developed to extract the important information from the images, while allowing less crucial information to be discarded. In 3.5 years, PS1 will generate 3,000 TB of images (1 TB = 1 trillion bytes) of images and after 10 years, PS4 will generate about 35,000 TB of images. To put this in perspective, all of the movies ever released on DVD represent about 1,000 TB and all of the books ever published are about 30 TB.

For more information, please visit the project website at [http://pan-starrs.ifa.hawaii.edu/public/.](http://pan-starrs.ifa.hawaii.edu/public/)

A "Direct" Project

Kuehnle AgroSystems Company

This applied research program sponsored by the Honolulu-based biotechnology company Kuehnle AgroSystems, Inc., exemplifies in many ways the critical importance, and successful execution, of the mission of RCUH to enhance R&D and training in Hawaii. This research contract brings together private and federal funding, university expertise, and commercialization opportunities in the field of plant and phytoplankton genetic strategies for high value products. The company is led by plant breeder Dr. Adelheid Kuehnle, a Professor in the College of Tropical Agriculture and Human Resources (CTAHR) on professional leave to expedite these activities under the auspices of the University of Hawaii's endorsement of entrepreneurial faculty. Kuehnle AgroSystems' R&D has explored the underlying genetics of how to turn green plant cells into production factories of compounds ranging from healthy anti-oxidants to nutritional oils to diagnostic proteins for emerging diseases.

The flexibility and responsiveness of RCUH over the course of the project has enabled a variety of outcomes:

- Tapping into the expertise of the UH Center for Marine Microbial Ecology & Diversity for analyses of cell DNA content and pigments, and accessing select microbial organisms for genetic studies. A component of this was dissecting the genetics of production in cell chloroplasts of specialty compounds called isoprenoids, which also involved photochemical expertise from within CTAHR.

- Working closely with the UH Office of Technology Transfer and Economic Development to license from the University intellectual property based on a platform genetic technology invented by Kuehnle.

- Demonstrating utility of the genetic technology for high-level production in cell chloroplasts of target proteins. In one example that brought in the expertise of the UH John A. Burns School of Medicine's Department of Tropical Medicine, Medical Microbiology and Pharmacology, Kuehnle AgroSystems showed production of a viral protein that reacts with human blood components to indicate whether or not the patient is infected with the deadly Hanta virus. This provides a solid foundation for exploring innovative approaches to address impacts of the nation's energy crisis by identifying plant and phytoplankton genes and genetic strategies for additional specialty compounds.

- Garnering recognition for University faculty, with Dr. Kuehnle being named the 2008 ARCS Scientist of the Year at the University of Hawaii, winner of the 2008 Hawaii Technology Industry Award, and recipient of the Governor's November 2008 Innovator award.

Consistent with RCUH's mission, the project also enables the company's strong dedication to promoting educational opportunities in Hawaii. Kuehnle AgroSystems has provided three post-doctoral researchers and five undergraduates, as part of the National Science Foundation Research Experience for Undergraduates program, with science training in an entrepreneurial setting.

A "Revolving Fund" Project

Food Science and Technology Program

The Food Science and Technology Program is an educational program under the Cooperative Extension Service of the United States Department of Agriculture (USDA) and is housed in the College of Tropical Agriculture and Human Resources of the University of Hawaii at Manoa. The program was established in 1985 to provide leadership to commercial food processors and foodservice industries in Hawaii and overseas, especially in the Asia-Pacific region, in matters of food science and technology. Outreach is accomplished through certification courses, workshops, on-site consultations, research projects, and media involvement. The program addresses the need for science-based information in food safety, food sanitation, risk communication, consumer attitudes and behavior, and product and process development.

C/T/A/H/R

Relating Technical Capability in Food Science and Technology to Business Performance. A multi-institutional, multi-disciplinary, and multi-state team develops, conducts, and evaluates, educational programs, including certification programs. Many of the topics identified by the stakeholders are critical to their ability to demonstrate technical capabilities required by most vendors, especially from Asia and Europe.

- *Better Process Control School.* About 27 universities in the US conduct this certification course approved by the Commissioner of the U.S. Food and Drug Administration (FDA) to meet a federal training requirement of FDA and the USDA Food Safety and Inspection Service for manufacturers of low-acid and acidified foods thermally processed in hermetically sealed containers for sale in the US, including those containing meat and poultry. This certification course is conducted annually in Hawaii and is attended by manufacturers, inspectors, marketing and sales persons, and importers/exporters from the US and other countries. The course is also conducted in American Samoa and the Philippines, with strict monitoring by FDA to maintain course integrity, examination security, and validity of the certificates.

- *Hazard Analysis and Critical Control Point (HACCP).* HACCP is the preeminent management tool for food safety required by many regulators and used by many domestic and international food companies who require their vendors to have effective HACCP systems in place prior to entering purchase agreements. The HACCP course is also conducted overseas, and attendees include those under the regulatory HACCPs of seafood, meat and poultry, and juice; retailers/wholesalers; non-technical personnel; marketing and sales professionals; and exporters/importers. The course is accredited by the International HACCP Alliance and follow the "*Recommended International Code of Practice General Principles of Food Hygiene*" developed by the Codex Commission on Food Hygiene and by the National Advisory Committee for Microbiological Criteria for Foods.

- *Other Training Courses.* The UH Food Science and Technology Program offers other workshops, seminars, and training courses on various topics addressing state-of-the-art methodologies, news issues, and other topics requested by the clientele, such as Sanitation Control Procedures, Good Manufacturing Practices, Good Agricultural Practices, and Prerequisite Programs to Food Safety.

- *News Articles.* Regularly updated articles addressing current hot topics are available on the CTAHR website for widespread information dissemination.

Enhancing Global Competitiveness and Business Performance in International Agribusiness with Focus on Food Processing. To address the internationalization needs of small Hawaii food manufacturers, instruction and outreach were integrated through partnerships with the private sector, the Hawaii Food Manufacturers Association and other institutional units, the UH Center for International Business Education and Research and the De La Salle University in the Philippines. The aim is to strengthen awareness of the global dimensions of agriculture. An online instructional course was developed to provide basic and current information on the requirements of global competitiveness and specific needs of the Hawaii food processing industry relevant to other Hawaii agribusinesses. Outreach involved sharing with Hawaii businesses and other clients the opportunities available in international trades, building upon the theories and principles learned through the online course. A two-day conference focused on enhancing Hawaii's business performance, increasing global competitiveness, a comparison of the business practices, global sustainability and organic foods, and the global impact of plastics packaging.

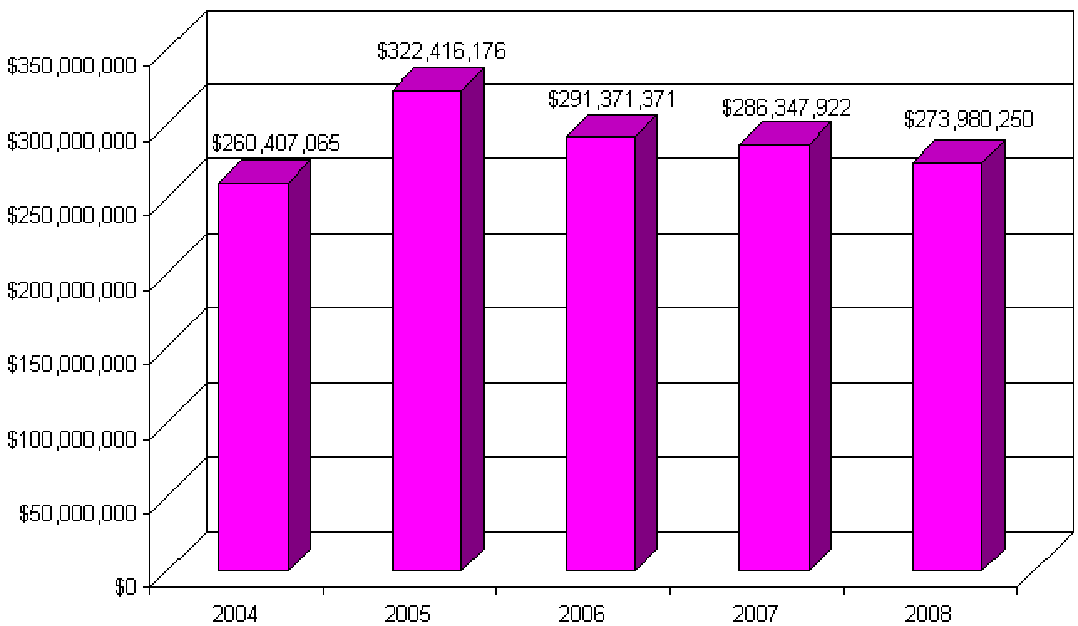
Managing Food Allergens: Awareness and Training Programs for Handlers of Ethnic Foods. A working team, composed of representatives of the food manufacturing and foodservice industries, regulators, academia, and the public, was convened. The team used interviews, observations, and surveys of industries that prepare predominantly ethnic foods to develop and conduct awareness and educational training programs on the seriousness of food allergens as a food safety issue. Participants are also trained to easily identify allergens in ethnic foods and to reduce the incidences of food anaphylaxis-related deaths.

Minimizing Foodborne Risks Through Educational Programs for Food Handlers. This project addressed the need for a Train-the-Trainer educational program endorsed by the Hawaii Department of Health using materials developed for entry-level food handlers, focusing on the most serious food-handling offenses of time and temperature abuse, cross-contamination, and personal hygiene.

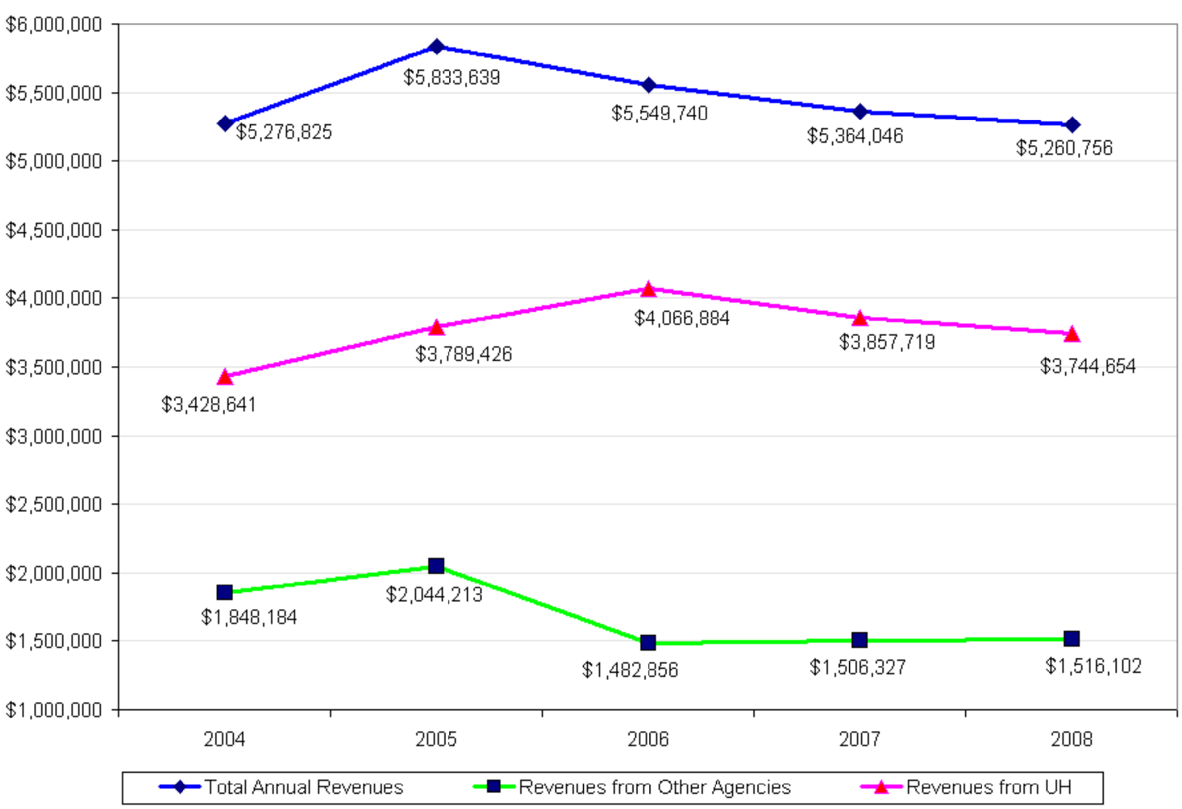
http://www.ctahr.hawaii.edu/aurora/BPCS.asp

Statistical Data - Fiscal Years 2004-2008

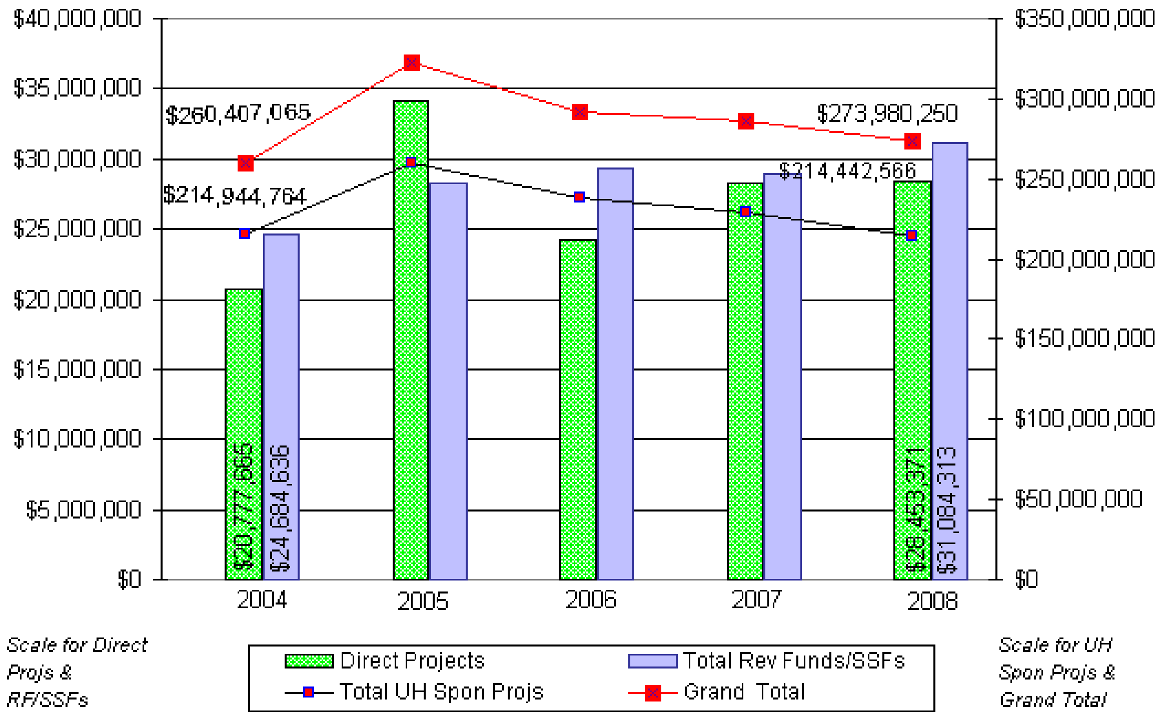
Dollar Volume of Project Administration



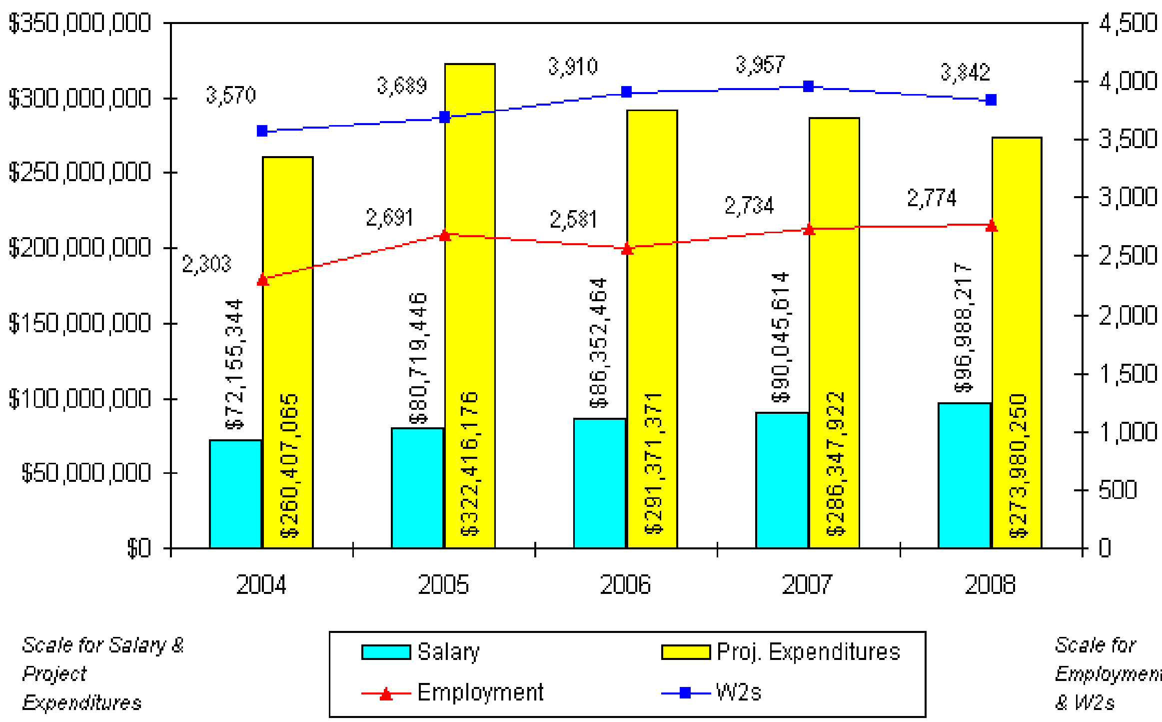
Operating Revenues Summary



Project Expenditures



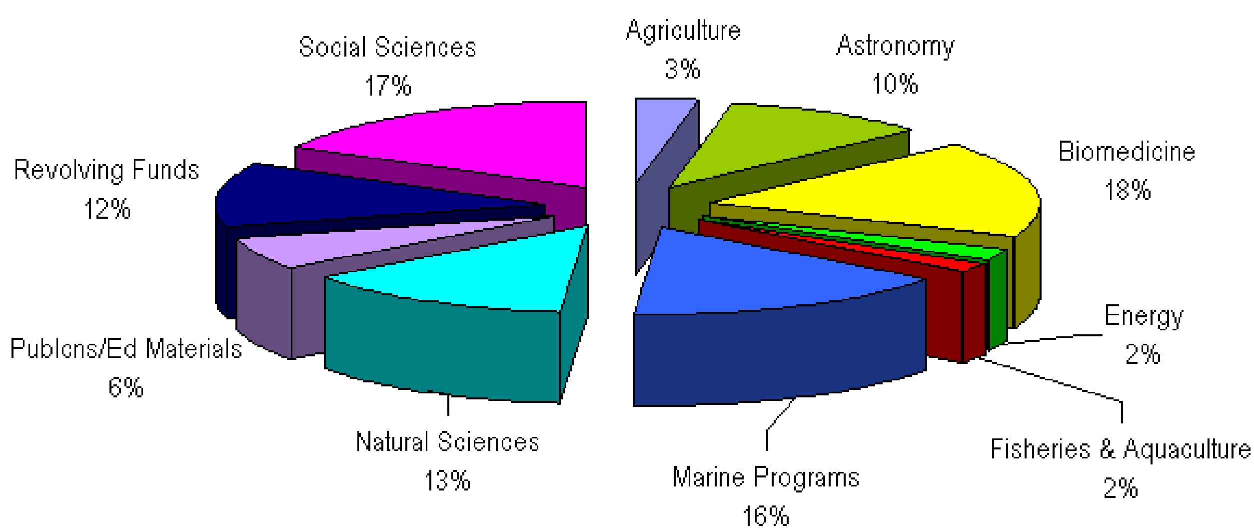
Employment/W2s/Salaries/Project Expenditures



Distribution of Expenditures by Project Disciplines

	2003	2005	2006	2007	2008
Agriculture	$5,435,998	$8,830,182	$10,431,532	$10,724,639	$9,098,635
Astronomy	$21,348,650	$37,610,210	$41,804,796	$35,224,226	$28,563,078
Biomedicine	$56,348,128	$108,701,839	$66,585,904	$51,924,565	$48,615,246
Energy	–	$4,025,284	$4,976,355	$6,060,529	$6,009,316
Fisheries & Aquaculture	$4,277,010	$8,183,804	$7,155,596	$6,339,362	$6,139,368
Marine Programs	$30,583,309	$40,049,360	$37,935,005	$41,279,052	$43,730,041
Natural Sciences	$35,559,791	$43,952,086	$43,717,876	$49,736,783	$35,248,875
Publications/Educ Materials	$17,373,216	$14,549,562	$16,606,953	$17,363,632	$17,657,671
Revolving Funds	$21,101,406	$28,265,058	$29,458,112	$29,184,948	$32,380,045
Social Sciences	$20,615,159	$28,248,791	$32,699,242	$38,510,186	$46,537,975
TOTAL	$212,642,667	$322,416,176	$291,371,371	$286,347,922	$273,980,250

Distribution of Expenditures



Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2004	%	2005	%	2006	%	2007	%	2008	%
FEDERAL										
Dept of Health & Human Services	30,640,504	11.77	31,201,604	9.68	36,785,607	12.62	34,283,944	11.97	34,153,561	12.47
Dept of Commerce	15,200,894	5.84	16,150,922	5.01	16,401,296	5.63	17,089,703	5.97	18,415,323	6.72
National Science Foundation	5,930,906	6.12	19,262,297	5.97	18,381,284	6.31	21,198,574	7.40	20,174,746	7.36
Dept of Agriculture	4,440,861	1.71	4,221,081	1.31	4,574,674	1.57	5,927,800	2.07	5,068,068	1.85
Dept of Interior	8,356,279	3.21	11,158,249	3.46	10,379,711	3.56	8,172,546	2.85	6,610,648	2.41
Dept of Energy	878,729	0.34	1,198,935	0.37	1,582,202	0.54	2,382,267	0.83	1,994,777	0.73
Dept of Defense	27,767,432	10.66	36,205,734	11.23	47,185,666	16.19	57,183,981	19.97	42,623,170	15.56
Dept of Education	10,636,720	4.08	9,644,551	2.99	13,746,101	4.72	13,519,384	4.72	12,520,850	4.57
Natl Aeronautics &Space Adminis	9,858,790	3.79	15,215,154	4.72	11,964,741	4.11	6,756,116	2.36	7,516,914	2.74
Dept of State	3,117,950	1.20	4,831,498	1.5	4,171,711	1.43	3,767,101	1.32	1,978,417	0.72
Other Miscellaneous Federal	7,765,837	2.98	6,260,387	1.94	6,620,824	2.27	6,245,623	2.18	5,267,318	1.92
TOTAL UH Federal Projects	134,594,902	51.69	155,350,412	48.18	171,793,817	56.96	176,527,039	61.65	156,323,792	57.06
NON-FEDERAL										
State & County Governments:										
University of Hawaii:										
Sch of Ocean & Earth Sci & Tech	1,389,231	0.53	2,196,879	0.68	1,690,654	0.58	2,459,292	0.86	2,913,915	1.06
Institute for Astronomy	4,012,728	1.54	3,455,506	1.07	2,801,434	0.96	2,951,578	1.03	3,003,939	1.10
Ofc of Tech Transf & Econ Dev	580,256	0.22	907,455	0.28	1,073,944	0.37	1,088,039	0.38	1,060,930	0.39
Cancer Research Center of HI	1,016,548	0.39	1,510,994	0.47	1,553,813	0.53	1,668,812	0.58	1,826,892	0.67
School of Medicine	44,306,537	17.01	65,500,159	20.32	24,546,408	8.42	6,152,077	2.15	5,403,709	1.97
UH Hilo	1,490,325	0.57	3,429,663	1.06	4,022,044	1.38	3,384,750	1.18	4,067,309	1.48
UH Other	9,699,963	3.72	9,056,934	2.81	8,885,135	3.05	12,496,410	4.36	11,131,270	4.06
Dept of Health	4,739,824	1.82	5,647,763	1.75	6,194,191	2.13	6,561,666	2.29	7,410,754	2.70
Dept of Land & Natural Resrcs	1,368,195	0.53	1,409,161	0.44	3,196,687	1.1	4,213,730	1.47	5,220,077	1.91
Dept of Education	226,938	0.09	399,125	0.12	410,995	0.14	299,639	0.10	233,227	0.09
Dept of Defense	1,522,162	0.58	872,314	0.27	0	-	231,717	0.08	102,330	0.04
County Government	192,615	0.07	243,447	0.08	761,886	0.26	603,602	0.21	806,657	0.29
Other Sponsors	9,804,540	3.77	9,900,956	3.07	10,870,223	3.73	10,475,927	3.66	14,937,765	5.45
TOTAL UH Non-Federal Projects	80,349,862	30.86	104,530,356	32.42	66,007,414	22.65	52,587,239	18.36	58,118,774	21.21
TOTAL UH PROJECTS	214,944,764	82.54	259,880,768	80.6	237,801,231	81.61	229,114,278	80.01	214,442,566	78.27
DIRECT PROJECTS	2004	%	2005	%	2006	%	2007	%	2008	%
FEDERAL	5,181,583	1.99	8,989,143	2.79	5,685,622	1.95	7,203,921	2.52	4,999,559	1.82
NON-FEDERAL										
State & County Governments:										
Dept of Health	1,369,250	0.53	751,457	0.23	1,107,781	0.38	1,153,002	0.40	1,264,302	0.46
Dept of Land & Natural Res	1,399,813	0.54	1,425,889	0.44	1,546,472	0.53	1,841,986	0.64	1,903,520	0.69
Dept of Education	75,509	0.03	80,050	0.02	116,531	0.04	111,817	0.04	17,941	0.01
County Government	–	–	7,512,403	2.33	463,252	0.16	18,340	0.01	4,578	0.00
Others:										
Joint Astronomy Centre	4,556,688	1.75	4,441,265	1.38	4,510,732	1.55	4,323,743	1.51	4,705,069	1.72
Acad Sinica Instit of Astron	1,153,123	0.44	1,271,675	0.39	1,573,576	0.54	2,069,149	0.72	1,668,948	0.61
Natl Astronom Observ of Japan	4,024,469	1.55	4,735,971	1.47	5,774,183	1.98	5,516,458	1.93	5,250,271	1.92
PICHTR	--	--	14,292	0.00	137,665	0.05	1,636,929	0.57	2,888,535	1.05
Hawaii Community Fdtn	--	--	--	--	--	--	1,078,672	0.38	2,880,236	1.05
Other Sponsors	3,017,230	1.16	4,994,090	1.55	3,458,748	1.19	6,046,643	2.11	2,870,412	1.05
TOTAL Non-Federal Projects	15,596,082	5.99	25,212,800	7.82	18,551,275	6.37	21,081,138	7.36	23,453,812	8.56
TOTAL DIRECT PROJECTS	20,777,665	7.98	34,201,943	10.61	24,236,897	8.32	28,285,059	9.88	28,453,371	10.39
REVOLVING FUNDS & SSF's	2004	%	2005	%	2006	%	2007	%	2008	%
Specialized Service Fac/Ship Ops	8,920,660	3.43	12,320,439	3.82	9,561,339	3.28	9,004,842	3.14	12,572,209	4.59
Revolving Funds & Other SSF's	15,763,976	6.05	16,013,026	4.97	19,771,904	6.79	19,943,743	6.96	18,512,104	6.76
TOTAL REVOL FUNDS & SSF's	24,684,636	9.48	28,333,465	8.79	29,333,243	10.07	28,948,585	10.11	31,084,313	11.35
TOTAL PROJECTS	260,407,065	100.0	322,416,176	100.0	291,371,371	100.0	286,347,922	100.0	273,980,250	100.0

Financial Statements for the Years Ended June 30, 2008 and 2007

Financial statements and report of independent certified public accountants

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

June 30, 2008 and 2007

Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

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

June 30, 2008 and 2007

Contents

Section I – Financial

Grant Thornton

Report of Independent Certified Public Accountants

Audit • Tax • Advisory
Grant Thornton LLP
1132 Bishop Street, Suite 2500
Honolulu, HI 96813-2864
T 808.536.0066
F 808.523.8590
www.GrantThornton.com

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, 2008 and 2007, 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, 2008 and 2007, 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.

As described in notes A1 and L, effective July 1, 2007, the Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2009 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

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

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 11 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.

Grant Thornton LLP

Honolulu, Hawaii
January 8, 2009

The Research Corporation of the University of Hawaii
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008 and 2007

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, 2008. It includes selected comparative information with the years ended June 30, 2007 and 2006. 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 4% decrease from fiscal years 2008 to 2007. There was a 2% decrease between fiscal years 2007 and 2006. In the past three years, the Corporation has experienced a leveling of business activity compared to record volume increases attained from fiscal years 2001 to 2005.

		Annual	
Fiscal year	Amount	Amount increase (decrease)	Percentage increase (decrease)
2008	$273,980,250	$ (12,367,672)	(4%)
2007	286,347,922	(5,023,449)	(2%)
2006	291,371,371	(31,044,805)	(10%)
2005	322,416,176	62,009,111	24%
2004	260,407,065	47,764,398	22%
2003	212,642,667	48,579,784	30%
2002	164,062,883	55,507,834	51%
2001	108,555,049	–	–

- In July 2007, the Board of Directors approved Amendment #3 to the UH/RCUH Internal Agreement. The amendment revised the calculation of the University management fee. Effective July 1, 2007, the management fee is based on a percentage of administrative operating expenses. The percentage amount is based on the rate of University modified total direct costs (MTDC) over total projects MTDC. For fiscal year 2007, the management fee was based on 2.5% of University MTDC.

- For the fiscal year ended June 30, 2008, the Corporation is required to implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses and related liabilities and note disclosures in the financial reports. Comparability with reports issued in prior years is affected.

Using the Financial Statements

The financial reports of the Corporation include three statements:

- The balance sheets summarize assets, liabilities, and net assets 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.

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

Condensed Balance Sheets

The Corporation's assets, liabilities and net assets at June 30, 2008, 2007, and 2006 are summarized below:

	2008	2007	2006
Current Assets			
Cash and cash equivalents	$ 7,527,602	$ 2,400,886	$10,557,591
Investments	5,387,136	9,400,833	9,258,701
Receivables	20,323,305	23,159,070	18,526,819
Other assets	163,226	401,329	156,953
Restricted assets	4,872,421	4,453,070	4,530,202
	38,273,690	39,815,188	43,030,266
Noncurrent Assets			
Receivables	–	–	89,610
Capital assets	387,559	546,127	765,772
	387,559	546,127	855,382
Total Assets	$38,661,249	$40,361,315	$43,885,648

	2008	2007	2006
Current Liabilities	$27,466,462	$29,743,292	$31,448,504
Noncurrent Liabilities			
Long-term debt	–	–	89,610
Accrued liability	1,407,634	958,449	921,818
Total Liabilities	28,874,096	30,701,741	32,459,932
Net Assets			
Investment in capital assets	387,559	546,127	765,772
Unrestricted	9,399,594	9,113,447	10,659,944
Total Net Assets	9,787,153	9,659,574	11,425,716
Total Liabilities and Net Assets	$38,661,249	$40,361,315	$43,885,648

A review of the Corporation's balance sheets shows a 1% increase in total net assets between fiscal years 2008 and 2007, and a 15% decrease between fiscal years 2007 and 2006. The decrease in fiscal year 2007 resulted from the $3 million rebate payment issued to the University. Overall, the Corporation's financial position remains sound.

Assets

Cash and cash equivalents increased from June 30, 2007 to June 30, 2008 due to the redemption of time certificate of deposits (TCD's) and reclassification of TCD's increasing cash and decreasing investments. 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.

Investments include funds invested with the University of Hawaii Foundation, the Hawaii Strategic Development Corporation, and 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 decreased by 5% from the fiscal year 2007 to 2008. At June 30, 2008 and June 30, 2007, outstanding TCD's with maturity terms exceeding 90 days were $3,967,808 and $7,916,740, respectively.

Receivables decreased by 12% from fiscal years 2007 to 2008 and increased by 25% from fiscal years 2006 to 2007. The changes stem from the net receivable balance due from the University and other sponsoring agencies for project cost reimbursement. The net receivable due from the University at June 30, 2008 was $15,556,599 compared to $16,385,370 at June 30, 2007 and $14,456,886 at June 30, 2006.

Fixed asset acquisitions amounted to $22,304 for the year ended June 30, 2008 compared to $29,186 for the year ended June 30, 2007. Depreciation expense for the years ended June 30, 2008 and June 30, 2007 amounted to $180,872 and $248,831, respectively.

Liabilities

Total liabilities decreased by 6% from fiscal years 2007 to 2008 and 5% from 2006 to 2007. The decrease resulted from the reduction of project costs incurred within the fiscal year that are paid in the subsequent period. There was no outstanding long term debt at June 30, 2008 as the balance of an equipment loan was paid off in fiscal year 2008. At June 30, 2007, long term debt, including current installments, on an equipment loan amounted to $89,612 compared to $239,380 at June 30, 2006.

Net Assets

Net assets invested in capital assets at June 30, 2008 and 2007 were $387,559 and $546,127, 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.

Condensed 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, 2008, 2007, and 2006 are summarized as follows:

	2008	2007	2006
Operating Revenues			
University of Hawaii	$ 3,744,654	$ 3,857,719	$ 4,066,884
Other sponsor agencies	1,516,102	1,506,327	1,482,856
Total Operating Revenues	5,260,756	5,364,046	5,549,740
Operating Expenses			
Payroll costs	3,109,106	3,028,547	2,596,898
Data processing services	849,076	844,916	998,275
Insurance	359,784	344,176	327,523
Retiree medical benefits	324,000	15,650	13,768
Office supplies and services	320,262	225,885	213,319
Depreciation	180,872	248,831	282,387
Other expenses	443,815	398,879	383,839
Total Operating Expenses	5,586,915	5,106,884	4,816,009
Operating (Loss) Income carried forward	$ (326,159)	$ 257,162	$ 733,731

	2008	2007	2006
Operating (Loss) Income brought forward	$ (326,159)	$ 257,162	$ 733,731
Nonoperating revenues			
Interest income	523,837	884,488	743,479
Quasi-endowment income	(70,099)	92,208	63,629
Income before transfers	127,579	1,233,858	1,540,839
Special and extraordinary item			
UH rebate	–	(3,000,000)	–
Increase(decrease) in net assets	127,579	(1,766,142)	1,540,839
Net Assets			
Beginning of year	9,659,574	11,425,716	9,884,877
End of year	$ 9,787,153	$ 9,659,574	$11,425,716

In fiscal year 2008, operating revenues earned from management fees decreased slightly in comparison to fiscal year 2007. The decrease is a result of the amendment of the UH/RCUH Internal Agreement which revised the calculation of the management fee. In fiscal year 2007, operating revenues earned from management fees decreased slightly in comparison to fiscal year 2006. This decrease resulted from the change in management fee rate charged to the University from 3% to 2.5%.

Operating expenses in fiscal year 2008 increased by 9% over the previous year's expenses. A major increase in expenditure levels is attributable to the accounting for retiree medical benefits in accordance with the implementation of GASB 45. In addition, more costs were incurred for office supplies and services due to higher costs and increased advertising for core staff administrative job positions.

Operating expenses in fiscal year 2007 increased by 6% over the previous year's expenses. A major increase in expenditure levels was attributable to payroll costs which resulted from annual employee merit 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.

For fiscal year 2008, net assets increased by $127,579. For fiscal year 2007, net assets decreased by $1.8 million due to the one time rebate of $3 million made to the University.

Condensed Statement of Cash Flows

The Corporation's statement of cash flows for the fiscal years ended June 30, 2008, 2007 and 2006 are summarized as follows:

	2008	2007	2006
Operating Activities			
Cash received from operations	$ 271,754,867	$ 274,278,906	$ 288,797,790
Cash payments for operations	(270,564,319)	(280,168,353)	(286,705,302)
Net cash provided by (used in)	1,190,548	(5,889,447)	2,092,488
Financing Activities			
Noncapital	(89,612)	(3,149,768)	(144,535)
Capital	(22,304)	(29,186)	(158,054)
Net cash used in	(111,916)	(3,178,954)	(302,589)
Investing Activities	4,467,435	834,564	210,392
Increase (decrease) in cash	5,546,067	(8,233,837)	2,000,291
Cash and cash equivalents			
Beginning of year	6,853,956	15,087,793	13,087,502
End of year	$ 12,400,023	$ 6,853,956	$ 15,087,793

Fluctuations in operating activities are in direct correlation with the volume of business activity. The decrease in the volume of business from fiscal year 2006 to 2008 reduced the cash receipts as well as cash outlay. The increase in investing activities was due to the redemption of TCD's and reclassification of TCD's increasing cash and reducing investments. The increase in financing activities in fiscal year 2007 was due to the rebate transfer paid to the University.

Future Budgets and Rates

- Management projects the volume of business in the coming year to remain steady. The budget for fiscal year 2009 was approved with a 14% increase in operating expenses above fiscal year 2008 projected operating expenses. Management strives to continue improving operational efficiency and maximize use of its resources to ensure that the needs of the University research community and other clients are met.

The Research Corporation of the University of Hawaii
State of Hawaii

BALANCE SHEETS

June 30,

ASSETS	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents (note B)	$ 7,527,602	$ 2,400,886
Investments (note C)	5,387,136	9,400,833
Receivables:		
University of Hawaii projects (note D)	15,556,599	16,385,370
Other sponsoring agencies (note D)	4,766,706	6,684,088
Current portion of receivables under lease agreements, net of deferred credits (note E)	-	89,612
Total receivables	20,323,305	23,159,070
Prepaid expenses	163,226	401,329
Restricted assets - cash (notes B and D)	4,872,421	4,453,070
Total current assets	38,273,690	39,815,188
NONCURRENT ASSETS:		
Capital assets, net (note F)	387,559	546,127
Total noncurrent assets	387,559	546,127
TOTAL ASSETS	$ 38,661,249	$ 40,361,315

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES:		
Accounts payable	$ 14,560,341	$ 15,915,111
Accrued salaries and other	6,787,070	7,842,219
Advances for other sponsoring agencies (note D)	4,893,951	4,883,554
Workers' compensation and unemployment claims reserve (note O)	1,120,100	965,796
Current installments of long-term debt (note H)	-	89,612
Current portion of accrued supplemental retirement benefits (note K)	46,000	47,000
Current portion of accrued postretirement health care and life insurance benefits (note L)	59,000	-
Total current liabilities	27,466,462	29,743,292
NONCURRENT LIABILITIES:		
Accrued supplemental retirement benefits - net (notes I and K)	1,057,274	958,449
Postretirement health care and life insurance benefits (note L)	350,360	-
Total noncurrent liabilities	1,407,634	958,449
Total liabilities	28,874,096	30,701,741
COMMITMENTS AND CONTINGENCIES (notes K, L, M, N, O and P)	-	-
NET ASSETS (note I):		
Investment in capital assets	387,559	546,127
Unrestricted	9,399,594	9,113,447
Total net assets	9,787,153	9,659,574
TOTAL LIABILITIES AND NET ASSETS	$ 38,661,249	$ 40,361,315

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,

	2008	2007
Operating revenues:		
University of Hawaii (note J)	$ 3,744,654	$ 3,857,719
Other sponsoring agencies	1,516,102	1,506,327
Total operating revenues	5,260,756	5,364,046
Operating expenses:		
Salaries and wages	2,568,803	2,416,287
Employee fringe benefits (note K)	540,303	612,260
Data processing services	849,076	844,916
Insurance	359,784	344,176
Retiree medical benefits (note L)	324,000	15,650
Office supplies and services	320,262	225,885
Depreciation	180,872	248,831
Office and equipment rental (note N)	90,608	86,960
Professional and technical support	82,134	53,876
Travel	52,856	51,190
Professional services	45,253	42,192
Staff development	34,098	44,946
Claims and settlements	30,000	-
Tuition support	28,117	62,836
Communications	24,800	23,647
Discretionary fund	16,761	12,894
UH research awards	16,500	16,500
Project development	15,000	-
Transportation	5,012	3,717
Board of Directors' meetings	2,665	114
Project overruns and disallowances	11	7
Total operating expenses	5,586,915	5,106,884
Operating (loss) profit carried forward	(326,159)	257,162

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 (continued)

Year ended June 30,

	2008	2007
Operating (loss) profit brought forward	$ (326,159)	$ 257,162
Nonoperating revenues (expenses):		
Interest income:		
Cash, certificates of deposit and investment	523,837	884,488
Lease (note E)	1,078	6,123
Interest expense – long-term debt (note H)	(1,078)	(6,123)
Intergovernmental (Federal Awards):		
Revenue	1,972,833	5,208,013
Expense	(1,972,833)	(5,208,013)
Quasi-endowment income (expenses):		
(Decrease) increase in fair value of investments (note C)	(70,099)	92,208
Investment (note I)	42,329	38,824
Research assistantships expense (note I)	(42,329)	(38,824)
Total nonoperating revenues, net	453,738	976,696
Income before transfers	127,579	1,233,858
Special and extraordinary item		
University of Hawaii rebate (note J)	-	(3,000,000)
Total transfers	-	(3,000,000)
INCREASE (DECREASE) IN NET ASSETS	127,579	(1,766,142)
Net assets at beginning of year	9,659,574	11,425,716
Net assets at end of year	$ 9,787,153	$ 9,659,574

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,

	2008	2007
Cash flows from operating activities:		
Project cost reimbursements received from:		
University of Hawaii	$ 214,355,326	$ 222,243,373
Other sponsors	52,091,834	43,022,722
Management fees received from:		
University of Hawaii	3,700,000	4,769,452
Other sponsors	1,516,102	1,506,879
Payments to vendors	(171,632,734)	(188,056,625)
Payments to employees	(66,508,913)	(62,240,290)
Payments of federal and state payroll taxes, including employee tax withholdings	(29,511,584)	(27,748,796)
Project cost reimbursements to the University of Hawaii	(2,129,461)	(2,122,642)
Cash received under equipment lease agreements, including interest	91,605	157,092
Other disbursements/receipts	(781,627)	2,579,388
Net cash provided by (used in) operating activities	1,190,548	(5,889,447)
Cash flows from noncapital financing activities:		
Rebate to the University of Hawaii	-	(3,000,000)
Principal and interest payments on debt	(89,612)	(149,768)
Net cash used in noncapital financing activities	(89,612)	(3,149,768)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(22,304)	(29,186)
Net cash used in capital and related financing activities	(22,304)	(29,186)
Cash flows from investing activities:		
Proceeds from maturities of investments	4,000,000	-
Purchase of investments	(56,402)	(49,924)
Interest income received on cash deposits and investment income	566,166	923,312
Distribution to University of Hawaii research assistantships	(42,329)	(38,824)
Net cash provided by investing activities	4,467,435	834,564
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,546,067	(8,233,837)
Cash and cash equivalents at the beginning of the year	6,853,956	15,087,793
Cash and cash equivalents at the end of the year	$ 12,400,023	$ 6,853,956

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 (continued)

Year ended June 30,

	2008	2007
Cash and cash equivalents are presented in the accompanying balance sheets as follows:		
Cash and cash equivalents	$ 7,527,602	$ 2,400,886
Restricted assets - cash	4,872,421	4,453,070
	$ 12,400,023	$ 6,853,956
Reconciliation of operating (loss) profit to net cash provided by (used in) operating activities:		
Operating (loss) profit	$ (326,159)	$ 257,162
Adjustments to reconcile operating (loss) profit to net cash provided by (used in) operating activities:		
Depreciation expense	180,872	248,831
Change in assets and liabilities:		
Receivables	2,835,765	(4,542,641)
Prepaid expenses	238,103	(244,376)
Accounts payable and accrued wages	(2,409,919)	(520,887)
Advances from University of Hawaii and other sponsors	10,397	(1,242,964)
Workers' compensation and unemployment claims reserve	154,304	95,797
Accrued supplemental retirement benefits	97,825	59,631
Post retirement health care & life insurance benefits	409,360	-
Net cash provided by (used in) operating activities	$ 1,190,548	$ (5,889,447)

The accompanying notes are an integral part of these statements.

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.

As defined by Statement No. 14, the nature and significance of the relationship between the University and the Corporation is such that exclusion would cause the financial statements of the University to be misleading. Accordingly, the financial statements of the Corporation are blended with the University's financial statements.

Effective July 1, 2007, the Corporation implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses and related liabilities and note disclosures in the financial reports. The Statement was implemented prospectively. Comparability with reports issued in prior years is affected (note L).

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

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. Cash equivalents amounted to $2,000,000 at June 30, 2008. There were no cash equivalents at June 30, 2007.

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.

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

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 life 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 is 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, 2008 and 2007 aggregated approximately $1,301,000 and $1,135,000, 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.

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

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.

11. Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications had no effect on net income as previously reported.

NOTE B – CASH

At June 30, 2008 and 2007, the carrying amount of total bank deposits was $10,308,432 and $6,723,052, respectively, while the corresponding bank balances which are represented were $17,725,320 and $15,511,000, respectively. The portion of such deposits not covered by federal depository insurance is 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, 2008 and 2007:

	2008		2007	
	Fair value	Cost	Fair value	Cost
Investments	$1,419,328	$1,424,720	$1,484,093	$1,419,386
Certificates of deposit	3,967,808	3,967,808	7,916,740	7,916,740
	$5,387,136	$5,392,528	$9,400,833	$9,336,126

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.

NOTE C – INVESTMENTS (continued)

Investments at the Foundation consist primarily of foreign and domestic equity and fixed income securities. At June 30, 2008 and 2007, the Corporation had 26,961 shares in the investment pool. The fair value of these investments is primarily based on quoted market prices reported to the Corporation by the Foundation. The investments at the Foundation amounted to $994,608 and $1,064,707 at June 30, 2008 and 2007, respectively. The (decrease) increase in fair value of investments (unrealized gains/losses) for the years ended June 30, 2008 and 2007 amounted to $(70,099) and $92,208, 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 Pipeline Investment LLC. In August 2007, HSDC contributed $40,627 to Kuehnle Argosystems Co. LLC. Kuehnle Argosystems conducts biotech research and development of plant-based systems for production of biologically active compounds. 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, 2008 and 2007, funds invested with HSDC amounted to $424,720 and $419,386, 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.

Custodial credit risk is the risk that in the event of a financial institution failure, the Corporation's investments 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, 2008 and 2007 as follows:

	2008	2007
Uninsured and collateral held by trust department or agent not in the Corporation's name	$1,419,328	$1,484,093

At June 30, 2008 and 2007, more than 5% of the Corporation's total investments were as follows:

	2008	2007
Certificates of deposit held with First Hawaiian Bank	74%	84%
Investment agreement with HSDC	8%	5%

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 funding. Under cost reimbursable projects, expenditures are initially paid for by the Corporation and are later reimbursed by the sponsors. Under advance funded projects, the Corporation receives cash in advance of expenditures. Advances under direct agreements in excess of project expenditures totaled $4,893,951 and $4,883,554 at June 30, 2008 and 2007, respectively. Cash relating to a portion of the advances, amounting to $4,872,421 and $4,453,070 at June 30, 2008 and 2007, respectively, is restricted by the sponsors. Direct agreements allow for indirect cost recoveries based on a predetermined indirect cost rate. All claims are subject to audit and adjustments by the sponsoring agencies. Project expenditures less advances, and reimbursements from sponsors are accounted for within project accounts which are reflected on the Corporation's balance sheets. Except for direct federal awards, these transactions are not reflected on the Corporation's statements of revenues and expenses.

NOTE E – RECEIVABLES UNDER LEASE AGREEMENTS

In January 2005, the Corporation borrowed funds and purchased certain equipment. It simultaneously entered into an agreement to lease the equipment to the University for the amount of the debt repayment installments with an option to purchase the equipment for $1 at the end of the lease term. There were no outstanding lease agreements or receivables under lease agreements at June 30, 2008.

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

	2007
Total minimum lease payments receivable	$ 91,637
Less deferred credits	(2,025)
Net investment in receivables under lease agreements	89,612
Less current portion	(89,612)
	$ –

NOTE F – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 is as follows:

	Beginning balance	Acquisitions	Dispositions	Ending balance
Office equipment	$ 535,100	$ 22,304	$ –	$ 557,404
Computer software	2,585,742	–	–	2,585,742
	3,120,842	22,304	–	3,143,146
Less accumulated depreciation				
Office equipment	427,579	26,787	–	454,366
Computer software	2,147,136	154,085	–	2,301,221
	2,574,715	180,872	–	2,755,587
	$ 546,127	$(158,568)	$ –	$ 387,559

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

	Beginning balance	Acquisitions	Dispositions	Ending balance
Office equipment	$ 505,914	$ 29,186	$ –	$ 535,100
Computer software	2,585,742	–	–	2,585,742
	3,091,656	29,186	–	3,120,842
Less accumulated depreciation				
Office equipment	404,097	23,482	–	427,579
Computer software	1,921,787	225,349	–	2,147,136
	2,325,884	248,831	–	2,574,715
	$ 765,772	$ (219,645)	$ –	$ 546,127

Depreciation expense for the years ended June 30, 2008 and 2007 amounted to $180,872 and $248,831, 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, 2009. 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 3.75% at June 30, 2008 and 6.19% at June 30, 2007. At June 30, 2008 and 2007, there were no borrowings outstanding under this line.

NOTE H – LONG-TERM DEBT

A summary of long-term debt at June 30, 2008 and 2007 is as follows:

	2008	2007
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
Less current installments of long-term debt	–	89,612
	$ –	$ –

The following is a summary of changes in long-term debt for the two years ended June 30, 2008:

Balance as of June 30, 2006	$239,380
Additions	–
Deductions	149,768
Balance as of June 30, 2007	89,612
Additions	–
Deductions	89,612
Balance as of June 30, 2008	$ –

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, 2008 increased by $313,568 due to an increase in net assets. In fiscal year 2007, the Corporation's working capital decreased by $1,592,355 due to a decrease in net assets.

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.

NOTE I – NET ASSETS (continued)

2. Quasi-Endowment (continued)

For the years ended June 30, 2008 and 2007, investment income of $42,329 and $38,824, respectively, was earned from investments administered by the Foundation. Research assistantship expenditures deducted from the quasi-endowment reserve during 2008 and 2007 amounted to $42,329 and $38,824, respectively.

3. Supplemental Retirement Benefits

As described in note K, the Corporation offers supplemental retirement benefits. The liability as of June 30, 2008 and 2007 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, 2008 and 2007.

4. Project Contingent Liabilities

The Corporation and the University enter into contracts and agreements with a multitude of organizations, both public and private, locally, nationally and internationally. These organizations often require terms and conditions in the contract or agreement, which if breached, may require reimbursement of expenses or payment of expenses. On March 13, 1998, the Board of Directors designated net assets to cover such reimbursements or expenses, which may include, but are not limited to project overruns and disallowances, litigation expenses, professional services and other project-related expenses. In 2008 and 2007, the amount of the designation was increased by $44,636 and $36,077, respectively. A separate interest-bearing account is maintained for this reserve.

Net assets at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Designated		
Working capital	$7,436,441	$7,122,873
Quasi-endowment	994,608	1,064,707
Supplemental retirement benefits	–	2,383
Project contingent liabilities	967,807	923,171
Undesignated	738	313
	$9,399,594	$9,113,447

NOTE J – OPERATING REVENUES – UNIVERSITY OF HAWAII

Operating revenues received from the University of Hawaii for the years ending June 30, 2008 and 2007 amounted to $3,560,130 and $3,664,894, respectively, for extramurally sponsored projects and $184,524 and $192,825, respectively, for internally funded projects.

NOTE J – OPERATING REVENUES – UNIVERSITY OF HAWAII (continued)

In 2007, 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. A rebate payment of $3,000,000 was paid to the University during the year ended June 30, 2007.

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 nonforefeitable 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, 2008 and 2007 were $190,211 and $192,803, 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, 2008 and 2007, the Corporation's accrued supplemental retirement benefits were $1,103,274 and $1,005,449, 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, 2008 and 2007 were $72,958 and $82,724, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2008 and 2007:

	2008	2007
Beginning balance	$1,005,449	$ 945,818
Additions	170,783	142,355
Deductions	(72,958)	(82,724)
	1,103,274	1,005,449
Less current portion of accrued supplemental retirement benefits	46,000	47,000
	$1,057,274	$ 958,449

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 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, 2008 and 2007 aggregated to $19,640 and $15,650, respectively.

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

	2008
Annual required contribution	$429,000
Interest on net OPEB obligation	–
Adjustment to annual required contribution	–
Annual OPEB cost	429,000
Contributions made	(19,640)
Increase in net OPEB obligation	409,360
Net OPEB obligation – beginning of year	–
Net OPEB obligation – end of year	409,360
Less current portion of OPEB obligation – end of year	59,000
	$350,360

NOTE L – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 was as follows:

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2008	$429,000	4.6%	$409,360

As of July 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial liability for benefits was $3,349,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,349,000. The covered payroll (annual payroll of active employees covered by the plan) was $87,855,000, and the ratio of the UAAL to the coveted payroll was 3.8%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5% discount rate, which is the expected rate of return on short and long-term investments. The UAAL is being amortized as a percentage of projected payroll on a closed basis. The remaining amortization period at June 30 2008 was 19 years.

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
2008:				
Salaries and wages	$ 68,339,354	$15,429,592	$11,956,526	$ 95,725,472
Equipment	19,558,166	414,562	401,985	20,374,713
Other	126,545,046	12,609,217	18,725,802	157,880,065
	$214,442,566	$28,453,371	$31,084,313	$273,980,250
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

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 $63,013,000 and $65,435,000 at June 30, 2008 and 2007, respectively.

NOTE N – OPERATING LEASE

The Corporation occupies office space under month-to-month operating leases. The leases provide that the Corporation pay taxes, maintenance and certain other operating expenses applicable to the leased premise. Total office and equipment rental expense for the years ended June 30, 2008 and 2007 was $90,608 and $86,960, respectively, which includes $68,391 and $73,869, respectively, of office rental expense under the operating leases for the years ended June 30, 2008 and 2007.

Future minimum lease payments under noncancelable operating leases as of June 30, 2008 are:

Year ending June 30:	
2009	$11,988
2010	11,988
2011	11,988
2012	11,407
2013	4,179
	$51,550

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 $175 million per occurrence for windstorm losses, $175 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% of values at each location, 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 $4 million per occurrence. The State program includes crime insurance with loss coverage of $10 million for criminal losses. The deductible is $500,000 per occurrence.

The Corporation has an additional general liability policy with loss coverage of $1 million for each occurrence and $2 million in the annual aggregate; coverage is $100,000 for fire legal liability. Exclusions include professional liability, pollution, employment related practices, sexual abuse, 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, 2008 and 2007, the workers' compensation reserve amounted to $679,099 and $520,376, respectively, and is reported as a current liability in the accompanying balance sheets. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

NOTE O – RISK MANAGEMENT (continued)

3. Workers' Compensation Policy (continued)

The following is a summary of changes in the workers' compensation reserve for the years ended June 30, 2008 and 2007.

	2008	2007
Beginning balance	$520,376	$575,828
Additional claims	199,968	–
Payments on claims	(70,909)	(82,177)
Other (interest credits, etc.)	29,664	26,725
Ending balance	$679,099	$520,376

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, 2008 and 2007, the unemployment reserve amounted to $441,001 and $445,420, respectively, and is reported as a current liability in the accompanying balance sheets.

NOTE P – COMMITMENTS

At June 30, 2008, the Corporation had an outstanding stand-by letter of credit commitment in the amount of $200,000. 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, 2008, the Corporation had the following outstanding contract commitment through May 31, 2009 related to computer software and hardware maintenance:

Year ending June 30, 2009	$143,991

Supplementary Information

GrantThornton

Report of Independent Certified Public Accountants on Supplementary information

Audit • Tax • Advisory
Grant Thornton LLP
1132 Bishop Street, Suite 2500
Honolulu, HI 96813-2864

T 808.536.0066
F 808.523.8590
www.GrantThornton.com

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, 2008 and 2007. Our report included an explanatory paragraph regarding the Corporation's adoption of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective July 1, 2007. 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.

Grant Thornton LLP

Honolulu, Hawaii
January 8, 2009

The Research Corporation of the University of Hawaii
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2008

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	$122,449
U.S. DEPARTMENT OF DEFENSE				
Office of Naval Research				
Research & Development Cluster				
Mapping & Detection of UXO	12.000	N00164-05-C-6654	2,985,211	1,083,076
Mapping & Detection of UXO - Waikoloa	12.000	W909MY-07-C-0025	1,035,000	241,236
UXO Research & Development and the Application to the IED Threat	12.000	N00164-07-P-1894	50,000	32,806
				1,357,118
U.S. DEPARTMENT OF INTERIOR				
Office of Insular Affairs				
Secretariat US All Islands Committee of the Coral Reef Task Force	15.000	CRI-RCUH-3-06	151,876	100,132
Sunia Award Summer Internship	15.000	CRI-RCUH-5	25,000	1,601
Pass through Programs from Pacific Post-Secondary Education Council (PPEC)				
PPEC Building Regional Capacity	15.875	GEN-182	235,240	46,707
				148,440
NATIONAL SCIENCE FOUNDATION				
Teaching Handwriting to Persons Who Are Blind	47.070	IIS-0628794	100,869	41,958
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
Health Resources and Service Administration				
Regional Collaborative Pacific Basin-Yr3	93.224	5U1BOA04137-03-00	270,021	85,402
Regional Collaborative Pacific Basin	93.224	1U1BOA08583-01-00	214,500	154,735
				240,137
EXECUTIVE OFFICE OF THE PRESIDENT				
Office of National Drug Control Policy				
Hawaii High Intensity Drug Trafficking Areas	N/A	I7PHIP506Z	1,365,995	62,731
				$ 1,972,833

The Research Corporation of the University of Hawaii
State of Hawaii

NOTE TO THE SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS

Year ended June 30, 2008

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

Grant Thornton

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

Audit • Tax • Advisory
Grant Thornton LLP
1132 Bishop Street, Suite 2500
Honolulu, HI 96813-2864
T 808.536.0066
F 808.523.8590
www.GrantThornton.com

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, 2008, and have issued our report thereon dated January 8, 2009. Our report included an explanatory paragraph regarding the Corporation's adoption of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective July 1, 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. We consider deficiencies 2008-01 and 2008-02 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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 presented or detected by the entity's internal control over financial reporting.

Grant Thornton

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

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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*.

The Corporation's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management of the Corporation, 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.

Grant Thornton LLP

Honolulu, Hawaii
January 8, 2009

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

Audit • Tax • Advisory
Grant Thornton LLP
1132 Bishop Street, Suite 2500
Honolulu, HI 96813-2864
T 808.536.0066
F 808.523.8590
www.GrantThornton.com

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, 2008. 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; 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, 2008.

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 expressing an

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

opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *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.

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.

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 of the Corporation, 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.

Grant Thornton LLP

Honolulu, Hawaii
January 8, 2009

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

The Research Corporation of the University of Hawaii
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

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:

CFDA Number(s)	Name of Federal Program
	Research & Development Cluster
12.000	Mapping & Detection UXO
12.000	Mapping & Detection of UXO – Waikoloa
12.000	UXO Research & Development and the Application to the IED Threat

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

Finding 2008-01 Improper Classification of Federal Award Grants/Contracts

Criteria – In accordance with OMB Circular A-133, subpart C, paragraph .300, an auditee should identify in its account all federal awards received and expended, the federal award programs under which they were received, and prepare appropriate financial statements, including the schedule of expenditures for federal awards. Federal program and award identification includes, as applicable, the CFDA title and number, the award number and year, the name of the federal granting agency, and the name of the pass-through entity.

Condition – During our review of the preliminary schedule of expenditures of federal awards prepared by management we noted that the Job Creations grant was included as an A-133 qualified federal award. Based upon further review we had noted that management had identified the Corporation as a sub-recipient although, it was a vendor of the expending agency.

Cause – We noted this misclassification while performing audit procedures on the preliminary schedule of expenditures of federal awards prepared by the client.

Effect – Improper classification of the Corporation as a sub-recipient versus a vendor results in an incorrect schedule of expenditure of federal awards and, a misstatement on the statement of revenues and expenses and changes in net assets.

Recommendation – We recommend that management of the Corporation reevaluate the classification assigned to each federal award received (i.e., vendor, recipient, and sub-recipient) to ensure proper administration and reporting of the program.

Views of responsible officials and planned corrective actions – The current procedure is to complete a checklist to determine whether the Corporation is a vendor or a recipient. Management will revise and improve the criteria on the checklist to ensure that proper classifications are completed. In addition, the checklist will be reviewed by a supervisor with appropriate experience and knowledge of the Federal award to ensure that the proper determination was made.

Finding 2008-02 Adjustments made for under reserve of employee benefit accruals

Criteria – In accordance with US GAAP, reserves and accruals for employee benefits should be adequate enough to cover the future benefits or payments made related to the reserve or accrual.

Condition – The Corporation's final (pre-audit) trial balance included accrual and reserve accounts which had not been adequately analyzed.

Cause – While performing testing on the supporting schedules for the reserve for worker's compensation insurance and accrual for supplemental retirement benefits (sick leave payoff) we noted that the amount of the reserve and accrual recorded on the Corporation's final (pre-audit) trial balance was less than the supporting schedules (i.e., Cost of Sick Leave Payoff and Brandvold Claim Summary) which indicated that the accrual and reserve were under reserved.

Effect – The failure to adequately analyze and adjust such accounts prior to the final close results in an inaccurate closing.

Recommendation – We recommend that the responsibility for preparing detail reconciliation of asset and liability accounts should be clearly assigned and these reconciliations, along with the proposed adjusting or reversing entries, should be submitted to management for review.

Views of responsible officials and planned corrective actions – The reserve balances are currently analyzed against statistical data at fiscal year end June 30. Monthly reviews are performed to identify major fluctuations and/or trends. Management will improve the current procedure by evaluating the reserve balances against statistical data from external and internal reports on a quarterly basis. Management will ensure that policies and procedures are properly implemented and followed.

Section III – Federal Award Findings and Questioned Costs

None noted.