



Annual Report

2009

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

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The Research Corporation of the University of Hawaii

Its creation . . .

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

Its mission . . .

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

Its need . . .

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

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

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

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

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

Its function . . .

RCUH is akin to a service bureau. Its services fall in the areas of accounting, human resources, and procurement. Because of its exemption from state statutes relating to special fund reimbursements to the state general fund, advertising for

bids, purchases in Hawaii when public moneys are expended, civil service, compensation, public employment, and the retirement system, RCUH has the flexibility to function more like a business. Accordingly, RCUH has its own personnel, payroll, accounting, and disbursing systems, independent of the state and University systems. This makes it possible for RCUH to process transactions expeditiously, which in turn makes it possible for the researchers to focus more of their efforts on research rather than administrative activities.

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

Its relationship with the UH . . .

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

Its funding . . .

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

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

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

Its governance . . .

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

selected by the Board of Regents.

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

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

Its employees . . .

The "core" staff of RCUH consists of approximately 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 2,600 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 pendulum is on the upward swing for RCUH after three years of slight decreases in our volume of business. We ended the fiscal year with a volume of \$298,397,705, which represents a 9% increase from the previous year. The University of Hawaii, RCUH's major client, continues to secure a substantial amount of sponsored research and training dollars and ended their fiscal year with over \$400 million in awards. That translates to increased activity for RCUH.

We continued enhancing our on-line financial and human resources systems and converting more functions on-line with the goal of increasing productivity and efficiency. During the second half of the year, we also began planning for an updated web site to make it more user friendly as well as give it a somewhat overdue updated look. This project will continue into the next fiscal year.







Training on the use of our financial and human resources systems also received greater emphasis. Regularly scheduled training sessions were offered on the use of our financial system. We continued to provide a wide range of regularly scheduled human resources training sessions, to which several new Red Cross certification classes were added to meet the needs of the project staff.



We continue to have available on our web site on-line training videos on using our financial system. These have proven to be a convenient way for new users to learn how to use the system. We added a series of procurement training videos, and plans are in place to add new subject offerings in the future.

During the year, we welcomed new Board Members Carl Carlson, Howard Karr, Dennis Hirota, and Harvey Tajiri. As the fiscal year drew to a close, we bid aloha to Allan Landon. Our thanks to all of our Board members for their continuing support of our activities and their efforts in enhancing the research enterprise for the State of Hawaii.

Board of Directors

(as of 6/30/09)

 <p>Carl Carlson Director</p>	 <p>Dennis Hirota Director</p>	 <p>Joelle Kane Chairman & Director</p>	 <p>Howard Karr Director</p>	 <p>Allan Landon Director</p>	 <p>Guy Ontai Director</p>
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<p>photo unavailable</p> <p>Shanlyn Park Director</p>	 <p>Harvey Tajiri Director</p>	 <p>Donn Takaki Vice Chairman & Director</p>	<p>1 vacancy</p>
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Project Review

We are pleased to highlight the following three projects:

A "UH Service Ordered" Project

Pacific Cooperative Studies Unit (PCSU)

The Pacific Cooperative Studies Unit, or PCSU as it is usually known, was born out of turmoil in the National Park Service (NPS) in the early 1970's when the Service realized the need for more science to manage the parks and went looking for university partners. The University of Hawaii was one of first partners selected. The unit was first based in Volcano, but it became apparent that a university base was needed so it soon moved to Manoa.



Amateurs talk strategy, professionals talk logistics
Omar Bradley

Early work included inventories of parks and perhaps most importantly the identification of avian malaria as a threat to Hawaii's native forest birds. A series of technical reports that continue to this day have documented the work of the unit and enabled scientists and managers to record their own data and findings in a more expansive form than is usually permitted in traditional scientific publications.

Changes in Washington challenged the future of the unit as it was removed from NPS and forced to report to a Washington office of a newly formed agency that existed only briefly before being merged with the US Geological Survey (USGS). Thanks to our Congressional delegation, PCSU was removed from Washington oversight and returned to a relationship with the local USGS office.

At the same time, PCSU began to expand from a simple bilateral relationship with a federal agency to working with state agencies and private landowners, including Kamehameha Schools and The Nature Conservancy. PCSU sponsored the nascent Invasive Species Committees and the Watershed Partnerships on all the main islands. PCSU allowed these organizations to operate because all fiscal and personnel matters were taken care of through PCSU and its partnership with RCUH. If state and federal agencies, as well as private landowners, had been forced to sign formal agreements to transfer funds and arrange joint operating agreements across properties, this could have taken years, if not

decades. Watershed Partnerships and Invasive Species Committees are able to operate essentially on handshakes.

PCSU also began to expand into work on endangered forest birds on Kauai, Hawaii and Maui, cultural work on Army lands on Oahu and Hawaii, and protecting natural resources on Army training areas on Oahu. Going back to its Park Service roots, it developed cooperative projects in archeology, rare plant recovery and coral reefs, as well as helping begin the Inventory and Monitoring Program in the Pacific Islands. Farther afield in Alaska, it is conducting survey work for the N5N1 'bird' flu influenza and modeling risk for the virus back here on Oahu.

Working with the Park Service, state, and Fish and Wildlife Service, the unit has developed a wide range of environmental education programs, books, and public service announcements.



PCSU has been able to involve substantial numbers of grad students and faculty from the UH system in conservation biology in Hawaii because of the funds it generates. PCSU also serves as a first employer for many UH grads from Botany and related fields.



This year, funding is down slightly. PCSU has brought in \$8.3M, but another \$4.5M came in via the unit's relationship with PICHTR (Pacific International Center for High Technology Research) for Army projects. Together the programs employ 288 individuals in 52 separate projects. PCSU receives no general funds for its operations and its administration is dependent on the funds it generates from year to year. The unit basically operates as a non-profit within the university which provides space and half-time release time for the director, David Duffy, and deputy director, Cliff Morden, allowing them to manage the projects.

<http://www.botany.hawaii.edu/faculty/duffy/PCSU.htm>

A “Direct” Project

Hawaii Academy of Science

The Hawaii Academy of Science has sponsored the Hawaii State Science & Engineering Fair for more than half a century. The goals of the Science Fair are:

- To provide every student in Hawaii, regardless of their island of residence, an opportunity to participate fully in the science fair activities;
- To create the opportunity for high school students and teachers to interact in a meaningful way with the leading scientists in Hawaii;
- To increase the number of students in Hawaii pursuing advanced degrees in science, engineering, medicine, computer science, and mathematics;
- To encourage, recognize, and reward students who demonstrate excellence in scientific research; and
- To help create a scientifically literate workforce for Hawaii, the nation, and the world.

A science fair is a competition in which intermediate and high school students conduct scientific experiments and present their findings in a written report and a display board that explains the experiment and its outcomes. The competition occurs at four levels: school, regional, state, and international. More than 8,000 students participate in school science fairs that are held across the state. A team of scientists selects the best projects in each of 17 science categories.

The better projects advance to a regional science fair for the next round of competition. Regional science fairs include: East Hawaii (Hilo), West Hawaii (Kona), Maui, the Windward district of Oahu, the Leeward district of Oahu, the Hawaii Association of Independent Schools, and Kauai. About 400 students advance from the regional to the state science fair.

Finally, in May of each year the students with the best projects from each regional fair and the state fair travel to the mainland to compete in the International Science & Engineering Fair (ISEF). In 2009 twenty students from Hawaii attended the ISEF competition in Reno, Nevada.

Over the years the students from Hawaii have won many major awards and have established an outstanding reputation at the ISEF competitions.

ISEF is the world’s largest international pre-college science competition. Each year it provides a forum for more than 1,500 high school students from over 50 countries to compete for nearly \$4 million in prizes and scholarships. ISEF is the premiere science competition in the world exclusively for students in grades 9–12.



Conducting the state science fair each year requires the cooperation of many individuals and organizations: the University of Hawaii College of Education, the Hawaii State Department of Education, the Hawaii Association of Independent Schools, and the Research Corporation of the University of Hawaii all make significant contributions to the success of the program; teachers, scientists, and other individuals volunteer their services; and dozens of organizations donate more than \$100,000 for student awards.

The Academy of Science believes that every student who participates in the science fair strengthens the fabric of our society. Those who do not go into careers in science become more scientifically literate citizens who are better able to understand the issues facing the future. Those who choose careers in science contribute to the well being of Hawaii, the nation, and the world by making contributions in science, engineering, and other fields of study. For these reasons, the Hawaii Academy of Science plans to continue sponsoring the Hawaii State Science & Engineering Fair for another half century and beyond.

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

A "Revolving Fund" Project

Greenwood Molecular Biology Facility

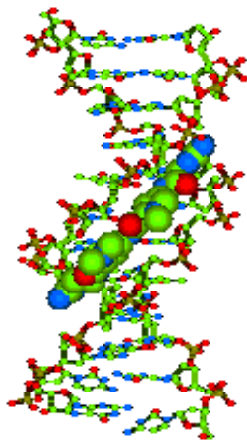
The Greenwood Molecular Biology Facility, also known as the Biotech Core or Biotechnology Program, is a multi-functional primary research infrastructure and shared resource. It is one of the four specialized facilities developed by the Pacific Biosciences Research Center to support research and training for the University of Hawaii and other state, federal, and private institutions. Since its beginning in 1988, it has been operated as a recharge center on a cost-reimbursable user fee basis, and the administrative services provided by RCUH have been vital to the management of the facility. The resource's instrumentation was acquired via grants from the National Institute of Health, the National Science Foundation, the Department of Defense, and the Hawaii State Biomedical Research Infrastructure Network.



The fundamental goal of the program is to provide faculty and students with access to bio-analytical and synthetic services and state-of-the-art instrumentation. This goal also includes lowering the overall cost of biological and biomedical research, as well as facilitating development and educational activities via technical expertise and instructional help.

The activities of the Core are structured to address the present and future needs of the local molecular biology community. The program focuses on four main areas of support: genomics, protein analysis, bioinformatics, and education. Most of the services are unique and are not available elsewhere in Hawaii outside of this resource. The main activities currently include the following:

- Gene expression analysis for characterizing and quantifying the expression of nucleic acid in various genomes based on microarray technology and real-time polymerase chain reaction.
- Genetic analysis for fragment quantification and genotyping using capillary nucleic acid sequencing and related methods.
- Mutation detection for analysis of known and



unknown mutations and single nucleotide polymorphisms to identify variations in nucleic acid sequences.

- Oligonucleotide synthesis and production of short strands of nucleic acid for genetic analysis and diagnostic tests.
- Protein analysis for peptide and protein sequencing and identification using chemistry-based platforms.
- Lab-on-a-Chip bio-analysis for characterization and quantification of nucleic acid and proteins.
- Bioinformatics for genetic and statistical analysis and data mining, as well as macromolecular modeling.

In addition to research support services, the Core offers consultation for its clients on their projects, discussing such issues as research approach, experimental design, and data interpretation. In short, it provides assistance from exploratory work to publication. Furthermore, the facility is engaged in collaborative research with several departments, including the Cancer Research Center of Hawaii, the John A. Burns School of Medicine, and the Pacific Biosciences Research Center, mostly in the field of macromolecular modeling.

The Core also assists in the educational and training programs of various

CORE

departments. In recent years it delivered lectures on modern technologies of molecular biology for graduate and undergraduate courses in the Medical School and in the School of Ocean and Earth Science and Technology. The educational activities also included research training and hands-on workshops in the Minority Access to Research Careers program of the University and earlier in the Haumana Biomedical programs of the Pacific Biosciences Research Center. Additionally, the Core provided individualized internship experiences to students from the University of the Pacific as well as organized workshops, vendor presentations, and seminars as a form of educational supplement and supplementary training on developing technologies.

The program offers site visits and presentations for high school and community college students in Hawaii. In recent years, these outreach activities included lectures in micro-array informatics under the National Institute of Diabetes and Digestive and Kidney Disease, Short-term Education Program for Underrepresented Persons from Oahu high schools, short courses in modern genomic technologies for students from Leeward Community College, as well as training of community college instructors as part of the Undergraduate Mentoring in Environmental Biology program in molecular biology at the University. The Core also participated in the Community Forum in Chemistry events at Windward Community College, and organized an instrumentation workshop

jointly sponsored by the Chemistry department and the American Chemical Society Hawaii Section for students and teachers from Oahu and Kauai high schools.

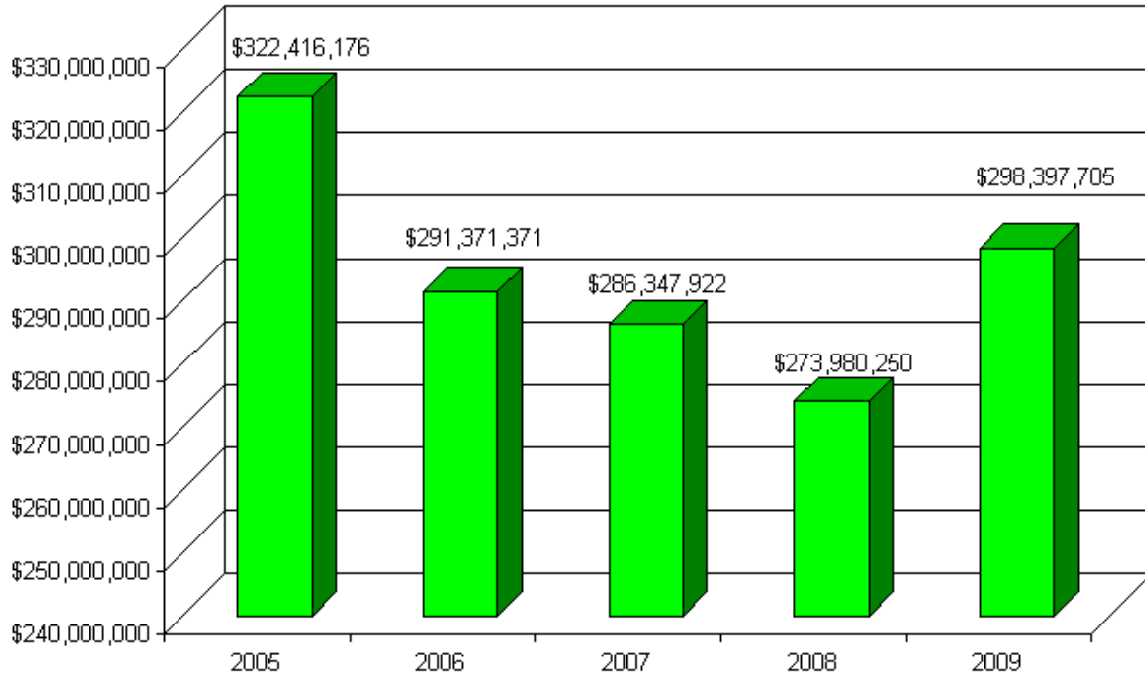
The Core supports approximately four hundred faculty and students from the University of Hawaii system and other institutions, and pays individual attention to the variable needs of its clients. The UH user community includes the College of Natural Sciences, Cancer Research Center of Hawaii, John A. Burns School of Medicine, Pacific Biosciences Research Center, School of Ocean and Earth Science and Technology, Hawaii Water Resources Research Center, as well as the University of Hawaii at Hilo, and Leeward and Windward Community Colleges. The non-UH users are from other universities and State of Hawaii agencies as well as private sector companies.

In conclusion, the Core's role in facilitating research and educational activities has contributed substantially to the overall success of the University. The program has a greater depth and breadth of services than any bio-analytical laboratory in the University of Hawaii system. The facility is an essential, self-contained operation in Hawaii that increases the competitiveness and productivity of the local research community.

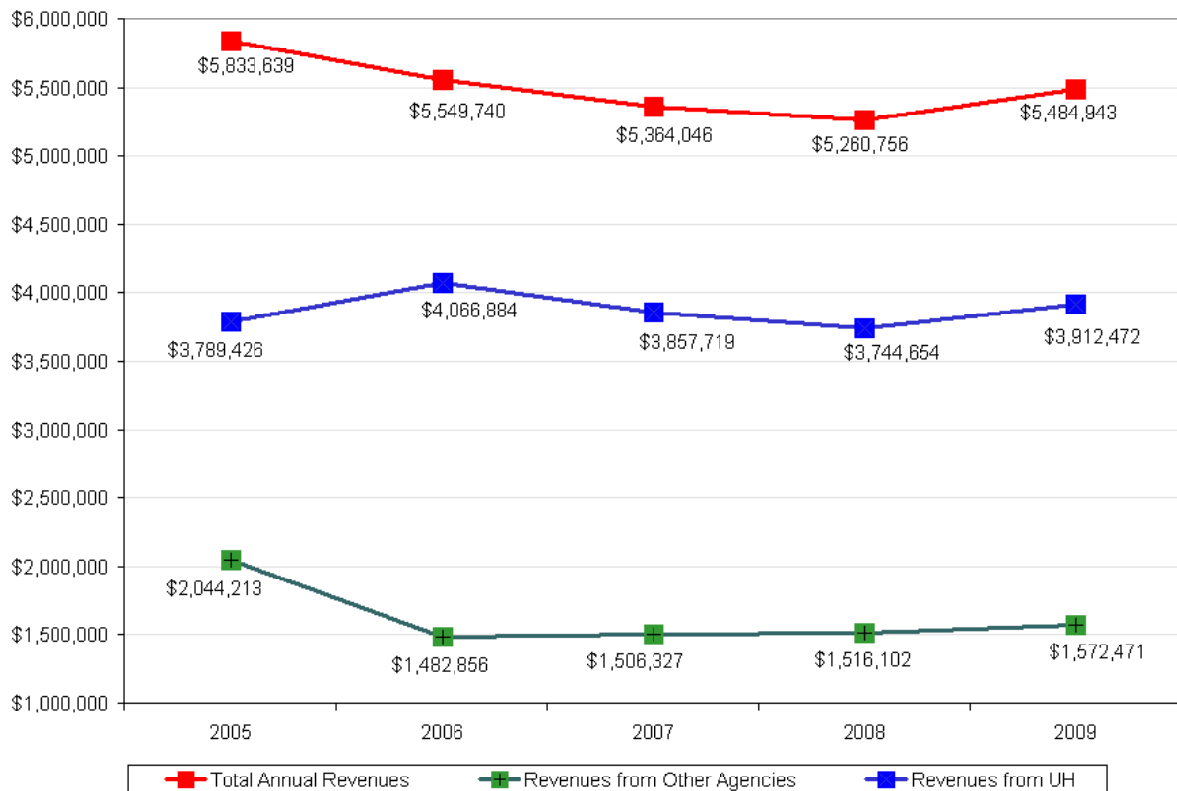
<http://www5.pbrc.hawaii.edu/gmbf/>

Statistical Data - Fiscal Years 2005-2009

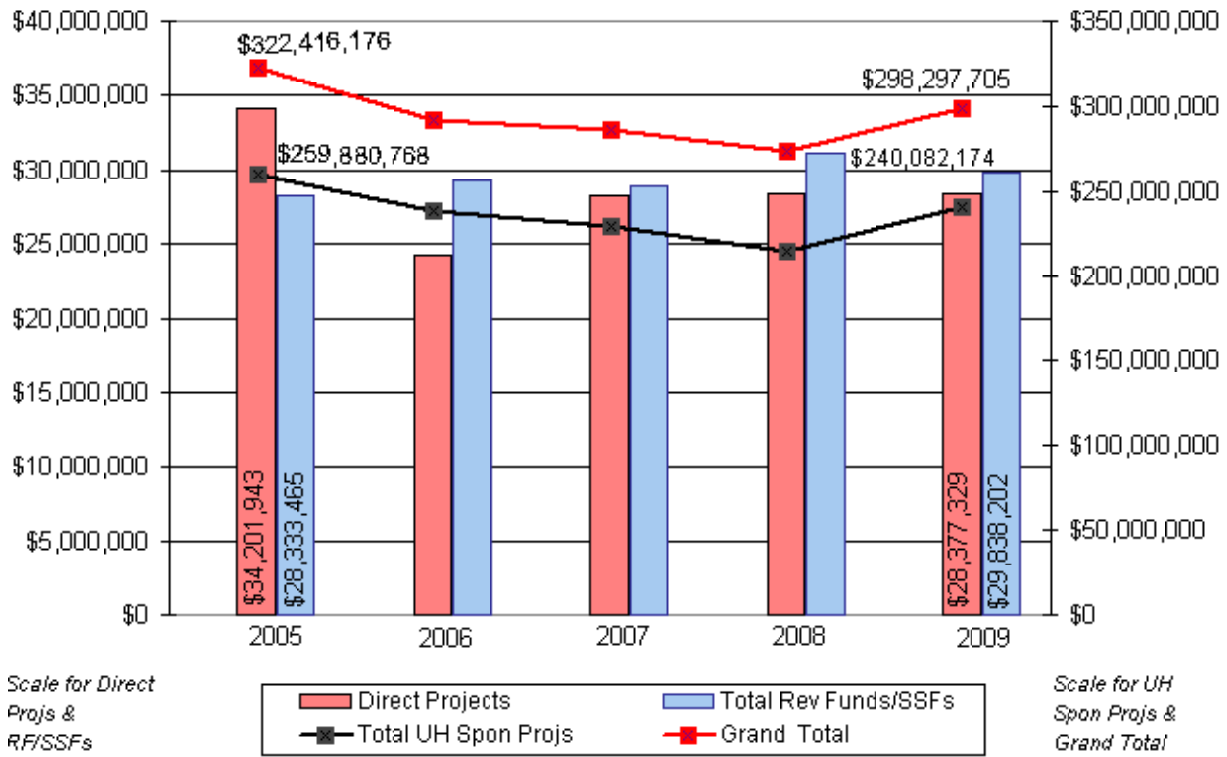
Dollar Volume of Project Administration



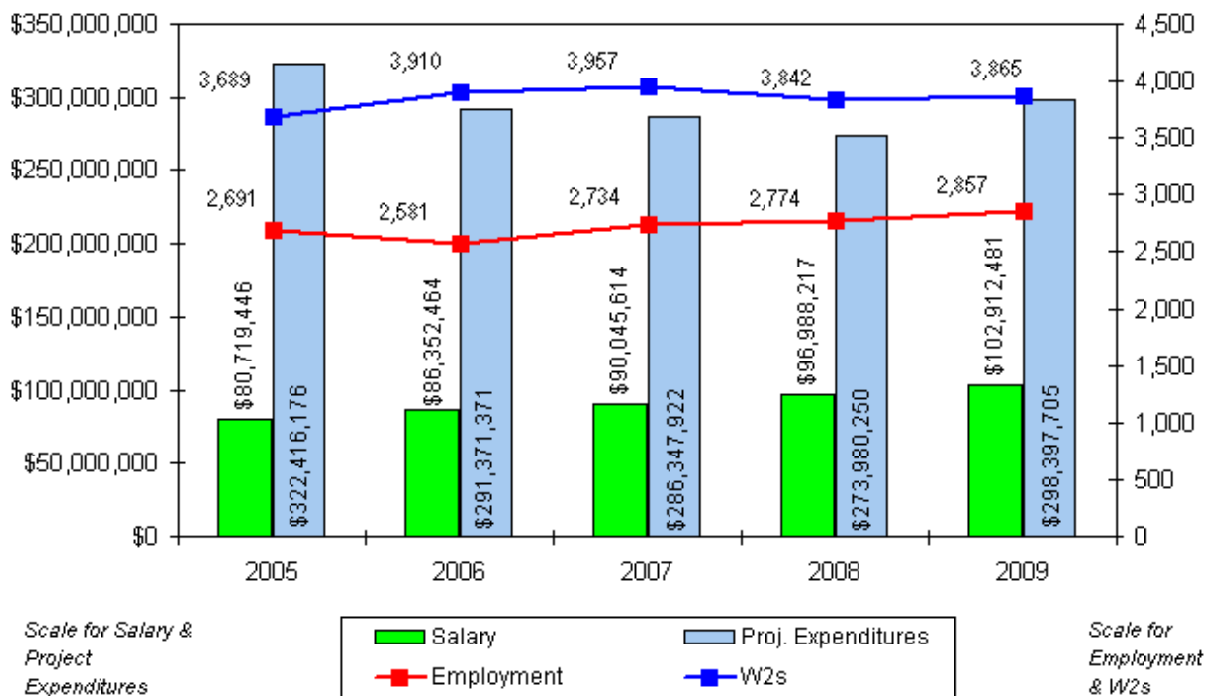
Operating Revenues Summary



Project Expenditures



Employment/W2s/Salaries/Project Expenditures



Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2005	%	2006	%	2007	%	2008	%	2009	%
FEDERAL										
Dept of Health & Human Svcs	31,201,604	9.68	36,785,607	12.62	34,283,944	11.97	34,153,561	12.47	36,434,473	12.21
Dept of Commerce	16,150,922	5.01	16,401,296	5.63	17,089,703	5.97	18,415,323	6.72	17,828,453	5.98
National Science Foundation	19,262,297	5.97	18,381,284	6.31	21,198,574	7.40	20,174,746	7.36	18,329,030	6.14
Dept of Agriculture	4,221,081	1.31	4,574,674	1.57	5,927,800	2.07	5,068,068	1.85	4,207,894	1.41
Dept of Interior	11,158,249	3.46	10,379,711	3.56	8,172,546	2.85	6,610,648	2.41	6,410,302	2.15
Dept of Energy	1,198,935	0.37	1,582,202	0.54	2,382,267	0.83	1,994,777	0.73	2,362,731	0.79
Dept of Defense	36,205,734	11.23	47,185,666	16.19	57,183,981	19.97	42,623,170	15.56	46,260,920	15.51
Dept of Education	9,644,551	2.99	13,746,101	4.72	13,519,384	4.72	12,520,850	4.57	15,020,082	5.04
Natl Aeronautics & Space Admin	15,215,154	4.72	11,964,741	4.11	6,756,116	2.36	7,516,914	2.74	5,553,813	1.86
Dept of State	4,831,498	1.50	4,171,711	1.43	3,767,101	1.32	1,978,417	0.72	1,170,695	0.39
Dept of Labor	783,296	0.24	1,706,700	0.59	2,051,693	0.72	1,951,517	0.72	1,207,515	0.40
Other Miscellaneous Federal	5,477,091	1.70	4,914,124	1.69	4,193,930	1.46	3,315,801	1.21	6,498,044	2.18
TOTAL UH Federal Projects	155,350,412	48.18	171,793,817	56.96	176,527,039	61.65	156,323,792	57.06	161,283,952	54.06
NON-FEDERAL										
<u>State & County Governments:</u>										
<u>University of Hawaii:</u>										
Sch of Ocean & Earth Sci & Tech	2,196,879	0.68	1,690,654	0.58	2,459,292	0.86	2,913,915	1.06	5,604,628	1.88
Institute for Astronomy	3,455,506	1.07	2,801,434	0.96	2,951,578	1.03	3,003,939	1.10	3,995,871	1.34
Ofc of Tech Transf & Econ Dev	907,455	0.28	1,073,944	0.37	1,088,039	0.38	1,060,930	0.39	796,689	0.27
Cancer Research Center of HI	1,510,994	0.47	1,553,813	0.53	1,668,812	0.58	1,826,892	0.67	2,595,077	0.87
School of Medicine	65,500,159	20.32	24,546,408	8.42	6,152,077	2.15	5,403,709	1.97	2,574,661	0.86
UH Hilo	3,429,663	1.06	4,022,044	1.38	3,384,750	1.18	4,067,309	1.48	4,144,359	1.39
UH West Oahu	--	--	189,929	0.07	1,987,911	0.69	4,671,703	1.71	16,081,809	5.39
UH Other	9,056,934	2.81	8,695,206	2.98	10,508,499	3.67	6,459,567	2.36	8,992,101	3.01
Dept of Health	5,647,763	1.75	6,194,191	2.13	6,561,666	2.29	7,410,754	2.70	5,373,156	1.80
Dept of Land & Natural Resrcs	1,409,161	0.44	3,196,687	1.1	4,213,730	1.47	5,220,077	1.91	5,567,939	1.87
Dept of Education	399,125	0.12	410,995	0.14	299,639	0.10	233,227	0.09	230,287	0.08
Dept of Defense	872,314	0.27	0	-	231,717	0.08	102,330	0.04	617,065	0.21
County Government	243,447	0.08	761,886	0.26	603,602	0.21	806,657	0.29	800,620	0.27
Other Sponsors	9,900,956	3.07	10,870,223	3.73	10,475,927	3.66	14,937,765	5.45	21,423,960	7.18
TOTAL UH Non-Federal Projects	104,530,356	32.42	66,007,414	22.65	52,587,239	18.36	58,118,774	21.21	78,798,222	26.42
TOTAL UH PROJECTS	259,880,768	80.6	237,801,231	81.61	229,114,278	80.01	214,442,566	78.27	240,082,174	80.48
DIRECT PROJECTS										
FEDERAL	8,989,143	2.79	5,685,622	1.95	7,203,921	2.52	4,999,559	1.82	4,538,938	1.73
NON-FEDERAL										
<u>State & County Governments:</u>										
Dept of Health	751,457	0.23	1,107,781	0.38	1,153,002	0.40	1,264,302	0.46	863,918	0.29
Dept of Land & Natural Res	1,425,889	0.44	1,546,472	0.53	1,841,986	0.64	1,903,520	0.69	2,065,677	0.69
Dept of Education	80,050	0.02	116,531	0.04	111,817	0.04	17,941	0.01	191,173	0.06
County Government	7,512,403	2.33	463,252	0.16	18,340	0.01	4,578	0.00	783	0.00
<u>Others:</u>										
Joint Astronomy Centre	4,441,265	1.38	4,510,732	1.55	4,323,743	1.51	4,705,069	1.72	4,947,293	1.66
Acad Sinica Instlt of Astronomy	1,271,675	0.39	1,573,576	0.54	2,069,149	0.72	1,668,948	0.61	1,824,166	0.61
Natl Astronom Observ of Japan	4,735,971	1.47	5,774,183	1.98	5,516,458	1.93	5,250,271	1.92	5,313,418	1.78
PICHTR	14,292	0.00	137,665	0.05	1,636,929	0.57	2,888,535	1.05	3,804,747	1.28
Hawaii Community Fdtn	--	--	--	--	1,078,672	0.38	2,880,236	1.05	2,444,542	0.82
Other Sponsors	4,994,090	1.55	3,458,748	1.19	6,046,643	2.11	2,870,412	1.05	2,382,674	0.80
TOTAL Non-Federal Projects	25,212,800	7.82	18,551,275	6.37	21,081,138	7.36	23,453,812	8.56	23,838,391	7.99
TOTAL DIRECT PROJECTS	34,201,943	10.61	24,236,897	8.32	28,285,059	9.88	28,453,371	10.39	28,377,329	9.72
REVOLVING FUNDS & SSF's										
Specialized Svc Fac/Ship Ops	12,320,439	3.82	9,561,339	3.28	9,004,842	3.14	12,572,209	4.59	9,627,413	3.23
Revolving Funds & Other SSF's	16,013,026	4.97	19,771,904	6.79	19,943,743	6.96	18,512,104	6.76	20,210,789	6.78
TOTAL REVOL FUNDS & SSF's	28,333,465	8.79	29,333,243	10.07	28,948,585	10.11	31,084,313	11.35	29,838,202	10.01
TOTAL PROJECTS	322,416,176	100.0	291,371,371	100.0	286,347,922	100.0	273,980,250	100.0	298,297,705	100.00

Financial Statements for the Years Ended June 30, 2009 and 2008

Financial statements and report of independent certified public accountants

[The Research Corporation of the University of Hawaii, State of Hawaii](#)

June 30, 2009 and 2008

**The Research Corporation of
 the University of Hawai'i
 State of Hawai'i**
 Financial Statements
 June 30, 2009 and 2008

**The Research Corporation of the University of Hawai'i
 State of Hawai'i
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SECTION 1 FINANCIAL



Report of Independent Auditors

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

We have audited the accompanying balance sheet of The Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation"), a component unit of the University of Hawai'i, as of June 30, 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year 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 audit. The financial statements of the Corporation as of June 30, 2008, were audited by other auditors whose report dated January 8, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 14 to the financial statements, the 2008 financial statements have been restated to correct an error in accounting for investments.

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 Hawai'i as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 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 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 audit.

999 BISHOP STREET, SUITE 1900
HONOLULU, HAWAII 96813
TELEPHONE: 808 531 3400 FACSIMILE: 808 531 3433

The Management's Discussion and Analysis ("MD&A") on pages 3 to 8 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Corporation. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accuity LLP

Honolulu, Hawaii
December 11, 2009

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2009 and 2008**

Introduction

The following discussion and analysis provides an overview of the financial position and results of operations for The Research Corporation of the University of Hawai'i ("Corporation") for the year ended June 30, 2009. It includes selected comparative information with the years ended June 30, 2008 and 2007. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes.

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

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

Financial Highlights

- Despite the decline in economic conditions, the Corporation's volume of business (project expenditures) increased by 9% from fiscal years 2008 to 2009. This is a change from the previous three years when the Corporation experienced a decrease in the volume of business. Prior to that, the Corporation experienced record volume increases during fiscal years 2001 to 2005.

Fiscal Year	Amount	Annual	
		Amount Increase (Decrease)	Percentage Increase (Decrease)
2009	\$ 298,297,705	\$ 24,317,455	9%
2008	273,980,250	(12,367,672)	-4%
2007	286,347,922	(5,023,449)	-2%
2006	291,371,371	(31,044,805)	-10%
2005	322,416,176	62,009,111	24%
2004	260,407,065	47,764,398	22%
2003	212,642,667	48,579,784	30%
2002	164,062,883	55,507,834	51%
2001	108,555,049	-	-

**The Research Corporation of the University of Hawai'i
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- The financial information for fiscal year 2008 and 2007 has been restated to correct an error in accounting for investments. The fiscal year 2008 and 2007 amounts presented in the condensed statements in this discussion and analysis are the restated balances.

Using the Financial Statements

The financial reports of the Corporation include three statements:

- The statements of net assets 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 Statements of Net Assets

The Corporation's assets, liabilities, and net assets at June 30, 2009, 2008, and 2007 are summarized below:

	2009	2008 (Restated)	2007 (Restated)
Current assets			
Cash and cash equivalents	\$ 8,735,557	\$ 7,527,602	\$ 2,400,886
Time certificates of deposit	6,979,322	3,967,808	7,916,740
Receivables	23,284,918	25,078,419	27,518,164
Other assets	152,414	163,226	401,329
Restricted cash	<u>2,595,246</u>	<u>4,872,421</u>	<u>4,453,070</u>
Total current assets	41,747,457	41,609,476	42,690,189
Noncurrent assets			
Investment	400,587	424,720	419,386
Capital assets	<u>489,208</u>	<u>387,559</u>	<u>546,127</u>
	<u>889,795</u>	<u>812,279</u>	<u>965,513</u>
Total assets	<u>\$ 42,637,252</u>	<u>\$ 42,421,755</u>	<u>\$ 43,655,702</u>

**The Research Corporation of the University of Hawai'i
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Management's Discussion and Analysis (Unaudited)
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	2009	2008 (Restated)	2007 (Restated)
Current liabilities			
	\$ 31,814,178	\$ 32,221,576	\$ 34,102,386
Noncurrent liabilities			
	<u>1,941,641</u>	<u>1,407,634</u>	<u>958,449</u>
Total liabilities	<u>33,755,819</u>	<u>33,629,210</u>	<u>35,060,835</u>
Net assets			
Invested in capital assets	489,208	387,559	546,127
Unrestricted, as restated	<u>8,392,225</u>	<u>8,404,986</u>	<u>8,048,740</u>
Total net assets	<u>8,881,433</u>	<u>8,792,545</u>	<u>8,594,867</u>
Total liabilities and net assets	<u>\$ 42,637,252</u>	<u>\$ 42,421,755</u>	<u>\$ 43,655,702</u>

Overall, the Corporation's financial condition remains stable.

Assets

Cash and cash equivalents increased from 2008 to 2009 due to an increase in advances from University revolving accounts. The increase was offset by a decrease in cash equivalents due to the classification of time certificates of deposits ("TCD's"). The Corporation classifies TCD's with maturity terms less than 90 days as cash equivalents. At June 30, 2008, TCD's with maturity terms less than 90 days were \$2,000,000. Cash and cash equivalents increased from 2007 to 2008 due to the redemption of time certificate of deposits ("TCD's") and classification of TCD's increasing cash and decreasing investments.

Investments include funds invested with the Hawai'i Strategic Development Corporation.

Receivables decreased by 7% from fiscal years 2008 to 2009, and by 9% from fiscal years 2007 to 2008. 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, 2009 was \$18,158,910 compared to \$19,241,201 at June 30, 2008 and \$19,775,985 at June 30, 2007.

Fixed asset acquisitions amounted to \$260,429 for 2009 compared to \$22,304 for 2008. Significant acquisitions were made in 2009 to develop, implement, and enhance software applications for human resources. Depreciation expense for 2009 and 2008 amounted to \$158,780 and \$180,872, respectively.

Liabilities

Current liabilities decreased by 1% from 2008 to 2009, and decreased by 6% from 2007 to 2008. The change is the result of project costs incurred for the University and other sponsoring agencies and correlates to the decrease in receivables.

Noncurrent liabilities increased 38% from fiscal years 2008 to 2009 and 47% from fiscal years 2007 to 2008. This is due to the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2008. This statement established standards for the measurement, recognition, and display of other postemployment benefit expenses and related liabilities and note disclosures in the financial reports.

**The Research Corporation of the University of Hawai'i
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June 30, 2009 and 2008**

Net Assets

Net assets invested in capital assets at June 30, 2009 and 2008 were \$489,208 and \$387,559, 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 for working capital and project contingent liabilities.

Condensed Statements of Revenues and Expenses and Changes in Net Assets

The Corporation's statements of revenues and expenses and changes in net assets as of June 30, 2009, 2008, and 2007 are summarized as follows:

	2009	2008 (Restated)	2007 (Restated)
Operating revenues			
University of Hawai'i	\$ 3,912,472	\$ 3,744,654	\$ 3,857,719
Other sponsor agencies	<u>1,572,471</u>	<u>1,516,102</u>	<u>1,506,327</u>
Total operating revenues	5,484,943	5,260,756	5,364,046
Operating expenses			
Personnel costs	3,179,484	3,109,106	3,028,547
Data processing services	952,947	849,076	844,916
Insurance	341,833	359,784	344,176
Retiree medical benefits	274,000	324,000	15,650
Office supplies and services	254,765	350,074	253,249
Depreciation	158,780	180,872	248,831
Other expenses	<u>383,272</u>	<u>414,003</u>	<u>371,515</u>
Total operating expenses	<u>5,545,081</u>	<u>5,586,915</u>	<u>5,106,884</u>
Operating income (loss)	(60,138)	(326,159)	257,162
Nonoperating revenues			
Interest income	173,159	518,503	884,488
Net investment income (expense)	<u>(24,133)</u>	<u>5,334</u>	<u>-</u>
Income before transfers	88,888	197,678	1,141,650
Special and extraordinary item			
UH rebate	<u>-</u>	<u>-</u>	<u>(3,000,000)</u>
Increase (decrease) in net assets	88,888	197,678	(1,858,350)
Net assets			
Beginning of year	<u>8,792,545</u>	<u>8,594,867</u>	<u>10,453,217</u>
Ending of year	<u>\$ 8,881,433</u>	<u>\$ 8,792,545</u>	<u>\$ 8,594,867</u>

**The Research Corporation of the University of Hawai'i
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In fiscal year 2009, operating revenues earned from management fees increased in comparison to fiscal year 2008. The increase was the result of a clarification of the UH/RCUH Internal Agreement which provides for the 100% subsidy for the cost of operating the RCUH Hilo office. In fiscal year 2008, operating revenues earned from management fees decreased slightly in comparison to fiscal year 2007. The decrease was a result of the amendment of the UH/RCUH Internal Agreement which revised the calculation of the management fee to be based on a percentage of administrative operating expenses.

Operating expenses in fiscal year 2009 decreased by 1% over the previous year's expenses. With the exception of data processing services, the decrease is the result of the actions of management to monitor and maintain administrative operating expenses at a conservative level due to current economic conditions. Data processing costs were higher due to necessary upgrades and maintenance for the financial information system and web applications.

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 Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition, more costs were incurred for office supplies and services due to higher costs and increased advertising for core staff administrative job positions.

For fiscal year 2009, net assets increased by \$88,888. For fiscal year 2008, net assets increased by \$197,678.

Condensed Statement of Cash Flows

The Corporation's statement of cash flows for the fiscal years ended June 30, 2009, 2008 and 2007 are summarized as follows:

	2009	2008	2007
Operating activities			
Cash received from operations	\$ 7,027,902	\$ 6,134,559	\$ 7,674,915
Cash payments for operations	<u>(4,998,338)</u>	<u>(4,944,011)</u>	<u>(13,564,362)</u>
Net cash provided by (used in) operating activities	2,029,564	1,190,548	(5,889,447)
Financing activities			
Noncapital	-	(89,612)	(3,149,768)
Capital	<u>(260,429)</u>	<u>(22,304)</u>	<u>(29,186)</u>
Net cash used in financing activities	(260,429)	(111,916)	(3,178,954)
Investing activities			
Increase (decrease) in cash and cash equivalents	<u>(1,069,220)</u>	<u>5,546,067</u>	<u>(8,233,837)</u>
Cash and cash equivalents			
Beginning of year	<u>12,400,023</u>	<u>6,853,956</u>	<u>15,087,793</u>
Ending of year	<u>\$ 11,330,803</u>	<u>\$ 12,400,023</u>	<u>\$ 6,853,956</u>

**The Research Corporation of the University of Hawai'i
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Management's Discussion and Analysis (Unaudited)
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Fluctuations in operating activities are in direct correlation with the volume of business activity. The increase in the volume of business from fiscal year 2008 to 2009 increased the cash received as well as cash payments. Similarly, the decrease in the volume of business from fiscal year 2007 to 2008 decreased the cash received as well as cash payments. The change in investing activities was due to the purchase, redemption, and classification of TCD's.

Future Budgets and Rates

Despite the current status of the economy, the financial outlook for the Corporation remains positive. Management projects the volume of business to continue to increase in the coming year. While services will increase, management will continue to maintain and control operating expenses at a conservative level. The budget for fiscal year 2010 was approved with a 1% reduction in administrative operating expenses below fiscal year 2009 projected operating expenses. Management strives to continue improving operational efficiency and maximizing its resources to ensure that the needs of the University research community and other clients are met.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Statements of Net Assets
June 30, 2009 and 2008**

	2009	2008 (Restated)
Assets		
Current assets		
Cash and cash equivalents	\$ 8,735,557	\$ 7,527,602
Time certificates of deposit	6,979,322	3,967,808
Receivables		
University of Hawai'i, net	18,158,910	19,241,201
Other sponsoring agencies	5,126,008	5,837,218
Total receivables	<u>23,284,918</u>	<u>25,078,419</u>
Prepaid expenses	152,414	163,226
Restricted cash	<u>2,595,246</u>	<u>4,872,421</u>
Total current assets	<u>41,747,457</u>	<u>41,609,476</u>
Noncurrent assets		
Investment	400,587	424,720
Capital assets, net	<u>489,208</u>	<u>387,559</u>
Total noncurrent assets	<u>889,795</u>	<u>812,279</u>
Total assets	<u>\$ 42,637,252</u>	<u>\$ 42,421,755</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 15,400,621	\$ 14,560,341
Accrued salaries and other	12,157,137	11,542,184
Advances from other sponsoring agencies	2,833,750	4,893,951
Workers' compensation and unemployment claims reserve	1,310,670	1,120,100
Current portion of accrued supplemental retirement benefits	55,000	46,000
Current portion of accrued postemployment health care and life insurance benefits	<u>57,000</u>	<u>59,000</u>
Total current liabilities	<u>31,814,178</u>	<u>32,221,576</u>
Noncurrent liabilities		
Accrued supplemental retirement benefits	1,193,470	1,057,274
Postemployment health care and life insurance benefits	<u>748,171</u>	<u>350,360</u>
Total noncurrent liabilities	<u>1,941,641</u>	<u>1,407,634</u>
Total liabilities	<u>33,755,819</u>	<u>33,629,210</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	489,208	387,559
Unrestricted	<u>8,392,225</u>	<u>8,404,986</u>
Total net assets	<u>8,881,433</u>	<u>8,792,545</u>
Total liabilities and net assets	<u>\$ 42,637,252</u>	<u>\$ 42,421,755</u>

The accompanying notes are an integral part of these statements.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008**

	2009	2008 (Restated)
Operating revenues		
University of Hawai'i	\$ 3,912,472	\$ 3,744,654
Other sponsoring agencies	<u>1,572,471</u>	<u>1,516,102</u>
Total operating revenues	5,484,943	5,260,756
Operating expenses		
Personnel costs	3,179,484	3,109,106
Data processing services	952,947	849,076
Insurance	341,833	359,784
Retiree medical benefits	274,000	324,000
Office supplies and services	254,765	350,074
Depreciation	158,780	180,872
Office and equipment rental	92,044	90,608
Professional and technical support	82,342	82,134
Professional services	71,980	45,253
Travel	42,568	52,856
Tuition support	42,221	28,117
Claims and settlements	-	30,000
Other expenses	<u>52,117</u>	<u>85,035</u>
Total operating expenses	<u>5,545,081</u>	<u>5,586,915</u>
Operating loss	<u>(60,138)</u>	<u>(326,159)</u>
Nonoperating revenues (expenses)		
Intergovernmental (Federal and Non-Federal awards)		
Revenue	1,494,806	2,006,861
Expense	<u>(1,494,806)</u>	<u>(2,006,861)</u>
Interest income		
Cash and time certificates of deposit	173,159	518,503
Lease	-	1,078
Interest expense – Long-term debt	-	(1,078)
Investment income (expense)		
Interest income	6,718	5,334
Investment expenses	<u>(30,851)</u>	<u>-</u>
Net nonoperating revenues	<u>149,026</u>	<u>523,837</u>
Increase in net assets	88,888	197,678
Net assets		
Beginning of year, as previously reported	8,792,545	9,659,574
Prior period adjustment	<u>-</u>	<u>(1,064,707)</u>
Beginning of year, as restated	<u>8,792,545</u>	<u>8,594,867</u>
End of year	<u>\$ 8,881,433</u>	<u>\$ 8,792,545</u>

The accompanying notes are an integral part of these statements.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Statements of Cash Flows
Years Ended June 30, 2009 and 2008**

	2009	2008 (Restated)
Cash flows from operating activities		
Receipts for		
University of Hawai'i management fee	\$ 3,144,750	\$ 3,700,000
Other sponsoring agencies indirect cost recoveries	1,572,471	1,516,102
Refund for workers compensation insurance policy premium	2,126,239	-
Payments to vendors	(1,857,489)	(1,880,664)
Payments for employee compensation	(3,140,849)	(3,063,347)
Project expenditures and cost reimbursements, net	<u>184,442</u>	<u>918,457</u>
Net cash provided from operating activities	<u>2,029,564</u>	<u>1,190,548</u>
Cash flows from noncapital financing activities		
Principal and interest payments on debt	-	(89,612)
Net cash used in noncapital financing activities	<u>-</u>	<u>(89,612)</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	<u>(260,429)</u>	<u>(22,304)</u>
Net cash used in capital and related financing activities	<u>(260,429)</u>	<u>(22,304)</u>
Cash flows from investing activities		
Proceeds from maturities of investments	-	4,000,000
Purchase of investments	(3,018,232)	(56,402)
Interest income received on cash deposits and investment income	<u>179,877</u>	<u>523,837</u>
Net cash provided from (used in) investing activities	<u>(2,838,355)</u>	<u>4,467,435</u>
Increase (decrease) in cash and cash equivalents	<u>(1,069,220)</u>	<u>5,546,067</u>
Cash and cash equivalents		
Beginning of year	<u>12,400,023</u>	<u>6,853,956</u>
End of year	<u>\$ 11,330,803</u>	<u>\$ 12,400,023</u>
Cash and cash equivalents presented in the accompanying balance sheets		
Cash and cash equivalents	\$ 8,735,557	\$ 7,527,602
Restricted cash	<u>2,595,246</u>	<u>4,872,421</u>
	<u>\$ 11,330,803</u>	<u>\$ 12,400,023</u>

The accompanying notes are an integral part of these statements.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Statements of Cash Flows
Years Ended June 30, 2009 and 2008**

	2009	2008 (Restated)
Reconciliation of operating loss to net cash provided from operating activities		
Operating loss	\$ (60,138)	\$ (326,159)
Adjustments to reconcile operating loss to net cash provided from operating activities		
Depreciation expense	158,780	180,872
Change in assets and liabilities		
Receivables	1,793,501	2,835,765
Prepaid expenses	10,812	238,103
Accounts payable and accrued wages	1,455,233	(2,409,919)
Advances from University of Hawai'i and other sponsors	(2,060,201)	10,397
Workers' compensation and unemployment claims reserve	190,570	154,304
Accrued supplemental retirement benefits	145,196	97,825
Postemployment health care and life insurance benefits	395,811	409,360
Net cash provided from operating activities	<u>\$ 2,029,564</u>	<u>\$ 1,190,548</u>

The accompanying notes are an integral part of these statements.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2009 and 2008**

1. Organization and Summary of Significant Accounting Policies

The Legislature of the State of Hawai'i ("State") established The Research Corporation of the University of Hawai'i ("Corporation") in 1965 for the purposes of promoting, encouraging, initiating, developing and conducting scientific research and investigation in all branches of learning, and for disseminating and making available to the public the benefits of such research and investigation. The Corporation is exempt from any income taxes. The Corporation provides administrative support services to projects of the University of Hawai'i ("University"), the State, and other organizations 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 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.

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. 39, *Determining Whether Certain Organizations are Component Units* ("Statement No. 39"), 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 and Statement No. 39, 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 9).

Measurement Focus and Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. 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.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2009 and 2008**

Revenue Recognition

Revenues are recognized when earned and expenses are recognized when liabilities are incurred. Operating revenues and expenses generally result from providing services or goods in connection with the Corporation's principal ongoing operations. The principal operating revenues of the Corporation are management fees and indirect cost recoveries. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2009. Cash equivalents amounted to \$2,000,000 at June 30, 2008.

Time Certificates of Deposit

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

Restricted Cash

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

Investment

The Corporation reports its investment at cost, which management believes approximates fair value.

Capital Assets

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

Depreciation expense is recorded in the financial statements. 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 six years.

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

Retirement Plan

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
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Vacation

Employees are credited with vacation at the rate of 168 hours per calendar year. The maximum accumulation of such vacation credits is limited to 360 hours at calendar year end and is convertible to pay upon termination of employment. Accumulated vacation for administrative and project personnel has been accrued and reflected in the accompanying statements of net assets. Accumulated vacation at June 30, 2009 and 2008 aggregated approximately \$5,325,282 and \$5,037,569, respectively.

Supplemental Retirement Benefits

Sick leave accumulates at the rate of 14 hours per month of service without limit and is not convertible to pay upon termination of employment. However, an employee who retires in good standing and meets certain eligibility requirements may be entitled to supplemental retirement benefits (see note 8).

Net Assets

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. There were no restricted net assets at June 30, 2009 or 2008.

Risk Management

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

Use of Estimates

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

Risks and Uncertainties

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

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on net income as previously reported.

**The Research Corporation of the University of Hawai'i
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2. Cash and Investments

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.

The Corporation has an investment with the Hawai'i Strategic Development Corporation ("HSDC"), a State of Hawai'i agency created in 1990, to promote economic development in conjunction with private enterprise. At June 30, 2009 and 2008, funds invested with HSDC amounted to \$400,587 and \$424,720, respectively.

Investments are classified as to custodial risk within 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 with 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, 2009 and 2008 as follows:

	2009	2008
Uninsured and collateral held by trust department or agent not in the Corporation's name	\$ 400,587	\$ 424,720

3. 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.

The net receivable balance from the University was comprised of the following at June 30, 2009 and 2008:

	2009	2008
Extramurally sponsored accounts	\$ 29,347,127	\$ 23,819,870
Internally funded accounts	(5,569,852)	(4,796,196)
Revolving accounts	(7,324,078)	(915,143)
Miscellaneous agency accounts	1,714,820	1,644,349
Management fee	575,893	73,321
Advance	(585,000)	(585,000)
	<u>\$ 18,158,910</u>	<u>\$ 19,241,201</u>

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Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$2,833,750 and \$4,893,951 at June 30, 2009 and 2008, respectively. Cash relating to a portion of the advances, amounting to \$2,595,246 and \$4,872,421 at June 30, 2009 and 2008, respectively, is restricted by the sponsors.

4. Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 were as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
2009				
Office equipment	\$ 557,404	\$ 5,060	\$ -	\$ 562,464
Computer software	<u>2,585,742</u>	<u>255,369</u>	<u>-</u>	<u>2,841,111</u>
	3,143,146	260,429	-	3,403,575
Less: Accumulated depreciation				
Office equipment	454,366	28,575	-	482,941
Computer software	<u>2,301,221</u>	<u>130,205</u>	<u>-</u>	<u>2,431,426</u>
	2,755,587	158,780	-	2,914,367
	<u>\$ 387,559</u>	<u>\$ 101,649</u>	<u>\$ -</u>	<u>\$ 489,208</u>
2008				
Office equipment	\$ 535,100	\$ 22,304	\$ -	\$ 557,404
Computer software	<u>2,585,742</u>	<u>-</u>	<u>-</u>	<u>2,585,742</u>
	3,120,842	22,304	-	3,143,146
Less: Accumulated depreciation				
Office equipment	427,579	26,787	-	454,366
Computer software	<u>2,147,136</u>	<u>154,085</u>	<u>-</u>	<u>2,301,221</u>
	2,574,715	180,872	-	2,755,587
	<u>\$ 546,127</u>	<u>\$ (158,568)</u>	<u>\$ -</u>	<u>\$ 387,559</u>

5. 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, 2010. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security interest in the Corporation's accounts receivable. The rate of interest on borrowings outstanding was 3.28% at June 30, 2009 and 3.75% at June 30, 2008. At June 30, 2009 and 2008, there were no borrowings outstanding under this line.

6. Net Assets

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.

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Project Contingent Liabilities

The Corporation and the University enter into contracts and agreements with a multitude of organizations, both public and private, locally, nationally and internationally. These organizations often require terms and conditions in the contract or agreement, which if breached, may require reimbursement of expenses or payment of expenses. The Board of Directors designated 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 2009 and 2008, the amount of the designation was increased by \$11,514 and \$44,636, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted net assets at June 30, 2009 and 2008 were comprised of the following:

	2009	2008
Designated		
Working capital	\$ 7,412,792	\$ 7,436,441
Project contingent liabilities	979,321	967,807
Undesignated	<u>112</u>	<u>738</u>
	<u>\$ 8,392,225</u>	<u>\$ 8,404,986</u>

7. Operating Revenues

Under the terms of an agreement between the University and the Corporation, the Corporation is reimbursed for administrative expenses incurred to provide specialized administrative services to projects of the University. Operating revenues received from the University for the years ended June 30, 2009 and 2008 amounted to \$3,647,322 and \$3,560,130, respectively, for extramurally-sponsored projects and \$265,150 and \$184,524, respectively, for internally-funded projects.

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

8. 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 non-forfeitable when made. While it is expected that this retirement plan will continue indefinitely, the Board of Directors of the Corporation reserves the right to modify or discontinue the plan at any time. Total contributions to the retirement plan for the years ended June 30, 2009 and 2008 were \$227,081 and \$190,211, 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, 2009 and 2008, the Corporation's accrued supplemental retirement benefits were \$1,248,470 and \$1,103,274,

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June 30, 2009 and 2008**

respectively, in the accompanying statements of net assets. 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, 2009 and 2008 were \$59,167 and \$72,958, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2009 and 2008:

	2009	2008
Beginning balance	\$ 1,103,274	\$ 1,005,449
Additions	204,363	170,783
Deductions	<u>59,167</u>	<u>72,958</u>
Ending balance	1,248,470	1,103,274
Less: Current portion of accrued supplemental retirement benefits	<u>55,000</u>	<u>46,000</u>
Noncurrent portion of accrued supplemental retirement benefits	<u>\$ 1,193,470</u>	<u>\$ 1,057,274</u>

9. Postemployment Health Care and Life Insurance Benefits

The Corporation provides a single employer defined benefit postemployment benefit program. The program provides healthcare and life insurance to eligible employees and/or spouses. To be eligible for these benefits, a retiree must have 10 years of continuous service, 10 years total participation in the retirement plan/term life insurance program, be age 55, an annuitant of the RCUH retirement program at the time of application, and retirement status must be in good standing. The program was established by the Board of Directors and may be changed or rescinded at the Board's discretion. Employees hired after June 30, 2009 will not be eligible to participate in the postemployment health insurance program.

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, 2009 and 2008 aggregated to \$26,189 and \$19,640, respectively.

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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:

	2009	2008
Annual required contribution	\$ 426,000	\$ 429,000
Interest on net OPEB obligation	20,000	-
Adjustment to annual required contribution	<u>(24,000)</u>	<u>-</u>
Annual OPEB cost	422,000	429,000
Contributions made	<u>26,189</u>	<u>19,640</u>
Increase in net OPEB obligation	395,811	409,360
Net OPEB obligation – beginning of year	<u>409,360</u>	<u>-</u>
Net OPEB obligation – end of year	805,171	409,360
Less: Current portion of OPEB obligation – end of year	<u>57,000</u>	<u>59,000</u>
Noncurrent portion of postemployment health care and life insurance benefits	<u>\$ 748,171</u>	<u>\$ 350,360</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 422,000	6.2%	\$ 805,171
June 30, 2008	\$ 429,000	4.6%	\$ 409,360

As of July 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial liability for benefits was \$3,538,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$3,538,000. The covered payroll (annual payroll of active employees covered by the plan) was \$82,700,000, and the ratio of the UAAL to the covered payroll was 4.3%.

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

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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, 2008 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 2009 was 18 years.

10. Project Expenditures and Commitments

University Projects

The agreement between the University and the Corporation defines the basic responsibilities of each party. The University is responsible for fulfilling the terms and conditions of the research and training awards and for assuring compliance with all sponsor requirements, including, but not limited to compliance with applicable laws and regulations. The Corporation is authorized to act as the agent for the University in providing all necessary and required administrative and financial management services in support of the research or training activity. All commitments and disbursements of project funds must be authorized and approved by the University's designated official.

Direct Projects

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

Other Projects

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

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Project expenditures, less advances and reimbursements from sponsors, are accounted for within project accounts which are reflected on the Corporation's statements of net assets. Except for direct intergovernmental projects that fall under the Corporation's responsibility, these transactions are not reflected on the Corporation's statements of revenues and expenses. Project expenditures for the years ended June 30, 2009 and 2008 were as follows:

	University Projects	Direct Projects	Other Projects	Total
2009				
Salaries and wages	\$ 72,659,270	\$ 16,566,775	\$ 12,350,045	\$ 101,576,090
Equipment	16,265,319	76,086	334,449	16,675,854
Other	151,157,585	11,734,468	17,153,708	180,045,761
	<u>\$ 240,082,174</u>	<u>\$ 28,377,329</u>	<u>\$ 29,838,202</u>	<u>\$ 298,297,705</u>
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
	<u>\$ 214,442,566</u>	<u>\$ 28,453,371</u>	<u>\$ 31,084,313</u>	<u>\$ 273,980,250</u>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net assets amounted to approximately \$70,503,000 and \$63,013,000 at June 30, 2009 and 2008, respectively.

11. 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 expenses for the years ended June 30, 2009 and 2008 were \$92,044 and \$90,608, respectively, which includes \$70,030 and \$68,391, respectively, of office rental expense under the operating leases for the years ended June 30, 2009 and 2008.

At June 30, 2009, the future minimum lease payments for equipment under noncancelable operating leases are as follows:

Years ending June 30	Lease Amount
2010	\$ 13,820
2011	13,820
2012	12,630
2013	4,200
	<u>\$ 44,470</u>

**The Research Corporation of the University of Hawai'i
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Notes to Financial Statements
June 30, 2009 and 2008**

12. Risk Management

Torts

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

Property and General Liability Insurance

The Corporation is covered under the statewide insurance program of the State of Hawai'i. Under this program, the Corporation has property damage insurance for all risk losses including \$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 minimum. For other lines of coverage the deductible is \$1 million per occurrence and \$50,000 occurrence for terrorism.

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 or wrongful act. 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 \$10 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.

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, 2009 and 2008, the workers' compensation reserve amounted to \$668,917 and \$679,099, respectively, and is reported as a current liability in the accompanying statements of net assets. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

**The Research Corporation of the University of Hawai'i
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The following is a summary of changes in the workers' compensation reserve for the years ended June 30, 2009 and 2008.

	2009	2008
Beginning balance	\$ 679,099	\$ 520,376
Additional claims	37,958	199,968
Payments on claims	(50,891)	(70,909)
Other (interest credits, etc.)	2,751	29,664
Ending balance	<u>\$ 668,917</u>	<u>\$ 679,099</u>

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.

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, 2009 and 2008, the unemployment reserve amounted to \$641,753 and \$441,001, respectively, and is reported as a current liability in the accompanying statements of net assets.

13. Commitments

At June 30, 2009, the Corporation had the following outstanding contract commitments through May 31, 2011 related to computer software and hardware maintenance:

Years ending June 30	
2010	\$ 134,991
2011	<u>123,741</u>
	<u>\$ 258,732</u>

14. Restatement to the Net Assets

The Corporation has restated its June 30, 2008 net assets as of July 1, 2007 to correct an error in accounting for investments. The restatement adjustment reduced investments that were inappropriately capitalized as an asset in 2008 and accordingly, reduced the previously reported June 30, 2008 net assets.

**The Research Corporation of the University of Hawai'i
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June 30, 2009 and 2008**

As a result of the correction, the Corporation made the following adjustments to its 2008 financial statements:

	As Previously Reported	Restatement Adjustments	As Restated
Assets			
Investments	\$ 1,419,328	\$ (994,608)	\$ 424,720
Net assets			
Unrestricted	\$ 9,659,574	\$ (1,064,707)	\$ 8,594,867
Nonoperating revenues (expenses)			
Quasi-endowment income (expense)			
Decrease in fair value of investments	\$ (70,099)	\$ 70,099	\$ -
Increase in net assets	\$ 127,579	\$ 70,099	\$ 197,678
Net assets at July 1, 2007	\$ 9,659,574	\$ (1,064,707)	\$ 8,594,867
Net assets at June 30, 2008	\$ 9,787,153	\$ (994,608)	\$ 8,792,545

SUPPLEMENTARY INFORMATION

**The Research Corporation of the University of Hawai'i
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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009**

	CFDA No.	Pass-Through Identifier	Federal Expenditures
Executive Office of the President			
Office of National Drug Control Policy			
Hawai'i High Intensity Drug Trafficking Areas	07.000	I7PHIP506Z	\$ 185,123
Hawai'i High Intensity Drug Trafficking Areas – FY08	07.000	I8PHIP506Z	173,449
Hawai'i High Intensity Drug Trafficking Areas – FY09	07.000	G09HI0006A	14,719
			<u>373,291</u>
U.S. Department of Defense			
Office of Naval Research			
Research & Development Cluster			
Alternate Transmitter for Advanced Hawkeye	12.000	N00421-03-C-0118	69,926
Mapping & Detection of UXO – Waikoloa	12.000	W909MY-07-C-0025	588,113
UXO Research & Development and the Application to the IED Threat	12.000	N00164-07-P-1894	17,145
			<u>675,184</u>
U.S. Department of the Interior			
Office of Insular Affairs			
Secretariat U.S. All Islands Committee of the Coral Reef Task Force			
Hawai'i GAP Analysis Program's Land Cover Map Products	15.811	06HQAG0007	330
Secretariat for the All Island Coral Reef Committee	15.875	CRI-RCUH-2008-6	117,636
			<u>118,055</u>
U.S. Department of Health and Human Services			
Health Resources and Service Administration			
Regional Collaborative Pacific Basin – Yr3	93.224	5U1BOA04137-03-00	21,130
Regional Collaborative Pacific Basin	93.224	1U1BOA08583-01-00	26,374
Regional Collaborative Pacific Basin	93.224	U1BOA08583	172,782
			<u>220,286</u>
			<u>\$ 1,386,816</u>

**The Research Corporation of the University of Hawai'i
 State of Hawai'i
 Notes to the Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2009**

1. Basis of Presentation

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

2. Subrecipients

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

Program Title	CFDA No.	Amount
Alternate Transmitter for Advanced Hawkeye	12.000	\$ 69,926
Mapping & Detection of UXO – Waikoloa	12.000	138,190
Regional Collaborative Pacific Basin	93.224	6,000
		<u>\$ 214,116</u>

**SECTION 2
 INTERNAL CONTROL OVER FINANCIAL
 REPORTING AND COMPLIANCE**



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

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

We have audited the financial statements of The Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation") as of and for the year ended June 30, 2009, and have issued our report thereon dated December 11, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 09-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

999 BISHOP STREET, SUITE 1900
HONOLULU, HAWAII 96813
TELEPHONE: 808 531 3400 FACSIMILE: 808 531 3433

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*. However, we noted certain other matters that we will report to the Board of Directors and management of the Corporation in our Internal Control and Business Issues Report.

The Corporation's responses 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.

Honolulu, Hawai'i
December 11, 2009

SECTION 3

**COMPLIANCE AND INTERNAL CONTROL
OVER FEDERAL AWARDS**



**Report of Independent Auditors on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of The Research Corporation of the University of Hawai'i, State of Hawai'i ("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, 2009. 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, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding No. 09-02. We also noted other matters that we will report to the Board of Directors and management of the Corporation in our Internal Control and Business Issues Report.

999 BISHOP STREET, SUITE 1900
HONOLULU, HAWAII 96813
TELEPHONE: 808 531 3400 FACSIMILE: 808 531 3433

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 that entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 09-02 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Corporation's response to the finding identified in our audit is described in its corrective action plan. 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 Corporation's Board of Directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Accuity LLP

Honolulu, Hawai'i
December 11, 2009

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of Major Programs

CFDA Number	Federal Program or Cluster
07.000	Hawai'i High Intensity Drug Trafficking Areas
12.000	Mapping and Detection of UXO – Waikoloa

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee under Section .530 of OMB Circular A-133?	No

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

Section II – Financial Statement Findings

Material Weakness

**Questioned
Costs**

\$ –

Finding No. 09-01: **Restatement of Beginning Net Assets**

Federal Agency: Finding is not specific to a Federal Agency

CFDA Number and Title: Finding is not specific to a Federal Agency

Award Number and Award Year: Not applicable

Condition

During our audit, we noted that the Corporation improperly capitalized an endowment that was held and administered by another entity, which resulted in an overstatement of the Corporation's investments and net assets by approximately \$1,065,000 as of July 1, 2007.

Criteria

§ ____ .310 of OMB Circular A-133 requires the auditee to prepare financial statements that reflect its financial position, results of operations or changes in net assets and, where appropriate, cash flows for the fiscal year audited.

§ ____ .320 requires the auditee to submit a reporting package that includes:

1. Financial statements and schedule of expenditures of federal awards.
2. Summary schedule of prior audit findings.
3. Auditor's report.
4. Corrective action plan.

Although audited financial statements were prepared and submitted as of and for the year ended June 30, 2008, the financial statements submitted were misstated.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

Section II – Financial Statement Findings

Effect

The Corporation restated its financial statements as of and for the year ended June 30, 2008 to correct the error.

The following adjustment was made:

	As Previously Reported	Restatement Adjustments	As Restated
Assets			
Investments	\$ 1,419,328	\$ (994,608)	\$ 424,720
Net assets			
Unrestricted	\$ 9,659,574	\$ (1,064,707)	\$ 8,594,867
Nonoperating revenues (expenses)			
Quasi-endowment income (expense)			
Decrease in fair value of investments	\$ (70,099)	\$ 70,099	\$ -
Increase in net assets	\$ 127,579	\$ 70,099	\$ 197,678
Net assets at July 1, 2007	\$ 9,659,574	\$ (1,064,707)	\$ 8,594,867
Net assets at June 30, 2008	\$ 9,787,153	\$ (994,608)	\$ 8,792,545

Cause

We noted that the accounting error was primarily attributed to various miscommunications between the Corporation and the custodian of the endowment, whereby each entity believed that it controlled the use of the endowment funds.

Recommendation

We recommend that, and the Corporation has already restated its financial statements as of and for the year ended June 30, 2008.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

Section III – Federal Award Findings and Questioned Costs

Significant Deficiency	Questioned Costs
Finding No. 09-02: Lack of Review Over Financial Status Reports	\$ –
Federal Agency: Executive Office of the President	
CFDA Number and Title: 07.000 – Hawai'i High Intensity Drug Trafficking Areas	
Award Number and Award Year: Not applicable	

Condition

During our audit, we noted one instance in which the Corporation submitted a Standard Form ("SF") 269A Financial Status Report for the quarter ended December 31, 2008 that was misstated. We noted that the amount of the award on the SF-269A for the quarter ended December 31 2008 was overstated by approximately \$937,000.

Criteria

Title 21, Chapter III, Part 1403.20(b)(1) of the Code of Federal Regulations requires that accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Effect

The overstatement of the amount of the award could result in the Corporation to overspending its federal award. Any overspent funds would likely be charged to the Corporation's operating funds.

Cause

We noted that the SF-269A was prepared by the Corporation's project personnel, but was not reviewed by another individual.

Recommendation

We recommend that the Corporation review all financial reports that are submitted to the federal agency.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

Section IV – Status of Prior Year Findings and Questioned Costs

Significant Deficiencies	Questioned Costs
Finding No. 08-01: Improper Classification of Federal Award Grants/Contracts	\$ –
Federal Agency: Finding is not specific to a Federal Agency	
CFDA Number and Title: Finding is not specific to a Federal Agency	
Award Number and Award Year: Not applicable	

Condition

During the prior year audit, it was noted that the management inappropriately identified the Corporation as a subrecipient of a federal award in the preliminary schedule of expenditures of federal awards.

Criteria

Pursuant to 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 of federal awards.

Effect

The improper classification of the Corporation as a subrecipient could result in the misstatement of the Corporation's schedule of expenditures of federal awards and financial statements.

Cause

The Corporation did not have a formal procedure to evaluate the relationship between the Corporation and the sponsoring agency.

Status

Resolved.

**The Research Corporation of the University of Hawai'i
 State of Hawai'i
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2009**

Section IV – Status of Prior Year Findings and Questioned Costs

		Questioned Costs
Finding No. 08-02:	Analysis of Employee Benefit Accruals	\$ -
Federal Agency:	Finding is not specific to a Federal Agency	
CFDA Number and Title:	Finding is not specific to a Federal Agency	
Award Number and Award Year:	Not applicable	

Condition

During the prior year audit, it was noted that the Corporation's employee benefit accruals were not adequately analyzed by management.

Criteria

§ ____.310 of OMB Circular A-133 requires the auditee to prepare financial statements that reflect its financial position, results of operations or changes in net assets and, where appropriate, cash flows for the fiscal year audited.

Effect

The Corporation's employee benefit liabilities are material to its financial statements. Failure to adequately analyze these accruals could result in a material misstatement of the Corporation's financial statements.

Cause

The Corporation did not have an effective procedure to ensure that the employee benefit accruals were properly analyzed.

Status

Resolved.

CORRECTIVE ACTION PLAN

Telephone: (808) 988-8300
Fax: (808) 988-8349

The Research Corporation of the University of Hawaii

December 10, 2009

Accuity LLP
999 Bishop Street., Suite 1900
Honolulu, Hawaii 96813

Dear Accuity LLP:

Attached is The Research Corporation of the University of Hawaii's Corrective Action Plan for the financial statement and federal award audit findings for the year ended June 30, 2009.

We appreciate the opportunity to comment on the audit report.

Sincerely,



Leonard Ajifu
Director of Finance

Attachment

**The Research Corporation of the University of Hawaii
Corrective Action Plan
Fiscal Year Ended June 30, 2009**

Section II – Financial Statement Findings

Finding No. 09-01: Restatement of Beginning Net Assets

Condition:

It was noted that the Corporation improperly capitalized an endowment that was held and administered by another entity, which resulted in an overstatement of the Corporation's investments and net assets by approximately \$1,065,000 as of July 1, 2007.

Cause and Effect:

The accounting error was primarily attributed to various miscommunications between the Corporation and the custodian of the endowment, whereby each entity believed that it controlled the use of the endowment funds.

The Corporation restated its financial statements as of and for the year ended June 30, 2008 to correct the error.

Recommendation:

The Corporation should restate its financial statements as of and for the year ended June 30, 2008.

Corrective Action Plan

The Corporation has restated its financial statements for the year ended June 30, 2008 to correct the error identified.

Section III – Federal Award Findings and Questioned Costs

Finding No. 09-02: Lack of Review Over Financial Status Reports

Condition:

It was noted that there was one instance in which the Corporation submitted a Standard Form ("SF") 269A Financial Status Report for the quarter ended December 31, 2008 that was misstated. The amount of the award on the SF-269A for the quarter ended December 31, 2008 was overstated by approximately \$937,000.

Cause and Effect:

The SF-269A was prepared by the Corporation's project personnel, but was not reviewed by another individual.

The overstatement of the amount of the award could result in the Corporation overspending its federal award. Any overspent funds would likely be charged to the Corporation's operating funds.

Recommendation:

The Corporation should review all financial reports that are submitted to the federal agency.

Corrective Action Plan

Reports will be reviewed by the Controller and signed by the Director of Finance before they are submitted to the federal agency.