

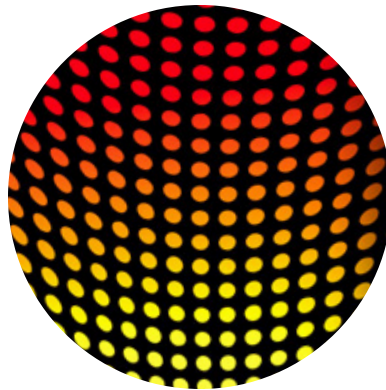
The Research Corporation
of the University of Hawaii

RCUH 20 12

ANNUAL REPORT

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808-988-8300.**

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-SEVEN YEARS AGO, these words are even more profound today. The University has made tremendous strides in the highly competitive world of externally-funded research, and today, stands among the great research universities. We believe RCUH's role in facilitating research activities has contributed to this achievement.

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Its function . . .

RCUH IS AKIN TO A SERVICE BUREAU. Its services include accounting, disbursements, human resources management, and procurement. Because of its exemption from State statutes relating to special funds, procurement, civil service, compensation, public employment, and the retirement system, RCUH has the flexibility to function more like a business. Accordingly, RCUH has its own personnel, payroll, accounting, procurement and disbursing systems, independent of the state and University systems. This makes it possible for RCUH to process transactions expeditiously, which in turn makes it possible for the researchers to focus more of their efforts on research rather than administrative activities.

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

Its relationship with the UH . . .

RCUH IS ATTACHED TO THE UNIVERSITY OF HAWAII (UH) for administrative purposes (per statute). An Internal Agreement between the UH and RCUH defines the basic responsibilities of each party and the financial arrangement to pay for the cost of services rendered.

Its funding . . .

LIKE A BUSINESS, RCUH must be self-supporting. It receives no state funds and operates entirely on fees charged for its services.

FOR UNIVERSITY OF HAWAII PROJECTS (referred to as 'service order' projects), the University currently pays RCUH a fee based on an agreed-upon formula.

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

Its governance . . .

THE AFFAIRS OF THE CORPORATION are under the general management and control of a Board of Directors. The Board consists of 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 39 employees, spread across the departments of accounting, disbursing, human resources, procurement, project administration, and the executive director's office. The core staff is housed at the East-West Center's Burns Hall on the UH Manoa campus and at the Manoa Innovation Center on Woodlawn Drive in Manoa.

ON AVERAGE, there are 3,000 project personnel on RCUH's payroll at any given time. The vast majority work on UH research and training projects.

EEO/AA Policy

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

The Year in Review

THE 2012 FISCAL YEAR was marked by another significant milestone for RCUH. Our volume of business was \$484,714,652, which again surpassed previous years' activities and represents a 23.8% increase from 2011. Two major construction projects, UH West Oahu and UH Cancer Center, contributed to this increased activity, as both projects approached their completion dates (summer and fall 2012, respectively). Expenditures for UH projects as well as direct projects continued on the upswing during the year. Since the University ended their fiscal year with a decrease in extramural awards, RCUH may start feeling the effects of the downward trend next year (typically, award amounts and expenditures do not correlate).

Our major emphasis during the year was preparing for the UH's launch of their new Kuali Financial System. Learning about the new system and working to build the required interfaces ensured that the necessary data feeds between the UH and RCUH systems could take place when Kuali went live on July 1, 2012. Enhancements to both the financial and human resources systems also continued throughout the year. We continually look for ways we can improve our systems for the benefit of our customers and as resources permit.

We welcomed James Karins and Jan Sullivan to the Board this year. The Board spent some time on an issue related to UH revolving accounts at RCUH. This resulted in the tightening of procedures by both UH and RCUH to clearly state that such accounts shall not be used for activities that should be handled as extramural awards to the University. The Board also reviewed the RCUH employee benefits package to understand its comparability with University/State and private sector benefits. As the year drew to a close, we bid aloha to Dennis Hirota for his years of service to the RCUH Board.

We look forward to the new year and continuing to make a difference in the research endeavors of the University and the State. Thank you for the opportunity to be of service.



RCUH Board of Directors

(as of June 30, 2012)



Carl Carlson



Robert Dewitz
Chairman



Dennis Hirota



James Karins



James Lee
Vice Chairman



Eric Martinson



Guy Ontai



Jan Sullivan



Donn Takaki



Mark Yamada

Project Review: SERVICE ORDER PROJECT



National **Disaster Preparedness** Training Center: Building Resilience in Hawaii and Beyond

by Karl Kim

THE NATIONAL DISASTER PREPAREDNESS TRAINING CENTER (NDPTC), housed at the University of Hawaii (UH), is part of the National Domestic Preparedness Consortium. In addition to the UH, the consortium includes Louisiana State University, Texas A&M, New Mexico Tech, Center for Radiological/Nuclear Training, and Center for Domestic Preparedness. The NDPTC focuses on natural hazards, coastal communities, and islands, territories and isolated communities. The other members of the consortium focus on reducing threats from terrorism and weapons of mass destruction. Together, the Consortium takes an all-hazards approach to disaster risk reduction. The vision, leadership and continued support of Senator Daniel Inouye has been key to the continued success of this national effort to reduce vulnerabilities and build capacity to respond to and recover from disasters.



Karl Kim, NDPTC Executive Director, in Minamisanriku, Miyagi Prefecture, Japan after the 2011 Tsunami.

According to Executive Director and UH Urban Planning Professor, Karl Kim, “the NDPTC builds on the excellent research and experiences of the University of Hawaii and our state which is exposed to so many different natural hazards, while partnering with key agencies such as FEMA, NOAA, USGS, and others involved in disaster risk reduction.” The Center develops and delivers FEMA-certified training courses for state and local governments, non-governmental organizations, and others involved in disaster response, recovery, and preparedness. In addition, the Center is the only member of the consortium authorized to develop and deliver academic programs in homeland security and disaster management. In this way, the Center is closely tied to academic degree and certificate programs throughout the UH system. Many faculty, researchers, graduate students, and others from the university work as course developers, instructors, subject matter experts, and evaluators of course content.

In its fourth year of funding, the Center receives approximately \$5 million annually. It has developed and delivered numerous courses on hazards such as volcanoes, hurricanes, coastal flooding, and severe weather. Working in partnership with NOAA and the International Tsunami Information Center (based in Honolulu), it developed FEMA’s first certified course on tsunamis. The Center has also partnered with many local engineering, planning, and design firms to develop

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Post-Tsunami Clean-Up (American Samoa).

content about building resilient communities. It has developed courses on geospatial analysis, disaster communications, and rapid damage assessment. Embracing the “whole community” concept, NDPTC has worked to translate training materials for non-English speaking communities and has worked closely with many partners to deliver training for tribal and Native American communities. During the past year alone, the Center has trained approximately 2,000 people from across the country. As a national center, NDPTC has also trained in Puerto Rico and the Virgin Islands.

Among its most successful courses is one of the first FEMA training courses on Social Media for Disaster Response and Recovery. This course was developed entirely with resources and expertise based here in Hawaii. Contracting with a small local firm, PeopleBridge, NDPTC has developed and delivered training on how to use Twitter, Facebook, and many other social media applications for disaster preparedness, response and recovery. The Center is currently working on new courses related to “crowdsourcing” or using social media tools to gain up-to-date information from people with smartphones and access to social media tools.



Training course on Social Media.

Another focus area for the Center is on disaster recovery. Working in partnership with NOAA and the American Planning Association, NDPTC is working to extract the important lessons about how to hasten and improve the recovery process following catastrophic events. Recovery must engage many different sectors and parts of the community. This effort coincides with the recent release of the National Disaster Recovery Framework. Communities impacted by recent storms such as the 2011 tornadoes or Super Storm Sandy are not only struggling to rebuild, but also face major challenges in terms of “building back better, stronger, more resilient, and more sustainably.” This is also a key opportunity for learning about what can be done to increase our capacity to recover following disasters.

Facing numerous threats from tsunamis, hurricanes, volcanoes, and slower onset hazards such as droughts, sea level rise and ocean acidification, it is critical for Hawaii to develop and implement strategies for increasing resilience to disasters. The Center was recently awarded a new grant to develop a “Science of Disasters” course for executive leaders involved in emergency management. This will be part of a four-week program which includes modules developed by Harvard University, Naval Postgraduate School, Texas A&M, and the University of Hawaii. These programs provide an opportunity for not just showcasing the outstanding research and development work here in Hawaii, but also building awareness, knowledge, leadership, and commitment to making our world safer from disasters.

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

Project Review: REVOLVING FUND PROJECT

Kapi`olani Community College

Culinary Arts**Department's American Culinary Federation
Apprenticeship Program**

by Ronald Takahashi

THE ACF APPRENTICESHIP TRAINING PROGRAM was established in 2005 to provide a practical solution to a major educational problem and has grown to become a valuable alternative way for hands-on learners to obtain the technical skills necessary for a career in the culinary industry. In a 1997 research and evaluation report for the Employment and Training Administration agency of the United States Department of Labor, "each year half of America's youth leave high school and forego postsecondary education to enter the world of employment, but many have difficulty finding stable work with opportunities for growth in skills and income." The report went on to fault the U.S. educational system for failing to develop programs that help youth acquire needed skills and stated that America's emphasis on college preparation was isolating academic from vocational education and weakening its ability to prepare them for the demands of gainful employment. The report went on to conclude that "youth learn best through hands-on experience and instruction inspired by a meaningful context for the material."



Having won State, Regional and National recognition and awards, Kapi`olani Community College's (KCC) Culinary Arts program is considered by many to be the premier culinary institute in the State of Hawai'i. With over 550 majors in its Associate of Science (AS) degree in Culinary and Pastry Arts, the program is the largest of the six culinary programs within the University of Hawai'i Community College system. It is the only one to offer upper-division courses in Culinary Management through its Advanced Professional Certificate (APC) program that articulates with UH West O'ahu's Bachelor's of Applied Science (BAS) Degree. However, even with these traditional academic pathways, the Culinary Arts Department felt that it was not fully addressing the needs of the students in the community and businesses in the industry. Based upon its research of best practices, the Department implemented the American Culinary Federation's (ACF) apprenticeship program to meet the

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needs of our hands-on-learners who are financially disadvantaged, wish to learn the skills, and yet must be able to support a household. In order to be successful, an ACF apprenticeship training program requires a flexible and streamlined method of operation that is more like a business than a state agency, for it must provide real-life work experiences that reinforce the theoretical concepts that the apprentice learns in class.

On the Kapi'olani Community College campus, the Culinary Arts Department operates the ACF Apprenticeship program at the 'Ōhi'a Cafeteria and the campus banquets and catering services, while at the John A. Burns School of Medicine (JABSOM) in Kaka'ako, the ACF Apprenticeship programs operates the Kūlia Grill Restaurant. At all locations, ACF Apprentices work alongside journey worker Culinarians to learn how to create cost-effective, high-quality meals in a sustainable manner that reinforce the Department's vision of embracing the motto of the college, of "kūlia i ka nu'u", or to "strive for the highest" in everything that it undertakes.

The ACF Apprenticeship program is a vital component in the Culinary Art Department's quest to fulfill its mission, which is to "provide a quality education in the culinary and pastry arts with an emphasis on blending the classical techniques with the global influences of our unique geographic location. This mission is achieved through a progressive curriculum, operational excellence, multi-industry alliances and the promotion of lifelong learning." The program has recently set as its institutional priority the training of its apprentices, students and industry professionals in both sustainable food service practices and the need to cook for health and wellness. There are many opportunities on the horizon for the program to contribute substantially to the quality of culinary education in the State of Hawaii made possible by the generous support of our community and corporate sponsors and the flexibility of the RCUH infrastructure.

<http://www.culinary.kcc.hawaii.edu>



Project Review: DIRECT PROJECT

Academia Sinica Institute of
**Astronomy and
Astrophysics** (ASIAA)

by Ming-Tang Chen

ASIAA HAWAII IS A BRANCH OFFICE OF the Academia Sinica, Institute of Astronomy and Astrophysics (ASIAA), in Taiwan, Republic of China. It was set up under a collaboration agreement with the Research Corporation of the University of Hawaii (RCUH) to manage and operate various ASIAA research facilities in Hawaii and in other parts of the United States. The mission of the Institute is to construct forefront facilities, to gain access to advanced instruments, and to engage in research on fundamental astrophysical problems. ASIAA's emphasis has been on developing innovative technology that will drive the progress in their discipline.

The pristine sky over the summit of Mauna Kea provides the best site on Earth to explore the Universe, to study the origin of all things, and to conjecture the future of our path. This was the primary motivation to establish a facility on the Big Island of Hawaii. For the past 14 years, RCUH has made it possible for ASIAA projects to grow and flourish in Hawaii. For example, in 2003, in partnership with the Smithsonian Astrophysical Observatory, ASIAA dedicated the Submillimeter Array (SMA). The SMA is a radio interferometer consisting of eight 6-meter antennas, operating at 230, 345, and 690 GHz. It can be arranged into configurations with baselines as long as 509 meters, allowing for observations of radio-wave emission from warm, dense gas and dust at unprecedented high resolutions. As of November 2012, 428 peer-reviewed papers have been produced using SMA observations.



Figure 1: The SMA, built at the top of Mauna Kea at an altitude about 4,000 meters in Hawaii.

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Figure 2: AMiBA with thirteen 1.2m antennas was completed in the end of 2009. The 13-element array, with improved resolution and sensitivity, can effectively study galaxy clusters that are much further away from us. The summit of Mauna Kea is shown in the background.

ASIAA's second major project in Hawaii is a novel telescope to specifically study the Cosmic Microwave Background. The project was initiated in Taiwan in 2000, and the telescope, the Yuan-Tseh Lee Array for Microwave Background Anisotropy (AMiBA), was dedicated in 2006. Located on the gentle slopes of Mauna Loa, AMiBA is a forefront instrument for research in the field of cosmology. It is an interferometer operating at 3 mm wavelength to study the cosmic microwave background radiation. This instrument operates seven nights a week to collect the ancient photons from the sky.

In addition to radio astronomy, ASIAA has been working closely with the 3.6-meter Canada-France-Hawaii telescope (CFHT). ASIAA has a long history with the CFHT, starting with the Wide Field Infrared Camera project to the next generation instrument, the Spectropolarimeter Infra-Rough project. ASIAA also established instrument development programs with the Subaru telescope via the Hyper-Suprime Cam project in 2008 and the Prime Focus Spectrograph (PFS) project in 2011.

ASIAA Hawaii also supports various ASIAA projects located outside of Taiwan. For example, ASIAA is actively participating in the instrument development of the largest ground-based telescope in Chile, the Atacama Large Millimeter/Submillimeter Array (ALMA) and the Taiwan-American Occultation Survey (TAOS) in Baja California.

Last year, ASIAA began working very hard on another new initiative, setting up a telescope on the Greenland Ice Sheet. This new initiative will deploy a repurposed ALMA prototype antenna, located near Socorro, New Mexico, to the Ice Sheet summit. This new antenna will form the most important station for a global network, consisting of the SMA, ALMA, and other submillimeter observatories, to image super massive black-holes. The technique is known as the very long baseline interferometry (VLBI), and ASIAA is pushing this method to its extreme to achieve unprecedented angular resolution.

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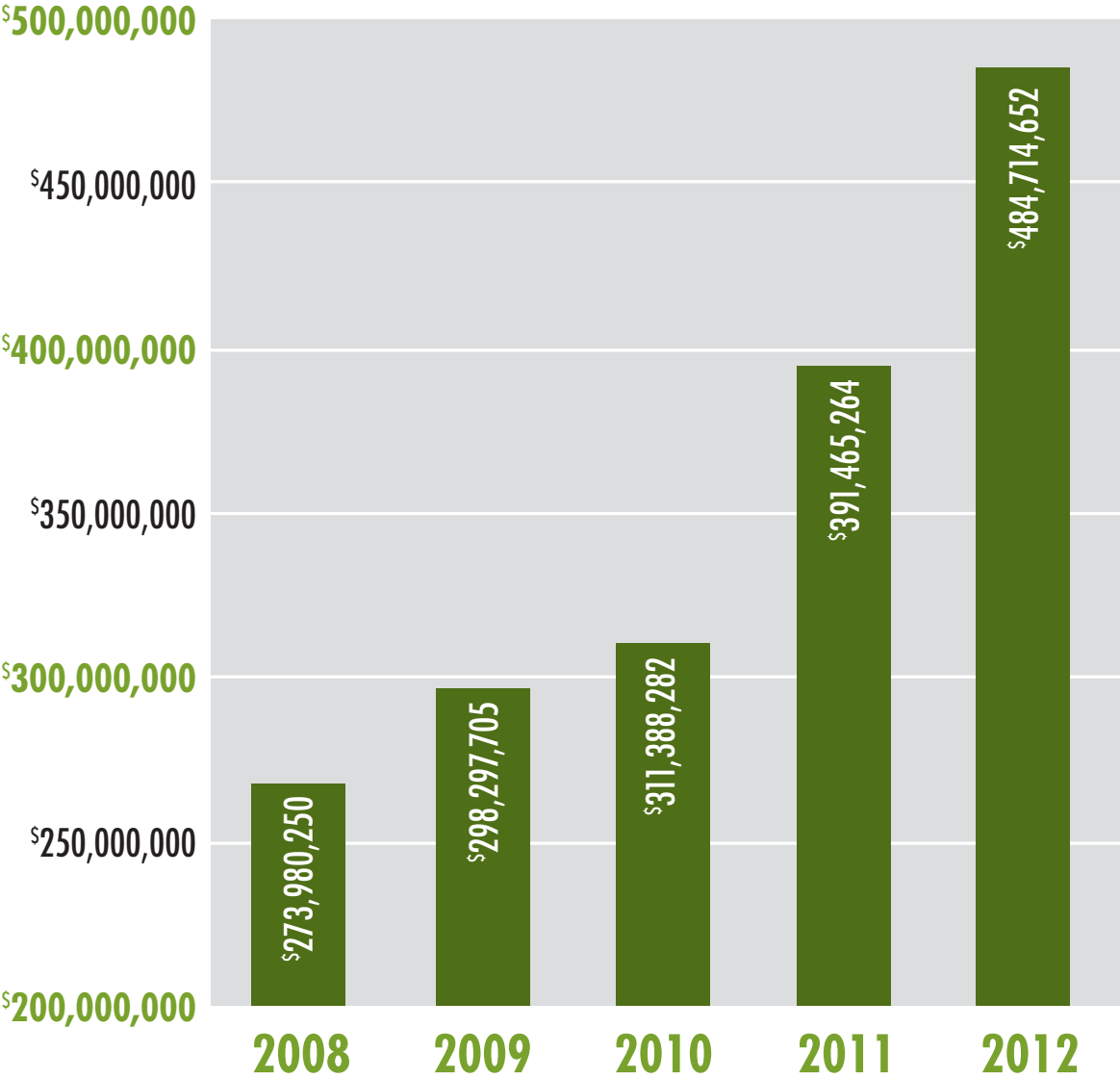
Figure 3: A site surveying radiometer for the GLT project was deployed to the summit of Greenland in 2011. This instrument is to measure the atmosphere clarity of the site.

International collaboration is very common in science research. It is probably even more important in astronomy, especially when large-scale instrumentation projects are involved. The services provided by RCUH afford ASIAA with a unique opportunity to participate in forefront scientific research in Hawaii. RCUH's support and assistance is very much appreciated.

<http://www.asiaa.sinica.edu.tw/>

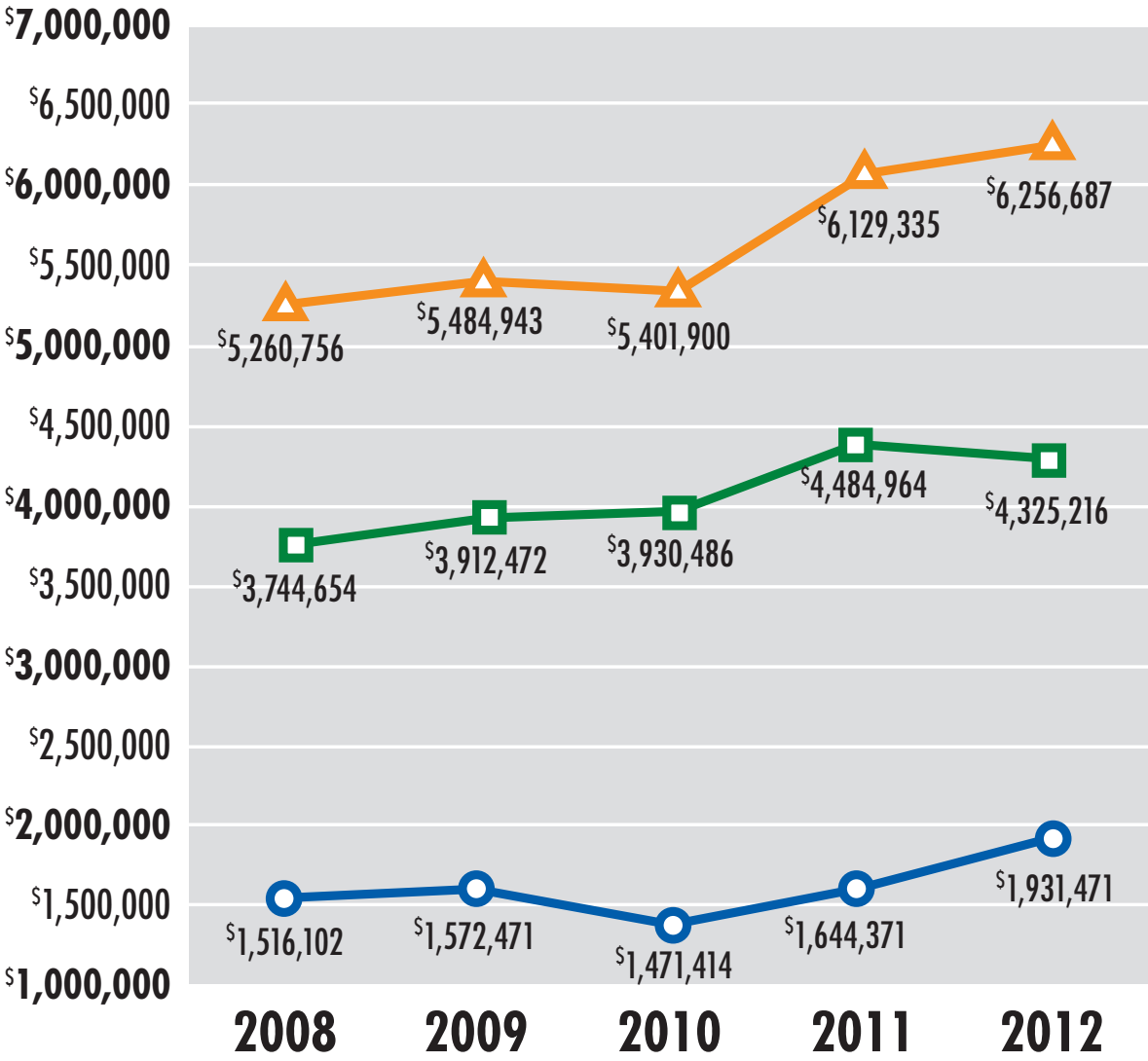
Statistical Data

Dollar Volume of Project Administration



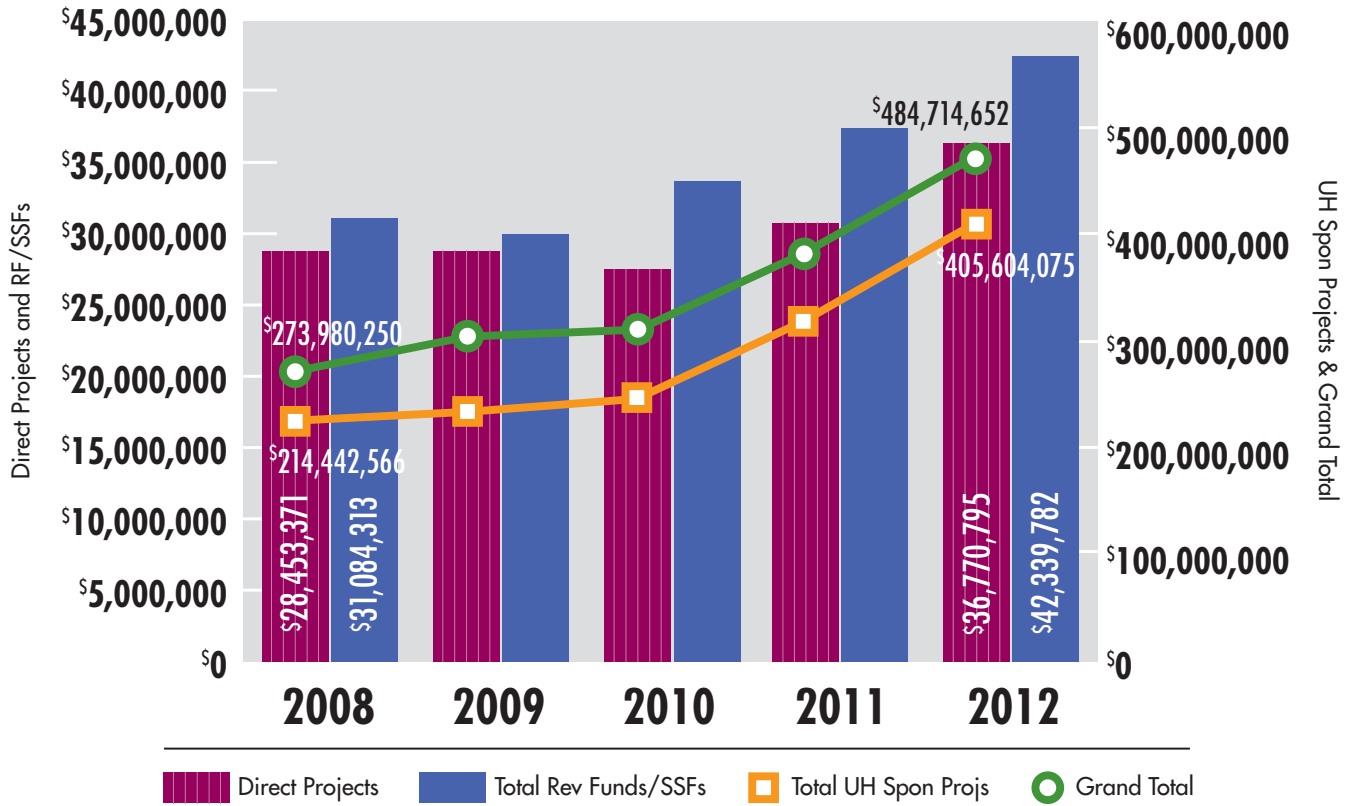
Statistical Data

Operating Revenues Summary



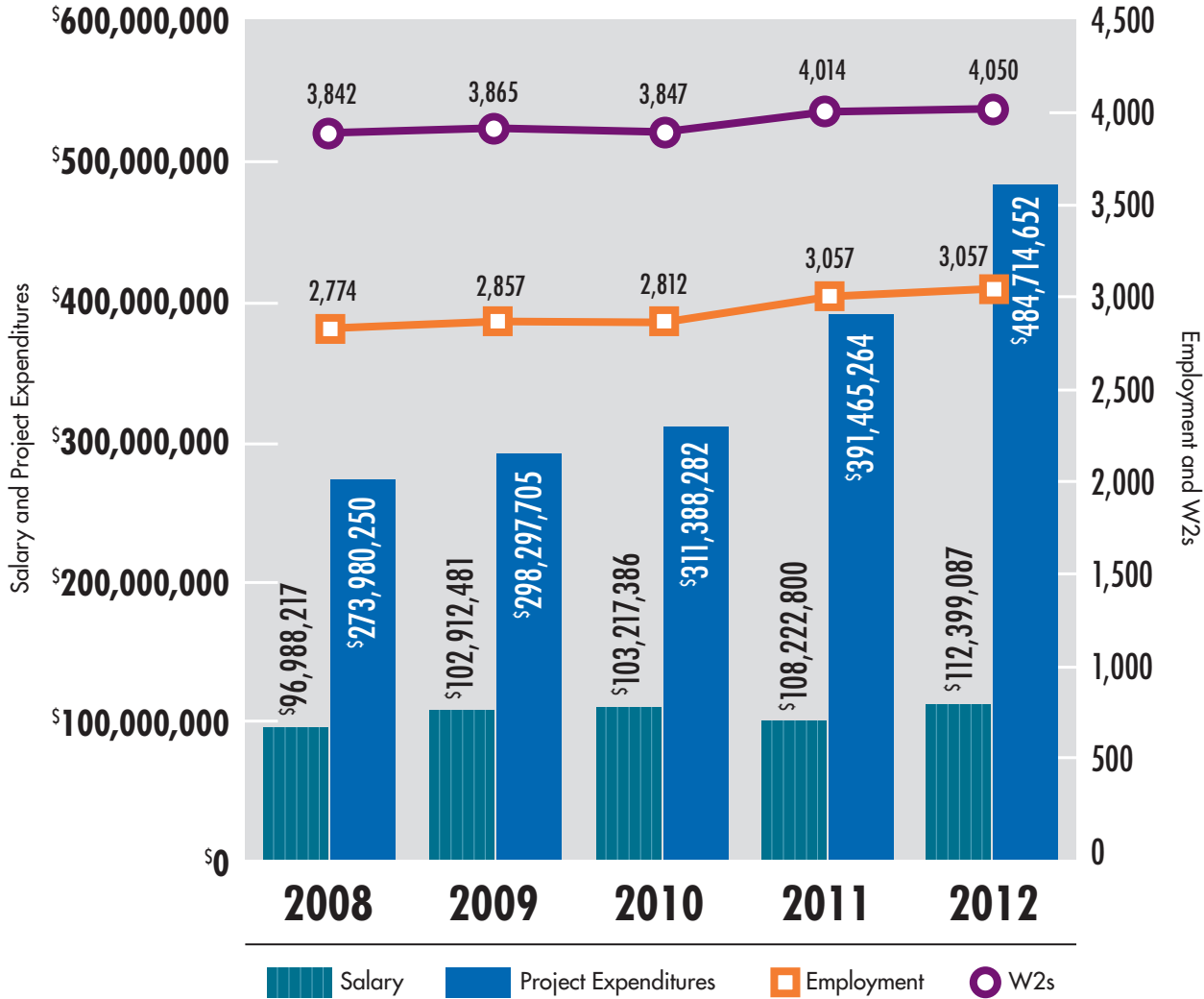
○ Revenues from Other Agencies □ Revenues from UH ▲ Total Annual Revenues

Statistical Data Project Expenditures



Statistical Data

Employment / W2s / Salaries / Project Expenditures



Statistical Data

Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2012	%	2011	%	2010	%	2009	%	2008	%
Federal										
Dept of Health & Human Services	\$46,936,111	9.68	41,855,658	10.69	38,481,602	12.36	36,434,473	12.21	34,153,561	12.47
Dept of Commerce	42,362,575	8.74	28,727,020	7.34	21,929,131	7.04	17,828,453	5.98	18,415,323	6.72
National Science Foundation	36,261,065	7.48	28,943,530	7.39	20,339,989	6.53	18,329,030	6.14	20,174,746	7.36
Dept of Agriculture	6,681,664	1.38	5,600,502	1.43	4,821,373	1.55	4,207,894	1.41	5,068,068	1.85
Dept of Interior	6,902,424	1.42	7,085,493	1.81	5,709,702	1.83	6,410,302	2.15	6,610,648	2.41
Dept of Energy	6,318,607	1.31	4,044,951	1.03	2,722,910	0.87	2,362,731	0.79	1,994,777	0.73
Dept of Defense	31,665,705	6.53	35,199,944	8.98	47,941,114	15.40	46,260,920	15.51	42,623,170	15.56
Dept of Education	14,984,220	3.09	18,098,012	4.62	18,466,414	5.93	15,020,082	5.04	12,520,850	4.57
Natl Aeronautics & Space Adminis	7,249,022	1.50	7,274,115	1.86	5,654,337	1.82	5,553,813	1.86	7,516,914	2.74
Dept of State	362,510	0.08	383,578	0.10	403,254	0.13	1,170,695	0.39	1,978,417	0.72
Dept of Labor	2,040,342	0.42	1,882,767	0.48	1,309,896	0.42	1,207,515	0.40	1,951,517	0.71
Other Miscellaneous Federal	13,145,816	2.71	14,351,898	3.67	10,047,431	3.23	6,498,044	2.18	3,315,801	1.21
UH FEDERAL PROJECTS	214,910,061	44.34	193,447,468	49.40	177,827,153	57.11	161,283,952	54.06	156,323,792	57.06
Non-Federal State & County Governments										
University of Hawaii:										
Sch of Ocean & Earth Sci and Tchnlgy	4,374,141	0.90	2,618,613	0.67	3,673,713	1.18	5,604,628	1.88	2,913,915	1.06
Institute for Astronomy	1,732,793	0.36	2,282,359	0.58	2,326,501	0.75	3,995,871	1.34	3,003,939	1.10
Ofc of Tchnlgy Transfer & Econ Dev	330,070	0.07	453,611	0.12	630,772	0.20	796,689	0.27	1,060,930	0.39
Cancer Research Center of Hawaii	65,329,739	13.48	35,363,985	9.03	6,753,907	2.17	2,595,077	0.87	1,826,892	0.67
School of Medicine	2,926,260	0.60	2,657,121	0.68	2,475,810	0.80	2,574,661	0.86	5,403,709	1.97
UH-Hilo	3,028,975	0.62	3,826,244	0.98	3,900,592	1.25	4,144,359	1.39	4,067,309	1.48
West Oahu	79,599,022	16.42	34,708,439	8.86	4,126,277	1.33	16,081,809	5.39	4,671,703	1.71
UH-Other	7,105,826	1.47	21,371,678	5.46	14,584,742	4.68	8,992,101	3.01	6,459,567	2.36
Dept of Health	2,268,523	0.47	2,889,621	0.74	5,077,543	1.63	5,373,156	1.80	7,410,754	2.70
Dept of Land & Natural Resources	3,970,774	0.82	3,234,322	0.83	5,210,141	1.67	5,567,939	1.87	5,220,077	1.91
Dept of Education	929,525	0.19	231,957	0.06	259,883	0.08	230,287	0.08	233,227	0.09
Dept of Defense	--	--	--	--	47,292	0.02	617,065	0.21	102,330	0.04
County Government	674,908	0.14	907,548	0.23	859,918	0.28	800,620	0.27	806,657	0.29
OTHER SPONSORS	18,423,458	3.80	19,395,198	4.95	22,706,584	7.29	21,423,960	7.18	14,937,765	5.45
UH NON-FEDERAL PROJECTS	190,694,014	39.34	129,940,696	33.19	72,633,675	23.33	78,798,222	26.42	58,118,774	21.21
TOTAL UH PROJECTS	405,604,075	83.68	323,388,164	82.59	250,460,828	80.44	240,082,174	80.48	214,442,566	78.27
DIRECT PROJECTS										
FEDERAL PROJECTS	5,565,437	1.15	4,046,976	1.03	3,810,816	1.22	4,538,938	1.73	4,999,559	1.82
Non-Federal State & County Governments										
Dept of Health	877,811	0.18	816,672	0.21	867,508	0.28	863,918	0.29	1,264,302	0.46
Dept of Land & Natural Resources	1,596,816	0.33	1,479,376	0.38	1,615,186	0.52	2,065,677	0.69	1,903,520	0.69
Dept of Education	33,548	0.01	76,935	0.02	193,054	0.06	191,173	0.06	17,941	0.01
Dept of Defense	831,090	0.17	1,002,690	0.26	--	--	--	--	--	--
County Government	--	--	--	--	--	--	783	--	4,578	--
Others:										
Joint Astronomy Centre	4,100,836	0.85	4,684,618	1.20	4,999,980	1.61	4,947,293	1.66	4,705,069	1.72
Academia Sinica Inst of Astronomy	2,408,692	0.50	2,211,427	0.56	2,008,857	0.65	1,824,166	0.61	1,668,948	0.61
Natl Astronomical Observ of Japan	4,959,565	1.02	5,023,577	1.28	5,004,651	1.61	5,313,418	1.78	5,250,271	1.92
PICHR	5,771,088	1.19	5,825,286	1.49	4,559,692	1.46	3,804,747	1.28	2,888,535	1.05
Hawaii Community Foundation	7,776,109	1.60	3,749,482	0.96	3,284,627	1.05	2,444,542	0.82	2,880,236	1.05
Other Sponsors	2,849,803	0.59	1,535,591	0.39	1,041,357	0.33	2,382,674	0.80	2,870,413	1.05
NON-FEDERAL PROJECTS	31,205,358	6.44	26,405,654	6.75	23,574,912	7.57	23,838,391	7.99	23,453,813	8.56
TOTAL DIRECT PROJECTS	36,770,795	7.59	30,452,630	7.78	27,385,728	8.79	28,377,329	9.72	28,453,372	10.39
REVOLVING FUNDS										
<i>(Including Specialized Service Facilities (SSFs))</i>										
Specialized Service Fac/Ship Ops	16,155,937	3.33	13,573,525	3.47	12,137,819	3.90	9,627,413	3.23	12,572,209	4.59
Revolving Funds & Other SSF's	26,183,845	5.40	24,050,945	6.14	21,403,907	6.87	20,210,789	6.78	18,512,104	6.76
Total Revolving Funds & SSF's	42,339,782	8.73	37,624,470	9.61	33,541,726	10.77	29,838,202	10.01	31,084,313	11.35
TOTAL PROJECTS	\$484,714,652	100.00	391,465,264	100.00	311,388,282	100.00	298,297,705	100.00	273,980,251	100.00

Financial Statements

for the Years Ended

June 30, 2012 and 2011

Financial Statements and report of independent
certified public accountants

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

June 30, 2012 and 2011





**The Research Corporation of
the University of Hawai'i
State of Hawai'i**
Financial and Compliance Audit
June 30, 2012 and 2011

Quality Integrity Insight

**The Research Corporation of the University of Hawai'i
State of Hawai'i
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June 30, 2012 and 2011**

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SECTION 1 FINANCIAL



Report of Independent Auditors

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

We have audited the accompanying financial statements of The Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation"), a component unit of the University of Hawai'i, as of and for the years ended June 30, 2012 and 2011. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Corporation as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the Corporation has restated its financial statements for the year ended June 30, 2011 to correct an understatement of previously reported intergovernmental revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012 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.

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HONOLULU, HAWAII 96813
TELEPHONE: 808 531 3400 FACSIMILE: 808 531 3433

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011**

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, 2012. It includes selected comparative information with the years ended June 30, 2011 and 2010. 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 2012, the volume of business (project expenditures) continued on an upward trend, and the Corporation achieved its highest volume of business in its history. There was a 24% increase from fiscal year 2011 to 2012, which followed a 26% increase from fiscal year 2010 to 2011.

Fiscal Year	Amount	Annual	
		Amount Increase (Decrease)	Percentage Increase (Decrease)
2012	\$ 484,714,652	\$ 93,249,388	24%
2011	391,465,264	80,076,982	26%
2010	311,388,282	13,090,577	4%
2009	298,297,705	24,317,455	9%
2008	273,980,250	(12,367,672)	-4%
2007	286,347,922	(5,023,449)	-2%
2006	291,371,371	(31,044,805)	-10%
2005	322,416,176	62,009,111	24%
2004	260,407,065	47,764,398	22%
2003	212,642,667	48,579,784	30%
2002	164,062,883	55,507,834	51%

The financial information for fiscal year 2011 has been restated to correct an error in accounting for intergovernmental revenues and expenses. The restatement did not have an effect on previously reported net assets.

The Management's Discussion and Analysis ("MD&A") and Required Supplementary Information ("RSI") Other Than MD&A are not required parts of the financial statements, but are 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 and RSI Other Than 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accuity LLP

Honolulu, Hawai'i
October 30, 2012

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011**

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, 2012, 2011, and 2010 are summarized below:

	2012	2011	2010
Current assets			
Cash	\$ 28,162,159	\$ 12,510,070	\$ 17,092,392
Time certificates of deposit	8,008,105	7,999,519	6,997,325
Receivables	42,876,105	40,286,275	19,974,830
Other assets	131,776	122,822	143,195
Restricted cash	<u>4,435,451</u>	<u>5,522,624</u>	<u>2,947,689</u>
Total current assets	<u>83,613,596</u>	<u>66,441,310</u>	<u>47,155,431</u>
Noncurrent assets			
Investment	-	297,747	315,024
Capital assets	<u>1,055,407</u>	<u>450,016</u>	<u>387,864</u>
	<u>1,055,407</u>	<u>747,763</u>	<u>702,888</u>
Total assets	<u>\$ 84,669,003</u>	<u>\$ 67,189,073</u>	<u>\$ 47,858,319</u>
Current liabilities	\$ 71,823,147	\$ 55,157,071	\$ 36,447,201
Noncurrent liabilities	<u>3,790,856</u>	<u>3,068,087</u>	<u>2,471,153</u>
Total liabilities	<u>75,614,003</u>	<u>58,225,158</u>	<u>38,918,354</u>
Net assets			
Invested in capital assets	1,055,407	450,016	387,864
Unrestricted, as restated	<u>7,999,593</u>	<u>8,513,899</u>	<u>8,552,101</u>
Total net assets	<u>9,055,000</u>	<u>8,963,915</u>	<u>8,939,965</u>
Total liabilities and net assets	<u>\$ 84,669,003</u>	<u>\$ 67,189,073</u>	<u>\$ 47,858,319</u>

Overall, the Corporation's financial condition remains stable.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011**

Assets

Cash increased from 2011 to 2012 due to the timing of project cost reimbursements for University extramurally sponsored and internally funded accounts. Conversely, cash decreased from 2010 to 2011 due to the timing of project cost reimbursements for University extramurally sponsored and internally funded accounts, which relates to the increase in the net receivable balance from the University.

Receivables increased by 6% from 2011 to 2012 and by 102% from 2010 to 2011. The changes mostly stem from the timing of receipts from the University for project cost reimbursements. The increase in receivables for 2011 is also due to a \$4.5 million vendor advance paid on behalf of a University project. The net receivable due from the University was \$35,900,586 at June 30, 2012, compared to \$33,857,658 at June 30, 2011 and \$14,588,753 at June 30, 2010.

Investment includes funds invested with the Hawai'i Strategic Development Corporation. The decrease in investments for 2012 is due to a decrease in fair value.

Fixed asset acquisitions amounted to \$706,902 for 2012 compared to \$194,970 for 2011. Significant acquisitions were made in 2012 for software applications. The Corporation's financial system was significantly modified to maintain compatibility with the University's new financial information system, Kualii Financial System, and a new interface was developed to transmit information between these financial systems. Depreciation expense for 2012 and 2011 amounted to \$101,511 and \$132,818, respectively.

Liabilities

Current liabilities increased by 30% from 2011 to 2012 and by 51% from 2010 to 2011. The changes are the result of an increase in accounts payable to vendors, which relates to the increase in the Corporation's volume of business.

Noncurrent liabilities increased by 24% from 2011 to 2012 and from 2010 to 2011. 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.

Net Assets

Net assets invested in capital assets at June 30, 2012 and 2011 were \$1,055,407 and \$450,016, 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.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011**

Condensed Statements of Revenues and Expenses and Changes in Net Assets

The Corporation's statements of revenues and expenses and changes in net assets as of June 30, 2012, 2011, and 2010 are summarized as follows:

	2012	(Restated) 2011	2010
Operating revenues			
University of Hawai'i	\$ 4,325,216	\$ 4,484,964	\$ 3,930,486
Other sponsor agencies	1,931,471	1,644,371	1,471,414
Total operating revenues	<u>6,256,687</u>	<u>6,129,335</u>	<u>5,401,900</u>
Operating expenses			
Personnel costs	3,552,593	3,612,265	3,226,419
Data processing services	691,260	935,255	713,807
Office supplies and services	395,883	411,708	303,385
Retiree medical benefits	309,000	316,000	316,000
Insurance	281,131	275,510	296,001
Professional and technical support	144,792	84,718	66,575
Project development	124,766	121,982	-
Depreciation	101,511	132,818	176,493
Other expenses	361,880	317,265	271,876
Total operating expenses	<u>5,962,816</u>	<u>6,207,521</u>	<u>5,370,556</u>
Operating income (loss)	293,871	(78,186)	31,344
Nonoperating revenues (expenses)			
Intergovernmental (Federal awards)			
Revenue	1,299,128	1,133,139	910,394
Expense	(1,299,128)	(1,133,139)	(910,394)
Interest income	94,961	119,413	112,752
Investment expense	(297,747)	(17,277)	(85,564)
Increase in net assets	91,085	23,950	58,532
Net assets			
Beginning of year	8,963,915	8,939,965	8,881,433
Ending of year	<u>\$ 9,055,000</u>	<u>\$ 8,963,915</u>	<u>\$ 8,939,965</u>

In fiscal year 2012, operating revenues earned from the University for management fees decreased in comparison to fiscal year 2011 due to a decrease in administrative operating expenses. Under the terms of the Internal Agreement, the management fee is based on a percentage of administrative operating expenses. Operating revenues earned from other sponsoring agencies increased as a result of the increase in volume of business.

In fiscal year 2011, operating revenues earned from the University for management fees increased in comparison to fiscal year 2010 due to an increase in administrative operating expenses. Operating revenues earned from other sponsoring agencies increased as a result of the increase in volume of business.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011**

Operating expenses in fiscal year 2012 decreased by 4% over the previous year's expenses. The decrease was mainly attributed to a decrease in data processing costs. Although significant costs were expended to develop software applications in connection with the University's new financial information system, these costs were capitalized as fixed assets.

Operating expenses in fiscal year 2011 increased significantly by 16% over the previous year's expenses as a result of the Corporation's short-term strategy to enhance services through upgrades of information technologies and professional development and to launch initiatives to take advantage of new opportunities. A major increase in expenditures was attributed to an increase in payroll costs as a result of additions in core staff job positions. Furthermore, costs were incurred for enhancements and upgrades to human resources software applications and support for project development.

For fiscal year 2012, net assets increased by \$91,085. For fiscal year 2011, net assets increased by \$23,950.

Condensed Statement of Cash Flows

The Corporation's statement of cash flows for the fiscal years ended June 30, 2012, 2011, and 2010 are summarized as follows:

	2012	2011	2010
Operating activities			
Cash received from operations	\$ 7,196,383	\$ 5,386,102	\$ 8,104,678
Cash payments for operations	(5,426,810)	(5,426,572)	(4,676,948)
Project expenditures and reimbursements, net	13,415,870	(889,166)	5,264,907
Net cash provided by (used in) operating activities	<u>15,185,443</u>	<u>(929,636)</u>	<u>8,692,637</u>
Financing activities			
	<u>(706,902)</u>	<u>(194,970)</u>	<u>(78,107)</u>
Investing activities			
	<u>86,375</u>	<u>(882,781)</u>	<u>94,748</u>
Increase (decrease) in cash	14,564,916	(2,007,387)	8,709,278
Cash			
Beginning of year	18,032,694	20,040,081	11,330,803
Ending of year	<u>\$ 32,597,610</u>	<u>\$ 18,032,694</u>	<u>\$ 20,040,081</u>

Fluctuations in cash received from operations were due to the collection of the management fee from the University and the refund for the retrospective rated workers' compensation insurance plan. Changes in net project expenditures and reimbursements stem from the timing of receipts from the University for project cost reimbursements. The change in investing activities in 2011 was due to the purchase of a time certificate of deposit.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011**

Looking Forward

Management projects the volume of business to slow down in the coming years. Although the University is working to increase the volume of extramural funding, this will be particularly challenging given expected declines in Federal research funding. During the fiscal year 2012, the University has received approximately \$436 million in extramural research and training awards, a decrease of 11% from 2011. Despite the downturn in Federal funding, the financial outlook for the Corporation remains positive.

The Corporation's Hilo office was originally established in 2000 to support the University of Hawai'i at Hilo's ("UHH") sponsored research and training activities with the intent of eventually becoming a part of UHH. In September 2012, the Corporation's Hilo office ceased operations and its functions were transferred to the UHH. Upon termination of operations, employees of the Corporation's Hilo office remained employees of the Corporation, but report to the UHH Chancellor's office and their salaries and wages are charged to a project account.

The Corporation has maintained and controlled operating expenses at conservative levels even while experiencing record highs of volume of business. The budget for fiscal year 2013 was approved with a 1% increase in administrative operating expenses above fiscal year 2012 budget. Management strives to continue improving operational efficiency and maximizing its resources while ensuring that the Corporation meets the needs of the University research community and other clients.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Statements of Net Assets
June 30, 2012 and 2011**

	2012	2011
Assets		
Current assets		
Cash	\$ 28,162,159	\$ 12,510,070
Time certificates of deposit	8,008,105	7,999,519
Receivables		
University of Hawai'i, net	35,900,586	33,857,658
Other sponsoring agencies	6,975,519	6,428,617
Total receivables	<u>42,876,105</u>	<u>40,286,275</u>
Prepaid expenses	131,776	122,822
Restricted cash	4,435,451	5,522,624
Total current assets	<u>83,613,596</u>	<u>66,441,310</u>
Noncurrent assets		
Investment	-	297,747
Capital assets, net	1,055,407	450,016
Total noncurrent assets	<u>1,055,407</u>	<u>747,763</u>
Total assets	<u>\$ 84,669,003</u>	<u>\$ 67,189,073</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 51,815,042	\$ 34,866,802
Accrued salaries and other	13,313,988	13,263,566
Advances from other sponsoring agencies	4,754,787	5,767,883
Workers' compensation and unemployment claims reserve	1,789,330	1,111,820
Current portion of accrued supplemental retirement benefits	64,000	67,000
Current portion of accrued postemployment health care and life insurance benefits	86,000	80,000
Total current liabilities	<u>71,823,147</u>	<u>55,157,071</u>
Noncurrent liabilities		
Accrued supplemental retirement benefits	1,767,521	1,489,234
Postemployment health care and life insurance benefits	2,023,335	1,578,853
Total noncurrent liabilities	<u>3,790,856</u>	<u>3,068,087</u>
Total liabilities	<u>75,614,003</u>	<u>58,225,158</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	1,055,407	450,016
Unrestricted	7,999,593	8,513,899
Total net assets	<u>9,055,000</u>	<u>8,963,915</u>
Total liabilities and net assets	<u>\$ 84,669,003</u>	<u>\$ 67,189,073</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, 2012 and 2011**

	2012	2011 (Restated)
Operating revenues		
University of Hawai'i	\$ 4,325,216	\$ 4,484,964
Other sponsoring agencies	<u>1,931,471</u>	<u>1,644,371</u>
Total operating revenues	<u>6,256,687</u>	<u>6,129,335</u>
Operating expenses		
Personnel costs	3,552,593	3,612,265
Data processing services	691,260	935,255
Office supplies and services	395,883	411,708
Retiree medical benefits	309,000	316,000
Insurance	281,131	275,510
Professional and technical support	144,792	84,718
Project development	124,766	121,982
Depreciation	101,511	132,818
Office and equipment rental	96,421	92,788
Tuition support	69,111	65,350
Travel	60,318	56,737
Professional services	53,969	53,788
Other expenses	<u>82,061</u>	<u>48,602</u>
Total operating expenses	<u>5,962,816</u>	<u>6,207,521</u>
Operating income (loss)	<u>293,871</u>	<u>(78,186)</u>
Nonoperating revenues (expenses)		
Intergovernmental (Federal awards)		
Revenue	1,299,128	1,133,139
Expense	(1,299,128)	(1,133,139)
Interest income		
Cash and time certificates of deposit	94,961	119,413
Investment expense		
Investment expenses	(3,994)	(17,277)
Decrease in fair value of investments	<u>(293,753)</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>(202,786)</u>	<u>102,136</u>
Increase in net assets	91,085	23,950
Net assets		
Beginning of year	<u>8,963,915</u>	<u>8,939,965</u>
End of year	<u>\$ 9,055,000</u>	<u>\$ 8,963,915</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, 2012 and 2011**

	2012	2011
Cash flows from operating activities		
Receipts for		
University of Hawai'i management fee	\$ 4,909,250	\$ 3,088,500
Other sponsoring agencies indirect cost recoveries	1,931,471	1,644,371
Refund for workers' compensation insurance policy premium	355,662	653,231
Payments to vendors	(1,813,685)	(1,874,175)
Payments for employee compensation	(3,613,125)	(3,552,397)
Project expenditures and cost reimbursements, net	<u>13,415,870</u>	<u>(889,166)</u>
Net cash provided by (used in) operating activities	<u>15,185,443</u>	<u>(929,636)</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	<u>(706,902)</u>	<u>(194,970)</u>
Net cash used in capital and related financing activities	<u>(706,902)</u>	<u>(194,970)</u>
Cash flows from investing activities		
Purchase of investments	-	(1,002,194)
Interest income received on cash deposits	<u>86,375</u>	<u>119,413</u>
Net cash provided by (used in) investing activities	<u>86,375</u>	<u>(882,781)</u>
Increase (decrease) in cash	14,564,916	(2,007,387)
Cash		
Beginning of year	<u>18,032,694</u>	<u>20,040,081</u>
End of year	<u>\$ 32,597,610</u>	<u>\$ 18,032,694</u>
Cash presented in the accompanying statements of net assets		
Cash	\$ 28,162,159	\$ 12,510,070
Restricted cash	4,435,451	5,522,624
	<u>\$ 32,597,610</u>	<u>\$ 18,032,694</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, 2012 and 2011**

	2012	2011
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 293,871	\$ (78,186)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	101,511	132,818
Change in assets and liabilities		
Receivables	(2,589,830)	(20,311,445)
Prepaid expenses	(8,954)	20,373
Accounts payable and accrued wages	16,998,662	16,323,470
Advances from other sponsors	(1,013,096)	2,581,690
Workers' compensation and unemployment claims reserve	677,510	(215,290)
Accrued supplemental retirement benefits	275,287	182,484
Postemployment health care and life insurance benefits	450,482	434,450
Net cash provided by (used in) operating activities	<u>\$ 15,185,443</u>	<u>\$ (929,636)</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, 2012 and 2011**

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, 2012 or 2011.

**The Research Corporation of the University of Hawai'i
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June 30, 2012 and 2011**

Time Certificates of Deposit

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

Restricted Cash

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

Investment

In fiscal year 2011, the Corporation reported its investment at cost, which management believed approximated 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, 2012 and 2011 aggregated \$5,784,201 and \$5,606,514, 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, 2012 or 2011.

Risk Management

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

Use of Estimates

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

Risks and Uncertainties

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

2. Cash and Investments

The portion of cash and investment 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, 2011, funds invested with HSDC amounted to \$297,747. During 2012, the Corporation determined that the carrying amount of the investment exceeded the amount that more likely than not would be recoverable in the future and wrote down the investment to \$0.

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 investments were exposed to custodial credit risk at June 30, 2012 and 2011 as follows:

	2012	2011
Uninsured and collateral held by trust department or agent not in the Corporation's name	\$ -	\$ 297,747

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, 2012 and 2011:

	2012	2011
Extramurally sponsored accounts	\$ 24,342,949	\$ 32,393,213
Internally funded accounts	19,575,407	4,059,608
Revolving accounts	(9,009,446)	(8,673,820)
Miscellaneous agency accounts	1,862,894	6,100,921
Management fee	(286,218)	562,736
Advance	(585,000)	(585,000)
	<u>\$ 35,900,586</u>	<u>\$ 33,857,658</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$4,754,787 and \$5,767,883 at June 30, 2012 and 2011, respectively. Cash relating to a portion of the advances, amounting to \$4,435,451 and \$5,522,624 at June 30, 2012 and 2011, respectively, is restricted by the sponsors.

**The Research Corporation of the University of Hawai'i
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Notes to Financial Statements
June 30, 2012 and 2011**

4. Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 were as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
2012				
Office equipment	\$ 604,099	\$ 109,218	\$ (15,315)	\$ 698,002
Computer software	3,060,721	597,684	-	3,658,405
	<u>3,664,820</u>	<u>706,902</u>	<u>(15,315)</u>	<u>4,356,407</u>
Less: Accumulated depreciation				
Office equipment	537,390	34,739	(15,315)	556,814
Computer software	2,677,414	66,772	-	2,744,186
	<u>3,214,804</u>	<u>101,511</u>	<u>(15,315)</u>	<u>3,301,000</u>
	<u>\$ 450,016</u>	<u>\$ 605,391</u>	<u>\$ -</u>	<u>\$ 1,055,407</u>
2011				
Office equipment	\$ 596,168	\$ 7,931	\$ -	\$ 604,099
Computer software	2,873,682	187,039	-	3,060,721
	<u>3,469,850</u>	<u>194,970</u>	<u>-</u>	<u>3,664,820</u>
Less: Accumulated depreciation				
Office equipment	505,113	32,277	-	537,390
Computer software	2,576,873	100,541	-	2,677,414
	<u>3,081,986</u>	<u>132,818</u>	<u>-</u>	<u>3,214,804</u>
	<u>\$ 387,864</u>	<u>\$ 62,152</u>	<u>\$ -</u>	<u>\$ 450,016</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, 2013. 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, 2012 and June 30, 2011. At June 30, 2012 and 2011, 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.

**The Research Corporation of the University of Hawai'i
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Project Contingent Liabilities

The Corporation and the University enter into contracts and agreements with a multitude of organizations, both public and private, locally, nationally and internationally. These organizations often require terms and conditions in the contract or agreement, which if breached, may require reimbursement of expenses or payment of expenses. The Board of Directors designated net assets to cover such reimbursements or expenses, which may include, but are not limited to project overruns and disallowances, litigation expenses, professional services and other project-related expenses. In 2012 and 2011, the amount of the designation was increased by \$8,586 and \$2,195, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted net assets at June 30, 2012 and 2011 were comprised of the following:

	2012	2011
Designated		
Working capital	\$ 6,990,593	\$ 7,513,984
Project contingent liabilities	1,008,105	999,519
Undesignated	<u>895</u>	<u>396</u>
	<u>\$ 7,999,593</u>	<u>\$ 8,513,899</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, 2012 and 2011 amounted to \$4,060,296 and \$4,223,593, respectively, for extramurally sponsored projects and \$264,920 and \$261,371, respectively, for internally funded projects.

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

8. Pension Information

The Corporation participates with other institutions in the Teachers Insurance and Annuity Association and College Retirement Equities Fund, a noncontributory defined contribution retirement plan which covers substantially all qualified employees. Employees are eligible to participate in this plan upon completion of one year of service. Required contributions by the Corporation to the retirement plan are based on 10% of eligible employees' regular compensation, as defined. All contributions are fully vested and non-forfeitable when made. While it is expected that this retirement plan will continue indefinitely, the Board of Directors of the Corporation reserves the right to modify or discontinue the plan at any time. Total contributions to the retirement plan for the years ended June 30, 2012 and 2011 were \$260,813 and \$244,360, respectively.

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The Corporation offers supplemental retirement benefits in addition to benefits available under the previously mentioned pension plan. To be eligible, a terminating employee must be at least age 45 years 4 months, have service of 10 years or more, and have accumulated unused sick leave of 60 days or more. The supplemental retirement benefits amount to 10% of the value of the unused sick leave reduced by 1/2% for each month below the age of 62. The terminating employee may elect to purchase an annuity or receive the benefit in cash. At June 30, 2012 and 2011, the Corporation's accrued supplemental retirement benefits were \$1,831,521 and \$1,556,234, 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, 2012 and 2011 were \$70,044 and \$84,366, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2012 and 2011:

	2012	2011
Beginning balance	\$ 1,556,234	\$ 1,373,750
Additions	345,291	266,850
Deductions	<u>(70,004)</u>	<u>(84,366)</u>
Ending balance	1,831,521	1,556,234
Less: Current portion of accrued supplemental retirement benefits	<u>(64,000)</u>	<u>(67,000)</u>
Noncurrent portion of accrued supplemental retirement benefits	<u>\$ 1,767,521</u>	<u>\$ 1,489,234</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, 2012 and 2011 aggregated to \$32,518 and \$30,550, 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:

	2012	2011
Annual required contribution	\$ 516,000	\$ 485,000
Interest on net OPEB obligation	74,000	56,000
Adjustment to annual required contribution	<u>(107,000)</u>	<u>(76,000)</u>
Annual OPEB cost	483,000	465,000
Contributions made	<u>(32,518)</u>	<u>(30,550)</u>
Increase in net OPEB obligation	450,482	434,450
Net OPEB obligation – beginning of year	<u>1,658,853</u>	<u>1,224,403</u>
Net OPEB obligation – end of year	2,109,335	1,658,853
Less: Current portion of OPEB obligation – end of year	<u>(86,000)</u>	<u>(80,000)</u>
Noncurrent portion of postemployment health care and life insurance benefits	<u>\$ 2,023,335</u>	<u>\$ 1,578,853</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011, and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 483,000	6.7%	\$ 2,109,335
June 30, 2011	\$ 465,000	6.6%	\$ 1,658,853
June 30, 2010	\$ 448,000	6.4%	\$ 1,224,403

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

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.

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.

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June 30, 2012 and 2011**

In the July 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5% discount rate, which is the expected rate of return on short and long-term investments. The unfunded actuarial accrued liability is being amortized as a percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012 was 15 years.

10. Project Expenditures and Commitments

University Projects

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

Direct Projects

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

Other Projects

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

**The Research Corporation of the University of Hawai'i
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Notes to Financial Statements
June 30, 2012 and 2011**

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, 2012 and 2011 were as follows:

	University Projects	Direct Projects	Other Projects	Total
2012				
Salaries and wages	\$ 80,674,158	\$ 18,040,610	\$ 15,430,350	\$ 114,145,118
Equipment	22,307,179	117,488	527,122	22,951,789
Other	302,622,738	18,612,697	26,382,310	347,617,745
	<u>\$ 405,604,075</u>	<u>\$ 36,770,795</u>	<u>\$ 42,339,782</u>	<u>\$ 484,714,652</u>
2011				
Salaries and wages	\$ 78,448,511	\$ 16,860,049	\$ 13,764,448	\$ 109,073,008
Equipment	21,491,156	311,119	281,776	22,084,051
Other	223,448,497	13,281,462	23,578,246	260,308,205
	<u>\$ 323,388,164</u>	<u>\$ 30,452,630</u>	<u>\$ 37,624,470</u>	<u>\$ 391,465,264</u>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net assets amounted to approximately \$162,247,000 and \$277,165,000 at June 30, 2012 and 2011, respectively.

11. Operating Leases

The Corporation occupies office space under month-to-month operating leases. The leases provide that the Corporation pay taxes, maintenance and certain other operating expenses applicable to the leased premise. Total office and equipment rental expenses for the years ended June 30, 2012 and 2011 were \$96,421 and \$92,788, respectively, which includes \$65,418 and \$64,459, respectively, of office rental expense under the operating leases for the years ended June 30, 2012 and 2011.

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 \$225 million per occurrence for windstorm losses, \$225 million for losses from earthquake, flood, boiler, and machinery, and terrorism loss of \$50 million. 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 \$25,000 per occurrence for terrorism.

**The Research Corporation of the University of Hawai'i
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The Corporation has general liability insurance under the State with loss coverage of \$15 million for each occurrence. Major 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, 2012 and 2011, the workers' compensation reserve amounted to \$1,282,546 and \$511,290, respectively, and is reported as a current liability in the accompanying statements of net assets. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

The following is a summary of changes in the workers' compensation reserve for the years ended June 30, 2012 and 2011.

	2012	2011
Beginning balance	\$ 511,290	\$ 598,532
Adverse claims development	849,232	-
Payments on claims	(92,513)	(80,679)
Other (interest credits, etc.)	14,537	(6,563)
Ending balance	<u>\$ 1,282,546</u>	<u>\$ 511,290</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, 2012 and 2011, the unemployment reserve amounted to \$506,784 and \$600,530, respectively, and is reported as a current liability in the accompanying statements of net assets.

**The Research Corporation of the University of Hawai'i
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Notes to Financial Statements
June 30, 2012 and 2011**

13. Commitments

At June 30, 2012, the Corporation had outstanding contract commitments through May 31, 2013, related to computer software and hardware maintenance of \$135,325.

14. Restatements to Intergovernmental Revenues and Expenses

During fiscal 2012, management identified \$222,745 in fiscal 2011 extramural transactions that were incorrectly reported as other project activities. Transactions related to other project activities are not reflected on the Corporation's statements of revenues and expenses. To correct the error, the Corporation has restated Intergovernmental Revenues and Expenses for the year ended June 30, 2011. The effect of the correction of this error on the Corporation's previously issued fiscal 2011 financial statements is as follows:

	Revenue	Expense
Intergovernmental (Federal awards) nonoperating revenues (expenses) at June 30, 2011 as previously reported	\$ 910,394	\$ (910,394)
Adjustments attributable to incorrectly reported extramural transactions	<u>222,745</u>	<u>(222,745)</u>
Intergovernmental (Federal awards) nonoperating revenues (expenses) at June 30, 2011 as restated	<u>\$ 1,133,139</u>	<u>\$ (1,133,139)</u>

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

**The Research Corporation of the University of Hawai'i
 State of Hawai'i
 Schedule of Funding Progress (Unaudited)
 Year Ended June 30, 2012**

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2011	\$ -	\$ 4,511,000	\$ 4,511,000	0%	\$ 101,500,000	4.4%
July 1, 2010	\$ -	\$ 4,150,000	\$ 4,150,000	0%	\$ 95,000,000	4.4%
July 1, 2009	\$ -	\$ 3,746,000	\$ 3,746,000	0%	\$ 94,300,000	4.0%

SUPPLEMENTARY INFORMATION

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

	CFDA No.	Award Number	Federal Expenditures
U.S. Department of Agriculture			
Forest Service			
International Symposium on Biological Control of Weeds	10.	10-CA-11272177-097	\$ 94,289
U.S. Department of Defense			
Army			
Proposal to Direct and Coordinate the 12th International Symposium on Wave Hindcasting and Forecasting and Coastal Hazards	12.	W912HZ-10-2-0048	31,871
U.S. Department of the Interior			
Fish and Wildlife Service			
Kauai Conservation Project	15.608	12200AJ003	8,767
Hawaii Conservation Alliance	15.649	12200AJ203	36,580
Pacific Islands Climate Change Cooperative	15.650	12200AJ001	258,737
Coral Reef Initiative	15.875	CRI-RCUH-8	41,206
			<u>345,290</u>
National Aeronautics and Space Administration			
California Institute for Technology, Jet Propulsion Laboratory			
Direct Detections of Exoplanets in the Inner Solar System of Nearby Young Stars	43.	1379504	2,874
Passed through from University of Arizona			
PIAA Coronagraphy Development and Laboratory Validation	43.999	Y562534	27,547
			<u>30,421</u>
U.S. Department of Health and Human Services			
Health Resources and Service Administration			
Regional Collaborative Pacific Basin	93.224	U1BOA08583-03-00	92,186
Executive Office of the President			
Office of National Drug Control Policy			
Hawai'i High Intensity Drug Trafficking Areas – FY08	95.001	I8PHIP506Z	119,287
Hawai'i High Intensity Drug Trafficking Areas – FY09	95.001	G09HI0006A	190,317
Hawai'i High Intensity Drug Trafficking Areas – FY10	95.001	G10HI0006A	83,328
Hawai'i High Intensity Drug Trafficking Areas – FY11	95.001	G11HI0006A	311,557
Hawai'i High Intensity Drug Trafficking Areas – FY12	95.001	G12HI0006A	582
			<u>705,071</u>
			<u>\$ 1,299,128</u>

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Note to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

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*.



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

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

We have audited 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, 2012, and have issued our report thereon dated October 30, 2012. 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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in Finding No. 12-01, as described in the accompanying schedule of findings and questioned costs to be a material weakness.

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SECTION 2

**INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE
AND OTHER MATTERS**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in Finding No. 12-02, as described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

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

The Corporation's response to the findings identified in our audit is described in the accompanying corrective action plan. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the 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
October 30, 2012

SECTION 3
COMPLIANCE AND INTERNAL CONTROL
OVER FEDERAL AWARDS



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

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

Compliance

We have audited the Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended June 30, 2012. 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 of the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. However, we noted other matters that we will report to the Board of Directors and management of the Corporation in our Internal Control and Business Issues Report.

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Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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. 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 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.

Acuity LLP

Honolulu, Hawai'i
October 30, 2012

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section I – Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of Major Programs

CFDA Number	Federal Program or Cluster	
95.001	Hawai'i High Intensity Drug Trafficking Areas	
Dollar threshold used to distinguish between Type A and Type B programs		\$300,000
Auditee qualified as low-risk auditee under Section .530 of OMB Circular A-133?		Yes

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section II – Financial Statement Findings

	Questioned Costs
	\$ –
Finding No. 12-01:	Restatement of Intergovernmental Revenues and Expenses – Material Weakness
Federal Agency:	Finding is not specific to a Federal Agency
CFDA Number and Title:	Finding is not specific to a Federal Agency
Award Number and Award Year:	Not applicable

Finding and Cause

The Research Corporation of the University of Hawai'i (the "Corporation") provides administrative support services to the University of Hawai'i (the "University") for both internally and extramurally (externally) funded University projects. The Corporation's revolving accounts are used to administer internally funded University projects that are self-sustaining and income-generating, established for the purpose of supporting a specialized service facility, a recharge center, or other sales or service activities. Revolving accounts require approval from the Chancellor of the respective University campus in order to be established at the Corporation. Projects with external funding (e.g. federal contracts, grants and cooperative agreements) require approval from the Vice President of Research to be established as a Direct Project with the Corporation. As of June 30, 2011, there were approximately 500 revolving accounts maintained by the Corporation in its general ledger, on behalf of the University.

During our 2012 audit of the Corporation, we noted instances where University personnel at Pacific Biosciences Research Center, College of Tropical Agriculture and Human Resources, and the UH Hilo campus, used the Corporation's revolving accounts to administer cooperative agreements with federal agencies in violation of established University and Corporation policies.

Revenues and expenditures associated with these revolving accounts amounted to \$222,745 for the year ended June 30, 2011 and were incorrectly reported by the Corporation as other project activities and excluded from intergovernmental revenue and expense. Transactions related to other project activities are not reflected on the Corporation's statements of revenues, expenses and changes in net assets.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Criteria

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

Section .320 of OMB Circular A-133 also requires the auditee to submit a reporting package that includes:

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

Effect

The improper classification of extramural transactions resulted in the inaccurate presentation of information in the Corporation's fiscal year 2011 financial statements and Schedule of Expenditures of Federal Awards. The significance of the error necessitated the restatement of the Corporation's financial statements for the year ended June 30, 2011.

Recommendation

We recommend that management implement procedures to periodically review the appropriateness of the Corporation's account classifications. In addition, we recommend that management implement procedures to ensure that all revolving accounts are appropriately classified based on their funding source.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

**Questioned
Costs**
\$ -

Finding No. 12-02: Unrecorded Liabilities – Significant Deficiency

Federal Agency: Finding is not specific to a Federal Agency

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

Award Number and Award Year: Not applicable

Finding and Cause

During our audit, we noted approximately \$14.7 million in unrecorded payable amounts pertaining to the University of Hawai'i West Oahu ("UHWO") campus construction project (the "project"). The project was service ordered to the Corporation from the University of Hawai'i.

Unrecorded liabilities related to the project arose due to failure by UHWO personnel to properly document and process change orders prior to authorizing the contractor to proceed with such work. Therefore, adequate documentation was not provided to RCUH to ensure the complete and accurate recording of outstanding amounts owed for services rendered.

We also noted approximately \$220,000 in unrecorded payable amounts pertaining to non-UHWO construction activities.

Criteria

The proper identification of amounts owed to vendors for services rendered as of year-end is integral to ensuring the Corporation's presentation of complete and accurate financial information.

Effect

Failure to properly identify outstanding amounts owed to vendors necessitated the recording of adjusting entries to properly state the Corporation's financial statements.

Recommendation

We recommend that the Corporation's management work with the Corporation's project field personnel to ensure that all construction related and other expenditures are properly accrued as of year-end.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

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.

**SECTION 4
CORRECTIVE ACTION PLAN
(UNAUDITED)**

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The Research Corporation of the University of Hawaii



October 17, 2012

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

Dear Accuity LLP:

Attached is The Research Corporation of the University of Hawaii's Corrective Action Plan for the financial statement findings for the year ended June 30, 2012.

We appreciate the opportunity to comment on the audit report.

Sincerely,

Leonard Ajifu
Director of Finance

Attachment

**The Research Corporation of the University of Hawaii
Corrective Action Plan
Fiscal Year Ended June 30, 2012**

Section II – Financial Statement Findings

Finding No. 12-01: Restatement of Intergovernmental Revenues and Expenses

Finding and Cause:

It was noted that there were instances where University personnel used the Corporation's revolving accounts to administer cooperative agreements with federal agencies in violation of established University and Corporation policies. Revenues and expenditures associated with these revolving accounts amounted to \$222,745 for the year ended June 30, 2011 and were incorrectly reported by the Corporation as other project activities and excluded from intergovernmental revenue and expense.

Effect:

The improper classification of extramural transactions resulted in the inaccurate presentation of information in the Corporation's fiscal year 2011 financial statements and the Schedule of Expenditures of Federal Awards. The significance of the error necessitated the restatement of the Corporation's financial statements for the year ended June 30, 2011.

Recommendation:

Management should implement procedures to periodically review accounts and ensure that they are appropriately classified based on their funding source.

Corrective Action Plan

Both the University and Corporation have issued directives to University Deans, Principal Investigators, and Fiscal Authorities on the prohibition of accepting and managing extramural awards through revolving accounts. In addition, policies and procedures and the revolving fund establishment and renewal forms have been revised to expressly prohibit the use of revolving accounts for extramural awards. The Corporation will continue to monitor draw down and cash receipt activity to identify possible misuse.

Finding No. 12-02: Unrecorded Liabilities

Finding and Cause:

It was noted that there was approximately \$14.7 million in unrecorded liabilities pertaining to the University of Hawaii's West Oahu (UHWO) campus construction project (the "project"). Unrecorded liabilities related to the project arose due to the failure of UHWO personnel to properly document and approve change orders prior to authorizing the contractor to proceed with such work. Therefore, adequate documentation was not provided to the Corporation to ensure the complete and accurate recording of outstanding liabilities.

Effect:

Failure to properly identify outstanding amounts owed to vendors necessitated the recording of adjusting entries to properly state the Corporation's financial statements.

Recommendation:

Management should work with the project personnel to ensure that all construction related and other expenditures are properly accrued as of year-end.

Corrective Action Plan

For major construction projects, the Corporation will ensure that the Construction Project Manager has reporting responsibility to the Corporation. The Director of Finance and Project

**The Research Corporation of the University of Hawaii
Corrective Action Plan
Fiscal Year Ended June 30, 2012**

Administration will work with the Project Manager to have the appropriate RCUH management and accounting personnel involved in providing the necessary oversight to ensure that related accounting issues are properly addressed.