



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

2010

A N N U A L R E P O R T



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of the University of Hawaii

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Information *on* *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-FIVE 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.

(continued on the following page)

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 of 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 based on the scope and volume of services provided.

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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 45 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 7, 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, with the vast majority working on UH research and training projects. ©

EEO / AA Policy

RCUH IS AN EQUAL EMPLOYMENT opportunity/affirmative action employer. It is the policy of RCUH to afford equal employment opportunity to all individuals without regard to race, color, religion, sex, 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*

IT WAS A VERY GOOD YEAR! We experienced a volume of business of \$311 million, a 4% increase. Much of this is attributable to the University of Hawaii's increase in extramurally-sponsored contracts and grants. Additionally, because of RCUH's involvement in three major development/construction projects for the University, there was increased activity as these projects advanced to various phases.

Despite the less than ideal economic situation of the state and our country, we are fortunate that research continues to thrive. At the University, where declining general fund revenues has been the trend, activities in the research and training arena continue to be on the upswing. As the University is our major client, this translates into increased volume for RCUH.

Many Principal Investigators have reiterated the importance of RCUH in these trying times, as the services we provide make it possible for them to efficiently carry out their research and training activities. Hiring project personnel through RCUH continues to be an invaluable avenue of support for the researchers, as necessary staff can be acquired in a very timely manner. Moreover, many of the positions necessary to staff research activities are often "out of the box" in that they do not fit a standard position description. Working with the project staff, RCUH is able to customize position descriptions to fit the requirements of a project.

The vast majority of RCUH's processes are now electronic, and we continue to enhance business processes and on-line systems. As we look back over the years, we have come a long way since the initial launch of our on-line systems back in 1997. It's hard to imagine life without this "necessity" and the efficiencies it has produced.

We gave our web site an updated look this year and reorganized things for easier navigation. Like our financial and human resources systems, the site is a work in progress as we continue to make enhancements to provide our clients with a more robust, user-friendly experience.

At the start of the year, we welcomed a new Board member, Robert Dewitz. In mid-year, Harvey Tajiri left the Board, and as the year drew to a close, we bid aloha to Shanlyn Park, as her term came to an end. We thank all of our Board members for their continuing support of RCUH and helping us achieve our mission of supporting the research and training activities of the University of Hawaii and the State of Hawaii. ©

RCUH Board of Directors *(as of June 30, 2010 | One Vacancy)*



Carl Carlson



Robert Dewitz



Dennis Hirota



Joelle Kane



Howard Karr



Eric Martinson



Guy Ontai



Shanlyn Park
Vice Chairman



Donn Takaki
Chairman

Project Review: SERVICE ORDER PROJECT

The Hawai'i Space Flight Laboratory

THE HAWAI'I SPACE FLIGHT LABORATORY (HSFL) was established in May 2007. The HSFL was designed as a multi-disciplinary research and education activity that brings together individuals from diverse areas to explore and study the space environment. The HSFL positions the University of Hawai'i (UH) to become the first University in the world capable of designing, building, launching, and operating its own small satellites. HSFL is truly a multidisciplinary

organization that brings together scientists from the UH Manoa's School of Ocean and Earth Science and Technology (SOEST) and engineers from the College of Engineering (CoE) to develop space missions for diverse technical purposes.



The mission of the HSFL is four-fold. HSFL plans to: (1) promote innovative engineering and scientific research for terrestrial and planetary space missions; (2) develop, launch, and operate small spacecraft from the Hawaiian Islands to accelerate the validation of new space technologies; (3) have HSFL faculty and staff provide workforce training in all aspects of unmanned space missions; and (4) leverage partnerships both regionally and nationally to provide workforce development and space research opportunities.

To date, the HSFL has primarily focused its efforts and resources in the following areas:

- (1) **HSFL Mission Development:** HSFL faculty and staff from SOEST and CoE are currently building Hawai'iSat-1, an 80-kg satellite that will have a thermal imager on-board that will monitor environmental conditions around the globe. The State of Hawai'i and NASA Ames Research Center executed a Space Act Agreement (SAA) in April 2010. One of the goals of the SAA is the joint development of Hawai'iSat-1. Mission development concepts are fostered by Honolulu, Kapi'olani, Kaua'i, and Windward Community Colleges, as well as CoE, that all have active CanSat (satellite in a soda can) Programs. HSFL also leverages the extensive space science mission experience that SOEST faculty and staff have developed through participation in a wide variety of NASA missions. At least five proposals for space missions have either been submitted or are in preparation for submission by SOEST and CoE faculty.

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- (2) **HSFL Instrument Development:** The HSFL can call on a diverse group of SOEST faculty with established reputations for innovation with respect to instrument development. A number of businesses in Hawai'i also develop a wide array of instrumentation. HSFL plans to partner with these organizations to provide technology demonstration opportunities. Hawai'iSat-1 will carry the Thermal Hyperspectral Imager (THI), an instrument that Dr. Paul Lucey (HIGP) designed, built, and tested. Dr. Robert Wright (HIGP, HSFL) won a NASA EPSCoR grant to demonstrate that THI can operate in a pressure vessel that could then be incorporated into Hawai'iSat-1.
- (3) **HSFL Integration and Test Facility (HITF):** The HSFL maintains a clean room in the basement of the Pacific Ocean Science and Technology (POST) building that is being used as a small satellite integration and test facility with UH support. Supported activities include the integration of small satellite subsystem and system-level components, thermal vacuum testing of integrated spacecraft and spacecraft systems and payload integration for launch preparation. HSFL is also acquiring a vibration table that is capable of replicating the stresses that the satellite must survive during the launch process.
- (4) **HSFL Mission Operations:** HSFL has partnered with Kaua'i Community College to establish a UHF/VHF ground station so that it is capable of autonomous uplink and downlink functions. HSFL is also working with universities in Alaska to provide a distributed network of ground stations to support university space missions. The HSFL Mission Operations Center (HMOC) is located on the 5th floor of the POST building. The HMOC serves as a functional mission control center for satellite command uplinks and data retrieval downlinks and is networked as a concurrent engineering design center for mission planning purposes. Dr. Trevor Sorensen (CoE) has won a NASA EPSCoR grant to design and write software to manage and assess the performance characteristics of multiple small satellites in space. NASA Ames has expressed interest in using the software to support their space missions. The Windward Community College Aerospace Laboratory, managed by Dr. Joseph Ciotti, represents the perfect future location to showcase HSFL science results, engineering displays, and spacecraft operations.



HSFL is currently working on its first project entitled "LEONIDAS" which was awarded to Principal Investigator and HSFL Director, Dr. Luke Flynn, in June 2007. LEONIDAS is a Congressionally supported Research and Development Project with a primary goal of demonstrating a small spacecraft orbital launch capability from the existing Pacific Missile Range Facility on Kaua'i. ©

<http://hsfl.hawaii.edu>

Project Review: REVOLVING FUND PROJECT

University of Hawaii Economic Research Organization (UHERO)

ESTABLISHED IN 1997 AS A RESEARCH PROGRAM in the Social Science Research Institute, UHERO has earned a reputation as the premier source for economic data, forecasts, and analysis in Hawai'i. Over the past few years, as Hawaii faced the largest economic downturn since Statehood, UHERO responded by providing timely and effective analysis of the changing economic environment. UHERO researchers provided hundreds of hours of commentary to the press and presentations to civic groups and policymakers. In partnership with KITV news, Dr. Sumner La Croix launched a weekly *UHERO report*, every Friday at 6:35 am. The UHERO report features a UHERO economist interpreting the latest local and national economic news and reporting on important research findings.



UHERO recently completed a multi-year initiative to rebrand the organization, redesign its primary website, reports and presentation templates, and a complete redesign of the *UHERO Data Portal* sponsored by Bank of Hawaii. The Bank's generous three-year \$120,000 commitment to support the UHERO Data Portal allows for continued improvement in functionality and coverage.

This free online resource provides access to a wide array of economic and social indicators for the State and County economies. The redesigned site includes more attractive, easier to use graphs and tables, more data, and an overall new look and feel.

While UHERO is best known for its forecasts and analysis of the local economy, its vision is broader – *To be an internationally recognized leader in independent scholarly economic analysis that is both globally relevant and central to the challenges facing Hawaii and the Asia Pacific region.*

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UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAI'I



The past few years have seen tremendous progress toward achieving that vision as UHERO's activities in core research areas have flourished. Its project on *Energy and Greenhouse Gas Solutions* (EGGS), led by Dr. Denise Konan, is conducting research on the determinants of Hawaii's greenhouse gas emissions to develop practical policy responses. Dr. Kimberly Burnett leads UHERO's *Project Environment* studying Hawaii's key environmental issues, such as pollution control, water allocation and pricing, and control of invasive species. Current research includes policy options to protect Hawaii from invasive ohia rust, determining the cost of rodent

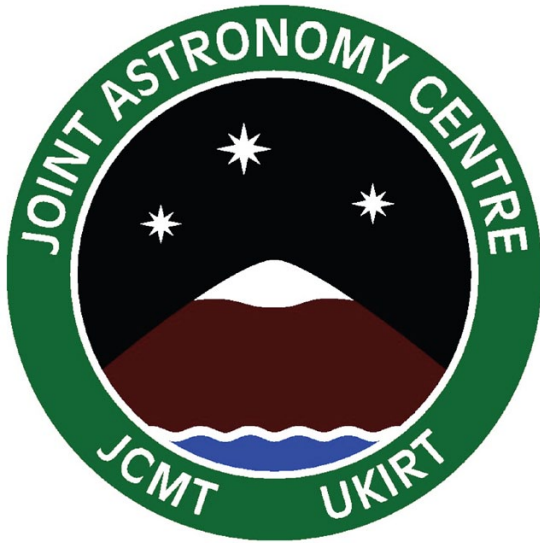
control and eradication in the Pacific, and analysis of prime agricultural lands on the island of Kauai. UHERO researchers undertake an array of other projects, ranging from tourism to macroeconomic policy, to the economics of higher education.

UHERO is in the midst of a period of rapid growth, made possible by generous University, corporate and public support. The increasing breadth and depth of the research activities is permitting the organization to make an ever-greater contribution to economic and social development in Hawaii. ©

www.uhero.hawaii.edu

Project Review: DIRECT PROJECT

The Joint Astronomy Centre



THE JOINT ASTRONOMY CENTRE (JAC) IN HILO is the administrative base for the two British-owned observatories on Mauna Kea: the James Clerk Maxwell Telescope (JCMT) and the United Kingdom Infrared Telescope (UKIRT). A UK government agency, the Science and Technology Facilities Council, provides funds to the JAC for the operation of UKIRT and for the UK's 55% share of the JCMT; the JAC also receives contributions for the operation of the JCMT from agencies in Canada (25%) and the Netherlands (20%).

The mission of the Joint Astronomy Centre is to provide services and support:

- to enable community and staff astronomers to undertake top-quality, front-line international-class research using the James Clerk Maxwell Telescope (JCMT);
- to develop the JCMT in order to maintain its position as the most advanced observatory of its kind in the world;
- to operate the United Kingdom Infrared Telescope (UKIRT) in a streamlined mode so as to expeditiously complete the world-leading UKIDSS programme, plus other programmes as resources permit;
- to operate both facilities in the most cost-effective and efficient manner on behalf of the funding agencies; and
- to be responsive to the changing needs of the contributing organisations.

To fulfill this mission, the JAC has a staff of approximately 50 scientists, engineers, technicians and office staff, the vast majority of whom are employed through RCUH.

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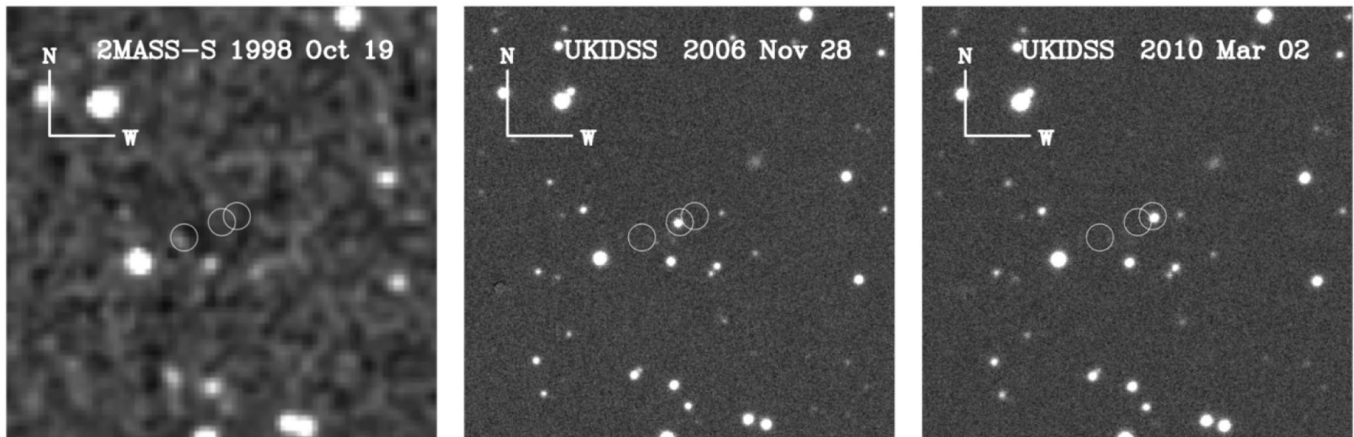


Figure [1]

As one of the world's largest telescopes dedicated to infrared astronomy, UKIRT has been at the forefront of the field since it opened in 1979. Its key project is the UKIRT Infrared Deep Sky Survey (UKIDSS), a comprehensive survey of the northern sky in near-infrared light (which the human eye cannot see). A recent science highlight from UKIDSS was the discovery of the coolest and nearest brown dwarf to date. Brown dwarfs are objects which form in the same way as stars, but which don't ignite because they are too small for nuclear fusion to start in their cores; this means they are small and faint, and hence difficult to detect. This particular object, called UGPS 0722-0540, is only about 10 light years away from Earth and has a temperature of 250 to 440°F — warmer than the Earth but much, much colder than a normal star. Its discovery was a remarkable achievement: **Figure [1]** indicates its motion against the background stars between 1998 and 2010. We continue to hunt for yet cooler examples in order to study and understand these esoteric objects.

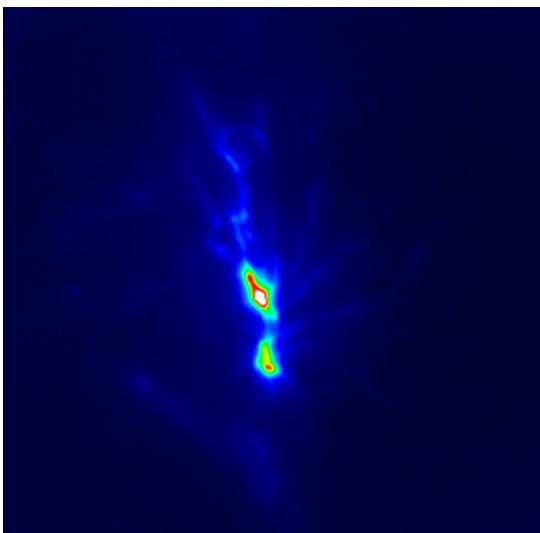


Figure [2]

The JCMT is the world's largest single-dish submillimeter telescope. It has been collecting submillimeter light (between microwave and radio, and not visible to the human eye) with its 15-meter diameter dish since it was opened in 1987. This particular type of light provides astronomers with unique information because it is the type of light produced by cold material in the universe: the gas and dust from which stars, planets and galaxies form. Unfortunately, astronomy with submillimeter light is technically very demanding, requiring the development of novel and ambitious instrumentation at some of the most advanced laboratories in the world. One such instrument, called SCUBA-2, is currently being commissioned for use on the JCMT. SCUBA-2 will provide scientific capabilities which are completely unprecedented in submillimeter astronomy, and it is therefore expected to revolutionize the field. In early 2010, JAC conducted an early science campaign with this instrument and one of the results is shown in **Figure [2]**: this is a region of concentrated gas and dust, at a temperature of about -400°F, in Orion where new stars are being formed.

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Figure [3]

2009 was the International Year of Astronomy, and this provided the JAC with a welcome opportunity to enhance its public outreach activity on the Big Island of Hawai'i. Amongst the many activities and events that were held, one that stood out was a special introductory astronomy class organized by the JAC's Public Information Officer to provide astronomy resources and knowledge for Big Island K–12 teachers. The class emphasized hands-on activities involving core astronomy concepts in order to give the teachers a better understanding of astronomy as a science and to provide them with better tools with which to introduce the subject into their classrooms. **Figure [3]** shows a group of teachers building a scale model of the constellation Orion. Another popular event was the Galileo Block Party for the entire Big Island community. Over a thousand people visited University Park in Hilo, where local school bands performed and educational and fun activities took place at each of the observatory base facilities. Finally, the Director of the Joint Astronomy Centre, Professor Gary Davis, gave public lectures in Kamuela and Hilo to present the work of the JAC to the wider public.

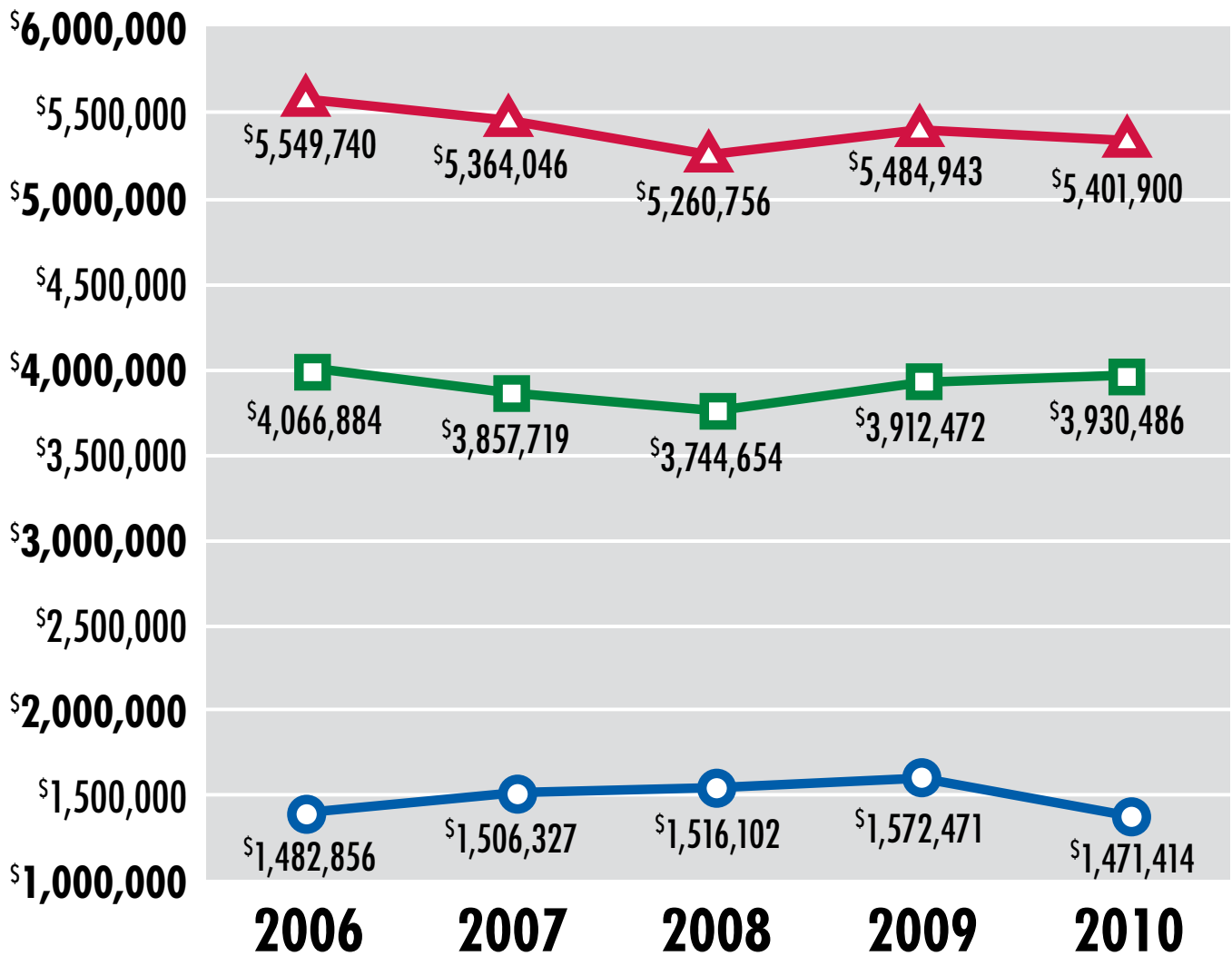
Despite experiencing its share of financial constraints, like all public-sector organisations, the Joint Astronomy Centre is looking forward to many more exciting discoveries about the universe in which we live. ©

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

Dollar Volume of Project Administration



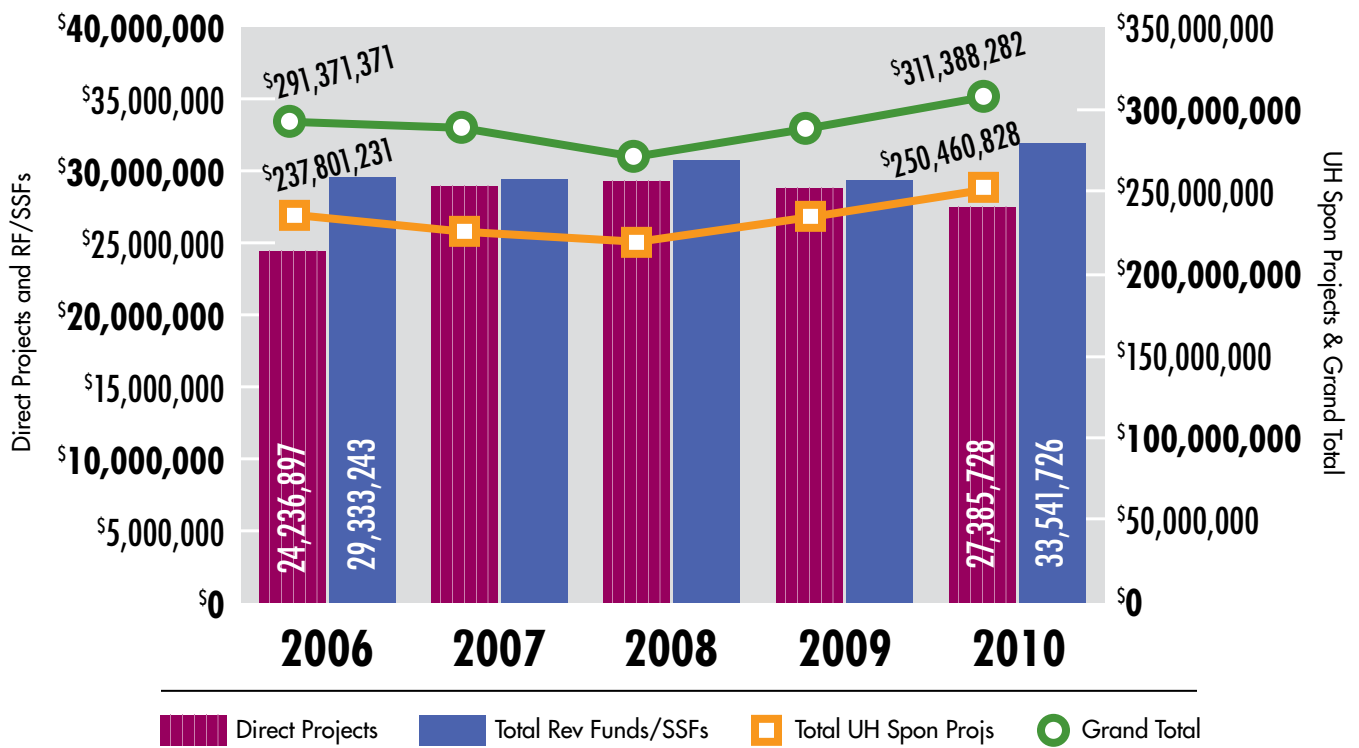
Operating Revenues Summary



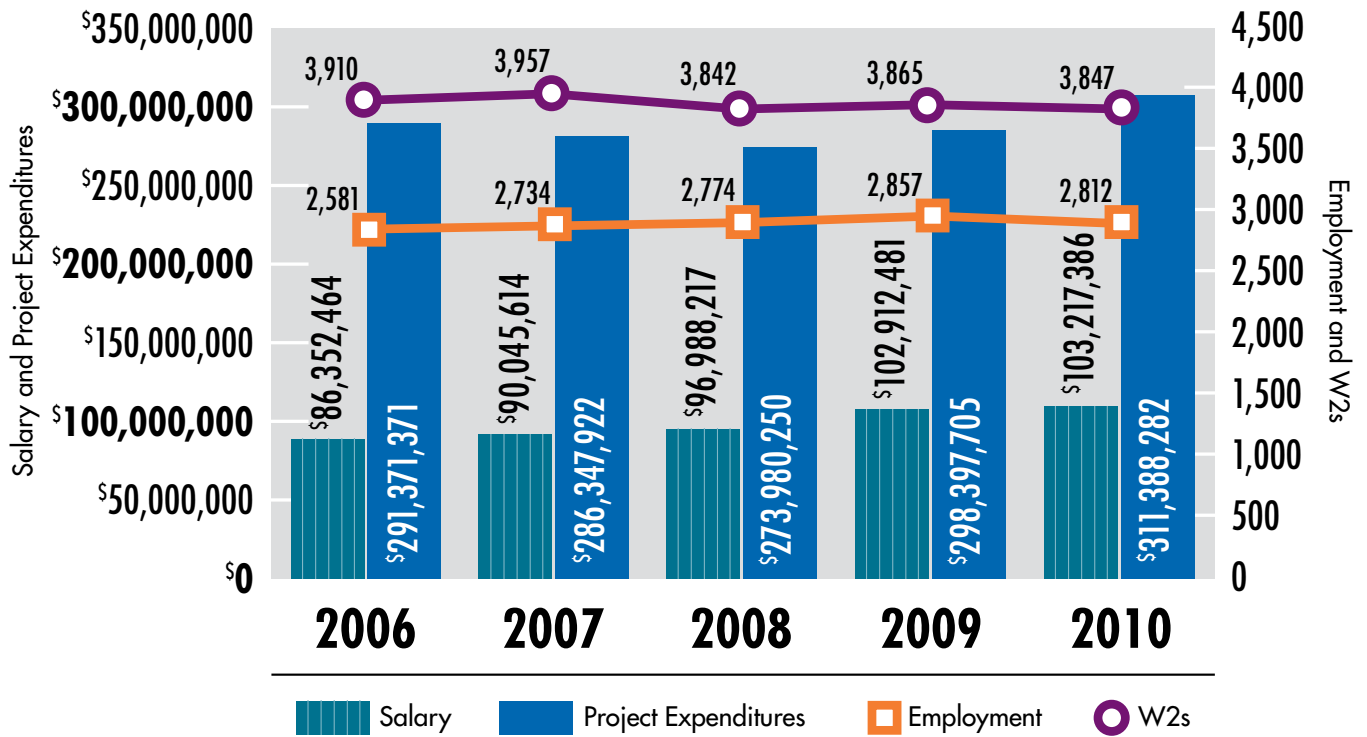
▲ Total Annual Revenues
 ● Revenues from Other Agencies
 ■ Revenues from UH



Project Expenditures

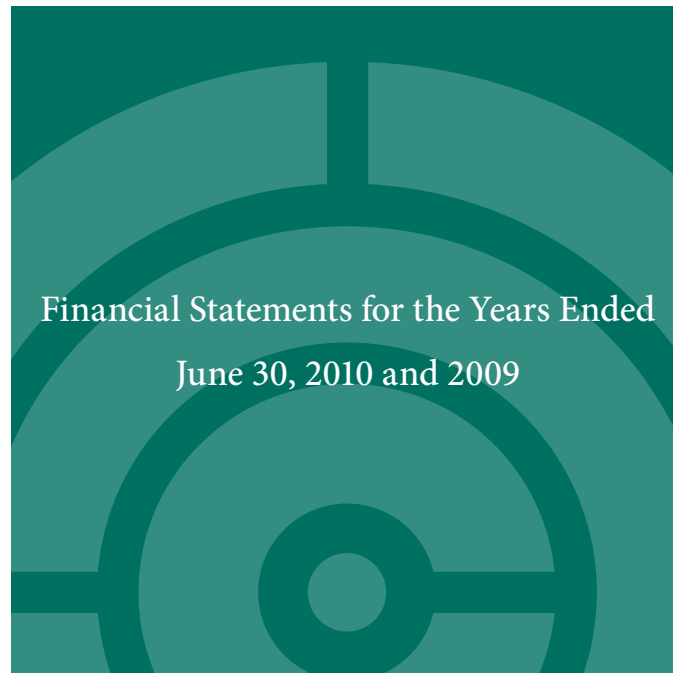


Employment / W2s / Salaries / Project Expenditures



Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2010	%	2009	%	2008	%	2007	%	2006	%
Federal										
Dept of Health & Human Services	38,481,602	12.36	36,434,473	12.21	34,153,561	12.47	34,283,944	11.97	36,785,607	12.62
Dept of Commerce	21,929,131	7.04	17,828,453	5.98	18,415,323	6.72	17,089,703	5.97	16,401,296	5.63
National Science Foundation	20,339,989	6.53	18,329,030	6.14	20,174,746	7.36	21,198,574	7.40	18,381,284	6.31
Dept of Agriculture	4,821,373	1.55	4,207,894	1.41	5,068,068	1.85	5,927,800	2.07	4,574,674	1.57
Dept of Interior	5,709,702	1.83	6,410,302	2.15	6,610,648	2.41	8,172,546	2.85	10,379,711	3.56
Dept of Energy	2,722,910	0.87	2,362,731	0.79	1,994,777	0.73	2,382,267	0.83	1,582,202	0.54
Dept of Defense	47,941,114	15.40	46,260,920	15.51	42,623,170	15.56	57,183,981	19.97	47,185,666	16.19
Dept of Education	18,466,414	5.93	15,020,082	5.04	12,520,850	4.57	13,519,384	4.72	13,746,101	4.72
Natl Aeronautics & Space Adminis	5,654,337	1.82	5,553,813	1.86	7,516,914	2.74	6,756,116	2.36	11,964,741	4.11
Dept of State	403,254	0.13	1,170,695	0.39	1,978,417	0.72	3,767,101	1.32	4,171,711	1.43
Dept of Labor	1,309,896	0.42	1,207,515	0.40	1,951,517	0.71	2,051,693	0.72	1,706,700	0.59
Other Miscellaneous Federal	10,047,431	3.23	6,498,044	2.18	3,315,801	1.21	4,193,930	1.46	4,914,124	1.69
UH FEDERAL PROJECTS	177,827,153	57.11	161,283,952	54.06	156,323,792	57.06	176,527,039	61.65	171,793,817	58.96
Non-Federal State & County Governments										
University of Hawaii:										
Sch of Ocean & Earth Sci and Tchnlgy	3,673,713	1.18	5,604,628	1.88	2,913,915	1.06	2,459,292	0.86	1,690,654	0.58
Institute for Astronomy	2,326,501	0.75	3,995,871	1.34	3,003,939	1.10	2,951,578	1.03	2,801,434	0.96
Ofc of Tchnlgy Transfer & Econ Dev	630,772	0.20	796,689	0.27	1,060,930	0.39	1,088,039	0.38	1,073,944	0.37
Cancer Research Center of Hawaii	6,753,907	2.17	2,595,077	0.87	1,826,892	0.67	1,668,812	0.58	1,553,813	0.53
School of Medicine	2,475,810	0.80	2,574,661	0.86	5,403,709	1.97	6,152,077	2.15	24,546,408	8.42
UH-Hilo	3,900,592	1.25	4,144,359	1.39	4,067,309	1.48	3,384,750	1.18	4,022,044	1.38
West Oahu	4,126,277	1.33	16,081,809	5.39	4,671,703	1.71	1,987,911	0.69	1,89,929	0.07
UH-Other	14,584,742	4.68	8,992,101	3.01	6,459,567	2.36	10,508,499	3.67	8,695,206	2.98
Dept of Health	5,077,543	1.63	5,373,156	1.80	7,410,754	2.70	6,561,666	2.29	6,194,191	2.13
Dept of Land & Natural Resources	5,210,141	1.67	5,567,939	1.87	5,220,077	1.91	4,213,730	1.47	3,196,687	1.10
Dept of Education	259,883	0.08	230,287	0.08	233,227	0.09	299,639	0.10	410,995	0.14
Dept of Defense	47,292	0.02	617,065	0.21	102,330	0.04	231,717	0.08	0	0
County Government	859,918	0.28	800,620	0.27	806,657	0.29	603,602	0.21	761,886	0.26
OTHER SPONSORS	22,706,584	7.29	21,423,960	7.18	14,937,765	5.45	10,475,927	3.66	10,870,223	3.73
UH NON-FEDERAL PROJECTS	72,633,675	23.33	78,798,222	26.42	58,118,774	21.21	52,587,239	18.36	66,007,414	22.65
TOTAL UH PROJECTS	250,460,828	80.44	240,082,174	80.48	214,442,566	78.27	229,114,278	80.01	237,801,231	81.61
DIRECT PROJECTS	2010	%	2009	%	2008	%	2007	%	2006	%
FEDERAL PROJECTS	3,810,816	1.22	4,538,938	1.73	4,999,559	1.82	7,203,921	2.52	5,685,622	1.95
Non-Federal State & County Governments										
Dept of Health	867,508	0.28	863,918	0.29	1,264,302	0.46	1,153,002	0.40	1,107,781	0.38
Dept of Land & Natural Resources	1,615,186	0.52	2,065,677	0.69	1,903,520	0.69	1,841,986	0.64	1,546,472	0.53
Dept of Education	193,054	0.06	191,173	0.06	17,941	0.01	111,817	0.04	116,531	0.04
County Government		0.00	783	0.00	4,578	0.00	18,340	0.01	463,252	0.16
Others:										
Joint Astronomy Centre	4,999,980	1.61	4,947,293	1.66	4,705,069	1.72	4,323,743	1.51	4,510,732	1.55
Academia Sinica Inst of Astronomy	2,008,857	0.65	1,824,166	0.61	1,668,948	0.61	2,069,149	0.72	1,573,576	0.54
Natl Astronomical Observ of Japan	5,004,651	1.61	5,313,418	1.78	5,250,271	1.92	5,516,458	1.93	5,774,183	1.98
PICHTR	4,559,692	1.46	3,804,747	1.28	2,888,535	1.05	1,636,929	0.57	137,665	0.05
Hawaii Community Foundation	3,284,627	1.05	2,444,542	0.82	2,880,236	1.05	1,078,672	0.38		
Other Sponsors	1,041,357	0.33	2,382,674	0.80	2,870,413	1.05	3,331,042	1.16	3,321,083	1.14
NON-FEDERAL PROJECTS	23,574,912	7.57	23,838,391	7.99	23,453,813	8.56	21,081,138	7.36	18,551,275	6.37
TOTAL DIRECT PROJECTS	27,385,728	8.79	28,377,329	9.72	28,453,372	10.39	28,285,059	9.88	24,236,897	8.32
REVOLVING FUNDS	2010	%	2009	%	2008	%	2007	%	2006	%
<i>(Including Specialized Service Facilities (SSF's))</i>										
Specialized Service Fac/Ship Ops	12,137,819	3.90	9,627,413	3.23	12,572,209	4.59	9,004,842	3.14	9,561,339	3.28
Revolving Funds & Other SSF's	21,403,907	6.87	20,210,789	6.78	18,512,104	6.76	19,943,743	6.96	19,771,904	6.79
Total Revolving Funds & SSF's	33,541,726	10.77	29,838,202	10.01	31,084,313	11.35	28,948,585	10.11	29,333,243	10.07
TOTAL PROJECTS	311,388,282	100.00	298,297,705	100.00	273,980,251	100.00	286,347,922	100	291,371,371	100



Financial Statements and
report of independent
certified public accountants

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

June 30, 2010 and 2009

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

**Financial and Compliance Audit
June 30, 2010 and 2009**

The Research Corporation of the University of Hawai'i
State of Hawai'i
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June 30, 2010 and 2009

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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, State of Hawai'i

We have audited the accompanying statements of net assets of The Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation"), a component unit of the University of Hawai'i, at June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Research Corporation of the University of Hawai'i, State of Hawai'i at June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2010 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.

The Management's Discussion and Analysis ("MD&A") 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, Hawai'i
December 8, 2010

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2010 and 2009**

Introduction

The following discussion and analysis provides an overview of the financial position and results of operations for The Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation") for the year ended June 30, 2010. It includes selected comparative information with the years ended June 30, 2009 and 2008. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes.

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

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

Financial Highlights

- In 2010, the Corporation's volume of business (project expenditures) continued on an upward trend, and the Corporation achieved its second highest volume of business in the history of the Corporation. There was a 4% increase from fiscal year 2009 to 2010, which followed a 9% increase from fiscal year 2008 to 2009.

Fiscal Year	Volume of Business	Annual	
		Amount Increase (Decrease)	Percentage Increase (Decrease)
2010	\$ 311,388,282	\$ 13,090,577	4%
2009	298,297,705	24,317,455	9%
2008	273,980,250	(12,367,672)	-4%
2007	286,347,922	(5,023,449)	-2%
2006	291,371,371	(31,044,805)	-10%
2005	322,416,176	62,009,111	24%
2004	260,407,065	47,764,398	22%
2003	212,642,667	48,579,784	30%
2002	164,062,883	55,507,834	51%
2001	108,555,049	20,743,440	24%

- The financial information for fiscal year 2008 has been restated to correct an error in accounting for investments. The fiscal year 2008 amounts presented in the condensed statements in this discussion and analysis are the restated balances.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2010 and 2009**

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, additional information essential in obtaining a complete understanding of the Corporation's financial reports are provided in the footnotes.

Condensed Statements of Net Assets

The Corporation's assets, liabilities, and net assets at June 30, 2010, 2009, and 2008 are summarized below:

	2010	2009	2008 (Restated)
Current assets			
Cash and cash equivalents	\$ 17,092,392	\$ 8,735,557	\$ 7,527,602
Time certificates of deposit	6,997,325	6,979,322	3,967,808
Receivables	18,863,924	23,284,918	25,078,419
Other assets	143,195	152,414	163,226
Restricted cash	2,947,689	2,595,246	4,872,421
Total current assets	<u>46,044,525</u>	<u>41,747,457</u>	<u>41,609,476</u>
Noncurrent assets			
Investment	315,024	400,587	424,720
Capital assets	387,864	489,208	387,559
Total noncurrent assets	<u>702,888</u>	<u>889,795</u>	<u>812,279</u>
Total assets	<u>\$ 46,747,413</u>	<u>\$ 42,637,252</u>	<u>\$ 42,421,755</u>

The Research Corporation of the University of Hawai‘i
State of Hawai‘i
Management’s Discussion and Analysis (Unaudited)
June 30, 2010 and 2009

	2010	2009	2008 (Restated)
Current liabilities	\$ 35,336,295	\$ 31,814,178	\$ 32,221,576
Noncurrent liabilities	<u>2,471,153</u>	<u>1,941,641</u>	<u>1,407,634</u>
Total liabilities	<u>37,807,448</u>	<u>33,755,819</u>	<u>33,629,210</u>
Net assets			
Invested in capital assets	387,864	489,208	387,559
Unrestricted, as restated	<u>8,552,101</u>	<u>8,392,225</u>	<u>8,404,986</u>
Total net assets	<u>8,939,965</u>	<u>8,881,433</u>	<u>8,792,545</u>
Total liabilities and net assets	<u>\$ 46,747,413</u>	<u>\$ 42,637,252</u>	<u>\$ 42,421,755</u>

Overall, the Corporation’s financial condition remains stable.

Assets

Cash increased from 2009 to 2010 due to the timing of project cost reimbursements for University extramural awards, which relates to the decrease in the net receivable from the University. Cash and cash equivalents increased from 2008 to 2009 due to an increase in advances from University revolving accounts. The increase in 2009 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. There were no cash equivalents at June 30, 2010 and 2009. Cash equivalents amounted to \$2,000,000 at June 30, 2008.

Receivables decreased by 19% from fiscal years 2009 to 2010, and by 7% from fiscal years 2008 to 2009. The changes stem from the timing of receipts from the University for project cost reimbursements. The net receivable due from the University was \$13,477,847 at June 30, 2010 compared to \$18,158,910 at June 30, 2009 and \$19,241,201 at June 30, 2008.

Investment includes funds invested with the Hawai‘i Strategic Development Corporation.

Fixed asset acquisitions amounted to \$78,107 for 2010 compared to \$260,429 for 2009. Significant acquisitions were made in 2009 to develop, implement, and enhance software applications for human resources. Depreciation expense for 2010 and 2009 amounted to \$176,493 and \$158,780, respectively.

Liabilities

Current liabilities increased by 11% from 2009 to 2010. The change was the result of an increase in accounts payable to vendors, which relates to the increase in the Corporation’s volume of business. Current liabilities decreased by 1% from 2008 to 2009. The change was the result of a decrease in the advance balances from other sponsoring agencies.

Noncurrent liabilities increased by 27% from 2009 to 2010 and by 38% from 2008 to 2009. 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
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2010 and 2009**

Net Assets

Net assets invested in capital assets at June 30, 2010 and 2009 were \$387,864 and \$489,208, 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 for the fiscal years ended June 30, 2010, 2009, and 2008 are summarized as follows:

	2010	2009	2008 (Restated)
Operating revenues			
University of Hawai'i	\$ 3,930,486	\$ 3,912,472	\$ 3,744,654
Other sponsoring agencies	1,471,414	1,572,471	1,516,102
Total operating revenues	<u>5,401,900</u>	<u>5,484,943</u>	<u>5,260,756</u>
Operating expenses			
Personnel costs	3,226,419	3,179,484	3,109,106
Data processing services	713,807	952,947	849,076
Retiree medical benefits	316,000	274,000	324,000
Office supplies and services	303,385	254,765	350,074
Insurance	296,001	341,833	359,784
Depreciation	176,493	158,780	180,872
Other expenses	338,451	383,272	414,003
Total operating expenses	<u>5,370,556</u>	<u>5,545,081</u>	<u>5,586,915</u>
Operating income (loss)	<u>31,344</u>	<u>(60,138)</u>	<u>(326,159)</u>
Nonoperating revenues			
Interest income	112,752	173,159	518,503
Net investment income (expense)	<u>(85,564)</u>	<u>(24,133)</u>	<u>5,334</u>
Increase in net assets	58,532	88,888	197,678
Net assets			
Beginning of year	<u>8,881,433</u>	<u>8,792,545</u>	<u>8,594,867</u>
Ending of year	<u>\$ 8,939,965</u>	<u>\$ 8,881,433</u>	<u>\$ 8,792,545</u>

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2010 and 2009**

In fiscal year 2010, operating revenues earned from the University increased slightly in comparison to fiscal year 2009. Operating revenues earned from other sponsoring agencies decreased as a result of lower negotiated indirect cost rates assessed on direct and other projects. The indirect cost rate for direct projects decreased from 3.1% to 2.7% and other projects decreased from 2.9% to 2.4%. In fiscal year 2009, operating revenues earned from management fees increased in comparison to fiscal year 2008 as a result of a clarification of the Internal Agreement which provides for the 100% subsidy for the cost of operating the RCUH Hilo office.

Operating expenses in fiscal year 2010 decreased by 3% over the previous year's expenses. The decrease was the result of management's continued efforts to monitor and maintain administrative operating expenses at a conservative level. A major factor contributing to the overall decrease was the decrease in data processing costs due to the postponement of enhancements and upgrades of the financial information system and web applications.

Operating expenses in fiscal year 2009 decreased by 1% over the previous year's expenses. With the exception of data processing services, the decrease was the result of the actions of management to control administrative operating expenses due to the downturn of the economy. Data processing costs were higher due to necessary upgrades and maintenance for the financial information system and web applications.

For fiscal year 2010, net assets increased by \$58,532. For fiscal 2009, net assets increased by \$88,888.

Condensed Statements of Cash Flows

The Corporation's statements of cash flows for the fiscal years ended June 30, 2010, 2009 and 2008 are summarized as follows:

	2010	2009	2008
Operating activities			
Cash received from operations	\$ 13,369,586	\$ 7,027,902	\$ 6,134,559
Cash payments for operations	<u>(4,676,949)</u>	<u>(4,998,338)</u>	<u>(4,944,011)</u>
Net cash provided from operating activities	<u>8,692,637</u>	<u>2,029,564</u>	<u>1,190,548</u>
Financing activities			
Noncapital	-	-	(89,612)
Capital	<u>(78,107)</u>	<u>(260,429)</u>	<u>(22,304)</u>
Net cash used in financing activities	<u>(78,107)</u>	<u>(260,429)</u>	<u>(111,916)</u>
Investing activities	<u>94,748</u>	<u>(2,838,355)</u>	<u>4,467,435</u>
Increase (decrease) in cash and cash equivalents	8,709,278	(1,069,220)	5,546,067
Cash and cash equivalents			
Beginning of year	<u>11,330,803</u>	<u>12,400,023</u>	<u>6,853,956</u>
Ending of year	<u>\$ 20,040,081</u>	<u>\$ 11,330,803</u>	<u>\$ 12,400,023</u>

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2010 and 2009**

Fluctuations in operating activities are in direct correlation with the volume of business activity. The increase in the volume of business from fiscal year 2009 to 2010 increased the cash received from operations. Similarly, the increase in the volume of business from fiscal year 2008 to 2009 increased the cash received as well as cash payments. The change in investing activities in 2009 and 2008 was due to the purchase, redemption, and classification of TCD's.

Looking Forward

With the economy showing signs of recovery from the recent recession, the financial outlook for the Corporation remains positive. Management projects the volume of business to remain steady, if not continue its increasing trend, in the coming year. The University has received over \$400 million in extramural research and training awards for the fiscal year 2010, an increase of 9% over 2009. As these awards are service ordered to the Corporation in accordance with the Internal Agreement, the Corporation will continue to have the opportunity to help diversify and strengthen Hawaii's economy by providing research support services to the University research community.

For the past two years, the Corporation has maintained and controlled operating expenses at a conservative level even while experiencing record highs of volume of business. To address internal and external challenges and to take advantage of new opportunities, the Corporation's budget for fiscal year 2011 was approved with an 18% increase in administrative operating expenses above fiscal year 2010. 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, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash	\$ 17,092,392	\$ 8,735,557
Time certificates of deposit	6,997,325	6,979,322
Receivables		
University of Hawai'i, net	13,477,847	18,158,910
Other sponsoring agencies	5,386,077	5,126,008
Total receivables	<u>18,863,924</u>	<u>23,284,918</u>
Prepaid expenses	143,195	152,414
Restricted cash	2,947,689	2,595,246
Total current assets	<u>46,044,525</u>	<u>41,747,457</u>
Noncurrent assets		
Investment	315,024	400,587
Capital assets, net	387,864	489,208
Total noncurrent assets	<u>702,888</u>	<u>889,795</u>
Total assets	<u>\$ 46,747,413</u>	<u>\$ 42,637,252</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 17,391,842	\$ 15,400,621
Accrued salaries and other	13,304,150	12,157,137
Advances from other sponsoring agencies	3,186,193	2,833,750
Workers' compensation and unemployment claims reserve	1,327,110	1,310,670
Current portion of accrued supplemental retirement benefits	59,000	55,000
Current portion of accrued postemployment health care and life insurance benefits	68,000	57,000
Total current liabilities	<u>35,336,295</u>	<u>31,814,178</u>
Noncurrent liabilities		
Accrued supplemental retirement benefits	1,314,750	1,193,470
Postemployment health care and life insurance benefits	1,156,403	748,171
Total noncurrent liabilities	<u>2,471,153</u>	<u>1,941,641</u>
Total liabilities	<u>37,807,448</u>	<u>33,755,819</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	387,864	489,208
Unrestricted	8,552,101	8,392,225
Total net assets	<u>8,939,965</u>	<u>8,881,433</u>
Total liabilities and net assets	<u>\$ 46,747,413</u>	<u>\$ 42,637,252</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, 2010 and 2009**

	2010	2009
Operating revenues		
University of Hawai'i	\$ 3,930,486	\$ 3,912,472
Other sponsoring agencies	1,471,414	1,572,471
Total operating revenues	<u>5,401,900</u>	<u>5,484,943</u>
Operating expenses		
Personnel costs	3,226,419	3,179,484
Data processing services	713,807	952,947
Retiree medical benefits	316,000	274,000
Office supplies and services	303,385	254,765
Insurance	296,001	341,833
Depreciation	176,493	158,780
Office and equipment rental	88,005	92,044
Professional and technical support	66,575	82,342
Tuition support	64,140	42,221
Professional services	46,314	71,980
Travel	38,639	42,568
Other expenses	34,778	52,117
Total operating expenses	<u>5,370,556</u>	<u>5,545,081</u>
Operating income (loss)	<u>31,344</u>	<u>(60,138)</u>
Nonoperating revenues (expenses)		
Intergovernmental (Federal and Non-Federal awards)		
Revenue	934,629	1,494,806
Expense	(934,629)	(1,494,806)
Interest income		
Cash and time certificates of deposit	112,752	173,159
Investment income (expense)		
Interest income	12,217	6,718
Investment expenses	(16,528)	(30,851)
Decrease in fair value of investments	(81,253)	-
Net nonoperating revenues	<u>27,188</u>	<u>149,026</u>
Increase in net assets	58,532	88,888
Net assets		
Beginning of year	8,881,433	8,792,545
End of year	<u>\$ 8,939,965</u>	<u>\$ 8,881,433</u>

The accompanying notes are an integral part of these statements.

The Research Corporation of the University of Hawai'i
State of Hawai'i
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Receipts for		
University of Hawai'i management fee	\$ 4,816,250	\$ 3,144,750
Other sponsoring agencies indirect cost recoveries	1,471,414	1,572,471
Refund for workers compensation insurance policy premium	1,817,015	2,126,239
Payments to vendors	(1,433,133)	(1,857,489)
Payments for employee compensation	(3,243,816)	(3,140,849)
Project expenditures and cost reimbursements, net	5,264,907	184,442
Net cash provided from operating activities	<u>8,692,637</u>	<u>2,029,564</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	<u>(78,107)</u>	<u>(260,429)</u>
Net cash used in capital and related financing activities	<u>(78,107)</u>	<u>(260,429)</u>
Cash flows from investing activities		
Purchase of investments	(30,221)	(3,018,232)
Interest income received on cash deposits and investments	124,969	179,877
Net cash provided from (used in) investing activities	<u>94,748</u>	<u>(2,838,355)</u>
Increase (decrease) in cash and cash equivalents	8,709,278	(1,069,220)
Cash		
Beginning of year	<u>11,330,803</u>	<u>12,400,023</u>
End of year	<u>\$ 20,040,081</u>	<u>\$ 11,330,803</u>
Cash presented in the accompanying Statement of Net Assets		
Cash	\$ 17,092,392	\$ 8,735,557
Restricted cash	2,947,689	2,595,246
	<u>\$ 20,040,081</u>	<u>\$ 11,330,803</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, 2010 and 2009

	2010	2009
Reconciliation of operating income (loss) to net cash provided from operating activities		
Operating income (loss)	\$ 31,344	\$ (60,138)
Adjustments to reconcile operating income (loss) to net cash provided from operating activities		
Depreciation expense	176,493	158,780
Loss on disposal of equipment	2,958	-
Change in assets and liabilities		
Receivables	4,420,994	1,793,501
Prepaid expenses	9,219	10,812
Accounts payable and accrued wages	3,138,234	1,455,233
Advances from other sponsors	352,443	(2,060,201)
Workers' compensation and unemployment claims reserve	16,440	190,570
Accrued supplemental retirement benefits	125,280	145,196
Postemployment health care and life insurance benefits	419,232	395,811
Net cash provided from operating activities	<u>\$ 8,692,637</u>	<u>\$ 2,029,564</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, 2010 and 2009

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.

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.

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 90 days or less to be cash equivalents. There were no cash equivalents at June 30, 2010 or 2009.

The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2010 and 2009

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 from other sponsoring agencies as restricted cash. These advances are for project expenditures that will be incurred 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.

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, 2010 and 2009 aggregated \$5,463,435 and \$5,325,282, 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.

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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, 2010 or 2009.

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 2009 financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications had no effect on operating results as previously reported.

2. Cash and Investment

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, 2010 and 2009, funds invested with HSDC amounted to \$315,024 and \$400,587, 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 investment held with HSDC is classified as Category 3.

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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 investment was exposed to custodial credit risk at June 30, 2010 and 2009 as follows:

	2010	2009
Uninsured and collateral held by trust department or agent not in the Corporation's name	<u>\$ 315,024</u>	<u>\$ 400,587</u>

3. Receivables and Advances

The Corporation's projects are divided into two groups: those administered under an agreement with the University, and those administered under direct agreements with other sponsors. Projects are either funded on a cost reimbursable basis or through advance funding. Under cost reimbursable projects, expenditures are initially paid for by the Corporation and are later reimbursed by the sponsors. Under advance funded projects, the Corporation receives cash in advance of expenditures.

The net receivable balance from the University was comprised of the following at June 30, 2010 and 2009:

	2010	2009
Extramural-sponsored accounts	\$ 28,564,003	\$ 29,347,127
Internally funded accounts	(6,904,267)	(5,569,852)
Revolving accounts	(8,964,057)	(7,324,078)
Miscellaneous agency accounts	1,939,525	1,714,820
Management fee	(572,357)	575,893
Advance	<u>(585,000)</u>	<u>(585,000)</u>
	<u>\$ 13,477,847</u>	<u>\$ 18,158,910</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$3,186,193 and \$2,833,750 at June 30, 2010 and 2009, respectively. Cash relating to a portion of the advances, amounting to \$2,947,689 and \$2,595,246 at June 30, 2010 and 2009, respectively, is restricted by the sponsors.

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4. Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 were as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
2010				
Office equipment	\$ 562,464	\$ 45,536	\$ (11,832)	\$ 596,168
Computer software	2,841,111	32,571	-	2,873,682
	<u>3,403,575</u>	<u>78,107</u>	<u>(11,832)</u>	<u>3,469,850</u>
Less: Accumulated depreciation				
Office equipment	482,941	31,046	(8,874)	505,113
Computer software	2,431,426	145,447	-	2,576,873
	<u>2,914,367</u>	<u>176,493</u>	<u>(8,874)</u>	<u>3,081,986</u>
	<u>\$ 489,208</u>	<u>\$ (98,386)</u>	<u>\$ (2,958)</u>	<u>\$ 387,864</u>
2009				
Office equipment	\$ 557,404	\$ 5,060	\$ -	\$ 562,464
Computer software	2,585,742	255,369	-	2,841,111
	<u>3,143,146</u>	<u>260,429</u>	<u>-</u>	<u>3,403,575</u>
Less: Accumulated depreciation				
Office equipment	454,366	28,575	-	482,941
Computer software	2,301,221	130,205	-	2,431,426
	<u>2,755,587</u>	<u>158,780</u>	<u>-</u>	<u>2,914,367</u>
	<u>\$ 387,559</u>	<u>\$ 101,649</u>	<u>\$ -</u>	<u>\$ 489,208</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, 2011. 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, 2010 and 2009. At June 30, 2010 and 2009, 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.

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

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overruns and disallowances, litigation expenses, professional services and other project-related expenses. In 2010 and 2009, the amount of the designation was increased by \$18,003 and \$11,514, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted net assets at June 30, 2010 and 2009 were comprised of the following:

	2010	2009
Designated		
Working capital	\$ 7,554,136	\$ 7,412,792
Project contingent liabilities	997,324	979,321
Undesignated	641	112
	<u>\$ 8,552,101</u>	<u>\$ 8,392,225</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, 2010 and 2009 amounted to \$3,667,999 and \$3,647,322, respectively, for extramural-sponsored projects and \$262,487 and \$265,150, respectively, for internally funded projects.

Operating revenues from other sponsoring agencies for direct and other projects are based on a predetermined indirect cost recovery 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, 2010 and 2009 were \$238,106 and \$227,081, 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 for 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, 2010 and 2009, the Corporation's accrued supplemental retirement benefits were \$1,373,750 and \$1,248,470, 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, 2010 and 2009 were \$36,773 and \$59,167, respectively.

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The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2010 and 2009:

	2010	2009
Beginning balance	\$ 1,248,470	\$ 1,103,274
Additions	162,053	204,363
Deductions	<u>(36,773)</u>	<u>(59,167)</u>
Ending balance	1,373,750	1,248,470
Less: Current portion of accrued supplemental retirement benefits	<u>(59,000)</u>	<u>(55,000)</u>
Noncurrent portion of accrued supplemental retirement benefits	<u>\$ 1,314,750</u>	<u>\$ 1,193,470</u>

9. Postemployment Health Care and Life Insurance Benefits

The Corporation provides a single employer defined benefit postemployment benefit program. The program provides healthcare and life insurance to eligible employees and/or spouses. To be eligible for these benefits, a retiree must have 10 years of continuous service, 10 years total participation in the retirement plan/term life insurance program, be age 59-1/2, 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 are not 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, 2010 and 2009 aggregated to \$28,768 and \$26,189, 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:

	2010	2009
Annual required contribution	\$ 459,000	\$ 426,000
Interest on net OPEB obligation	38,000	20,000
Adjustment to annual required contribution	<u>(49,000)</u>	<u>(24,000)</u>
Annual OPEB cost	448,000	422,000
Contributions made	<u>(28,768)</u>	<u>(26,189)</u>
Increase in net OPEB obligation	419,232	395,811
Net OPEB obligation – beginning of year	<u>805,171</u>	<u>409,360</u>
Net OPEB obligation – end of year	1,224,403	805,171
Less: Current portion of OPEB obligation – end of year	<u>(68,000)</u>	<u>(57,000)</u>
Noncurrent portion of postemployment health care and life insurance benefits	<u>\$ 1,156,403</u>	<u>\$ 748,171</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2009, and 2008 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 448,000	6.4%	\$ 1,224,403
June 30, 2009	\$ 422,000	6.2%	\$ 805,171
June 30, 2008	\$ 429,000	4.6%	\$ 409,360

The schedule of funding progress is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as a Percent of Covered Payroll
June 30, 2010	7/1/2009	\$ -	\$3,746,000	\$3,746,000	\$94,300,000	4.0%
June 30, 2009	7/1/2008	\$ -	\$3,538,000	\$3,538,000	\$82,700,000	4.3%
June 30, 2008	7/1/2007	\$ -	\$3,349,000	\$3,349,000	\$87,855,000	3.8%

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.

**The Research Corporation of the University of Hawai'i
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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, 2009 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, 2010 was 17 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, 2010 and 2009 were as follows:

	University Projects	Direct Projects	Other Projects	Total
2010				
Salaries and wages	\$ 73,577,851	\$ 15,713,611	\$ 12,977,007	\$ 102,268,469
Equipment	22,022,470	39,211	866,236	22,927,917
Other	154,860,507	11,632,906	19,698,483	186,191,896
	<u>\$ 250,460,828</u>	<u>\$ 27,385,728</u>	<u>\$ 33,541,726</u>	<u>\$ 311,388,282</u>
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>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net assets amounted to approximately \$104,563,000 and \$70,503,000 at June 30, 2010 and 2009, respectively.

Contract Commitments

At June 30, 2010, the Corporation had outstanding contract commitments through May 31, 2011 related to computer software and hardware maintenance of \$123,741.

11. Operating Leases

The Corporation occupies office space under month-to-month operating leases. The leases provide that the Corporation pay taxes, maintenance and certain other operating expenses applicable to the leased premise. Total office and equipment rental expenses for the years ended June 30, 2010 and 2009 were \$88,005 and \$92,044, respectively, which includes \$60,066 and \$70,030, respectively, of office rental expense under the operating leases for the years ended June 30, 2010 and 2009.

At June 30, 2010, the future minimum lease payments for equipment under noncancelable operating leases are as follows:

Years ending June 30	Lease Amount
2011	\$ 13,820
2012	12,630
2013	4,200
	<u>\$ 30,650</u>

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June 30, 2010 and 2009

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 \$100 million per occurrence for windstorm losses, \$100 million for losses from earthquake, flood, boiler, and machinery, 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 per 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, aircraft, 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, with a deductible of \$10,000 per occurrence, 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 \$25,000 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, 2010 and 2009, the workers' compensation reserve amounted to \$598,532 and \$668,917, 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.

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Notes to Financial Statements
June 30, 2010 and 2009

The following is a summary of changes in the workers' compensation reserve for the years ended June 30, 2010 and 2009.

	2010	2009
Beginning balance	\$ 668,917	\$ 679,099
Additional claims	-	37,958
Payments on claims	(60,158)	(50,891)
Other (interest credits, etc.)	(10,227)	2,751
Ending balance	<u>\$ 598,532</u>	<u>\$ 668,917</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, 2010 and 2009, the unemployment reserve amounted to \$728,578 and \$641,753, respectively, and is reported as a current liability in the accompanying statements of net assets.

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, 2010

	CFDA No.	Pass-Through Identifier	Federal Expenditures
U.S. Department of Defense			
Office of Naval Research			
Research & Development Cluster			
Mapping & Detection of UXO – Waikoloa	12.000	W909MY-07-C-0025	\$ 203,370
UXO Research & Development and the Application to the IED Threat	12.000	N00164-07-P-1894	<u>49</u>
			203,419
U.S. Department of the Interior			
Office of Insular Affairs			
Secretariat for the All Island Coral Reef Committee	15.875	CRI-RCUH-2008-6	1,147
National Aeronautics and Space Administration			
California Institute for Technology, Jet Propulsion Laboratory			
Shared Pupil Mask Technologies for Space Chronography	43.000	1341656	44,014
Direct Detections of Exoplanets in the Inner Solar System of Nearby Young Stars	43.000	1379504	<u>10,084</u>
			54,098
U.S. Department of Health and Human Services			
Health Resources and Service Administration			
Regional Collaborative Pacific Basin – Yr3	93.224	5U1BOA04137-03-00	344,234
Regional Collaborative Pacific Basin	93.224	U1BOA08583	<u>91,270</u>
			435,504
Executive Office of the President			
Office of National Drug Control Policy			
Hawai'i High Intensity Drug Trafficking Areas	95.001	I7PHIP506Z	1,128
Hawai'i High Intensity Drug Trafficking Areas – FY08	95.001	I8PHIP506Z	196,828
Hawai'i High Intensity Drug Trafficking Areas – FY09	95.001	G09HI0006A	<u>42,505</u>
			<u>240,461</u>
			<u>\$ 934,629</u>

**The Research Corporation of the University of Hawai'i
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Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010**

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 passed through to subrecipients as follows:

Program Title	CFDA No.	Amount
Mapping & Detection of UXO – Waikoloa	12.000	\$ 76,783
Regional Collaborative Pacific Basin	93.224	9,863
		<hr/>
		\$ 86,646

SECTION 2

INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE AND OTHER MATTERS

**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, 2010, and have issued our report thereon dated December 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. 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.

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.

Accuity LLP

Honolulu, Hawai'i
December 8, 2010

SECTION 3

COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS



CERTIFIED PUBLIC ACCOUNTANTS

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

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

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, 2010. 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, 2010.

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.

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

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

This report is intended solely for the information and use of the 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 8, 2010

**The Research Corporation of the University of Hawai'i
 State of Hawai'i
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010**

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of 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)?	No

Identification of Major Programs

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

The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section II – Financial Statement Findings

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

Section III – Federal Award Findings and Questioned Costs

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Summary Schedule of Prior Findings and Questioned Costs
Year Ended June 30, 2010**

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
09-01	Restatement of Beginning Net Assets	Material Weakness	X		
09-02	Lack of Review Over Financial Status Reports	Significant Deficiency	X		