2003

Annual Report

The Research Corporation of the University of Hawaii

Table of Contents

Letter to the Governor
Information on the Research Corporation of the University of Hawaii
EEO/AA Policy
The Year in Review
Board Activities
Board of Directors
Project Review
Statistical Data
Financial Statements FS-1

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

Letter to the Governor

January 22, 2004

The Honorable Linda Lingle Governor, State of Hawaii Executive Chambers Honolulu, HI 96813

Dear Governor Lingle:

We are pleased to submit the Annual Report of The Research Corporation of the University of Hawaii (RCUH) for the fiscal year ended June 30, 2003, as required by Chapter 307, Hawaii Revised Statutes.

This was another milestone year for RCUH – we hit the \$212 million mark in our volume of business -- a 30% increase! This was again attributable to increased research activity at the University of Hawaii as well as our direct projects sector.

We look forward to continuing to do our part to support research and training activities throughout the State of Hawaii.

Sincerely yours,

Brian T. Tamamoto, Chairman Board of Directors

Gilbert K. Oshima Interim Executive Director

Selve Colum

The Research Corporation of the University of Hawaii

Its creation . . .

CUH 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 307 of the Hawaii Revised Statutes.

Its mission . . .

he 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,

Although penned more than thirty years ago,

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

Its function . . .

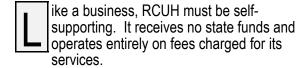
CUH is akin to a service bureau. Its services fall in the areas of accounting, human resources, and procurement. Because of its exemption from state statutes relating to special fund reimbursements to the state general fund, advertising for bids, purchases in Hawaii when public moneys are expended, civil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

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

Its relationship with the UH. . .

CUH is attached to the UH for administrative purposes. The Internal Agreement between the UH and RCUH defines the basic responsibilities of each party and the financial arrangement to pay for the cost of services rendered.

Its funding . . .



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

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

Its governance . . .

he 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 UH 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 . . .

he "core" staff of RCUH consists of approximately 30 employees, spread across the departments of accounting, disbursing, human resources, procurement, project management, and the executive director's office. Operational expenses totaled \$4.6 million in 2002-03. The core staff is housed at Sakamaki Hall on the UH campus and at the Manoa Innovation Center on Woodlawn Drive in Manoa.

At any given time, there are on average 2,000 project personnel on RCUH's payroll.

EEO/AA Policy

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

The Year in Review

It was another phenomenal year for RCUH as we continued to experience considerable growth in our volume of business. The 2002-03 year brought us a 30% increase in volume and that translated to \$212.6 million. It was quite a milestone when we exceeded the \$100 million mark just a short two years ago. Exceeding the \$200 million mark is certainly cause for celebration as that reflects the ongoing success of the University of Hawaii and other organizations in reaping federal dollars for research and training endeavors. That, in turn, has a positive effect on our State's economy.

This added growth, however, did not mean increased overhead. RCUH was able to handle the additional volume with no increase in staffing because of our transformation over the years into a web-based system for our financial and human resources applications. Since the modest beginnings of the system back in 1997, numerous enhancements have been put in place. and today, the robust systems are one of our most valuable assets. Almost all of our transactions are done on-line now (a handful of transactions still require manual handling), so processing is much more streamlined and efficient. This makes it possible for RCUH to maintain its high level of service and take on increased business.

A significant enhancement to the human resources system was the addition of an "erecruit" function, which allows anyone with Internet access to view recruitment ads and apply for jobs on-line, all in one easy step. This, too, results in efficiencies in the recruitment process for all involved.

RCUH was a bit more active in the direct project arena, as we were requested by both the University and other private organizations to be the recipient of funds for selected projects (this meant that we were involved in both pre- and post-award activities; usually our involvement is in post-award matters). In the case of the University, these were projects that were of a classified nature (if not for this reason, it could

have gone through the normal University channels). While applying for and receiving funding directly from federal sponsors is within the scope of RCUH's enabling legislation, RCUH's position is that it will not do so if the initiative is in competition with the University of Hawaii or other private businesses. However, if the initiative is a collaborative effort with the University and/or private businesses, that is acceptable.

As we approached the close of the fiscal year. there was an air of sadness as Harold Masumoto vacated the Executive Director position. His nine years of visionary leadership brought with it much growth, a closer working relationship with the University of Hawaii (RCUH's major client), and especially important, a solid reputation for getting the job done, no matter how difficult the task. His intimate working knowledge of the University and state government, coupled with his vast network of contacts within all branches of government, business, etc., was the winning combination which brought RCUH to its current level of excellence. He will be sorely missed. The entire RCUH family wishes him well in his new endeavors. Mahalo and Aloha Harold!

We have cause for celebration of our accomplishments over the past year and look forward to continuing successes in the years to come.

Board Activities

As the new fiscal year began, the Board continued its discussions with the University on the "single entity" concept for sponsored research services, with RCUH being the entity for such services. Preliminary agreements were reached that this was the preferred direction, so in that vein, the Board commenced its recruitment for the Executive Director position with the understanding that the Executive Director would also serve in a dual capacity with the University of Hawaii. As the recruitment progressed, however, there remained many unresolved issues on the University side of the house and ultimately this dual position did not materialize. The Board therefore commenced another search for a new Executive Director. As the fiscal year came to an end, the recruitment was still ongoing.

As part of its focus on organizational issues and strengthening the UH/RCUH relationship, the Board extended an invitation to the University of Hawaii Association of Research Investigators (UHARI), a group composed of UH researchers, to attend the RCUH Board of Directors' meetings to participate in discussions and share input. The UHARI group accepted the Board's invitation and has been sending a representative to our meetings since last fall. Representation from this group has been a welcome addition.

Another important achievement during the year was the amendment of the UH/RCUH Internal Agreement, and in particular, the provision relating to the management fees paid to RCUH. The amendment eliminated the cap on the fee and also adjusted the percentage of the fee, which would be a lower rate unless the volume of business decreases substantially, a rather unlikely scenario at this time based on past performance.

We welcomed new Board members Michael Hartley, Kathleen Thurston, Lynne Kaneshiro, and Kitty Lagareta. Mr. Hartley, however, resigned in November 2002 and Ms. Kaneshiro's term ended prior to the conclusion of the fiscal year.

As the fiscal year came to a close, we bid farewell to Kathleen Thurston, Bert Kobayashi, and Christopher Kobayashi since their terms came to an end.

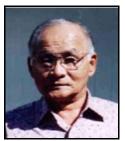
Our sincerest thanks and appreciation to all the dedicated individuals who serve on our Board, past and present.

Board of Directors

(as of 6/30/03)



Bert Kobayashi Chairman



Shigeo Iwamoto Director



Lynn Kinney Director



Chris Kobayashi Director



Kitty Lagareta Director



Duane Kurisu Director



Walter Nunokawa Director



Brian Tamamoto Director



Kathleen Thurston Director



Eugene Tiwanak Director

Project Review

We are pleased to highlight the following three projects:

A "UH Service Ordered" Project

Maui High-Performance Computing Center

The Maui High-Performance Computing Center (MHPCC) is a research and development center that provides a state-of-the-art computational capability. It is managed by the University of Hawaii under contract to Air Force Research Laboratory's Directed Energy Directorate at Kirtland Air Force Base, New Mexico. The MHPCC operates as a distributed center for the Department of Defense's (DoD) High Performance Computing Modernization Program providing advanced hardware, tools, training, and network connectivity to DoD researchers across the country who support the warfighter. In addition, the MHPCC provides critical highperformance computing resources to other DoD and non-DoD government agencies and educational institutions in Hawaii and throughout the continental United States. The Center is under the command of Air Force Research Laboratory's Detachment 15: the host unit for all Air Force resources on Maui. The MHPCC is located in the Maui Research and Technology Park in the town of Kihei on the island of Maui. Hawaii.

The MHPCC provides computational resources for the Department of Defense's scientific computational needs through support of DoD "Challenge Projects." The Center also supports the Directed Energy Directorate's Maui Space Surveillance System. Located atop 10,000-foot Mt. Haleakala, the Space Surveillance System is used for operations and research on the tracking and imaging of space objects. Additionally, the MHPCC fosters technology exchange with U.S. industry, stimulates economic development in the region, and establishes educational programs in high-performance computing.

The MHPCC provides a combination of the most

advanced IBM scalable parallel processors, the first and largest DoD Linux Supercluster, and expertise in multiple technical arenas, including image processing. Equipment installed in early 2003 increased the computational capabilities of the Center by almost 100 percent. After ten IBM Power4 Regatta SP nodes were added to the existing IBM Power3 Nighthawk2 SP nodes and the 520 processor IBM Pentium3 Linux Supercluster, the MHPCC now has a total of 2,060 processors and 3.5 TeraFLOPs of peak computational power. The Center currently supports 500 DoD users and more than 850 users overall that include industry and academia.

http://www.mhpcc.edu

A "Direct" Project

Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve

The Northwestern Hawaiian Islands (NWHI) Coral Reef Ecosystem Reserve is a federal marine conservation area in the Hawaiian Archipelago. The Reserve was created by Executive Orders in December 2000 and January 2001 and is the single largest conservation area under U.S. jurisdiction. In terms of size, at 99,500 square nautical miles, the Reserve is second in the world only to Australia's Great Barrier Reef Marine Park. The Reserve contains some of the healthiest and most undisturbed coral reefs in the world and has been characterized as one of the last, large-scale predator-dominated coral reef ecosystems. Contained within the Reserve waters is a unique marine community of over 7,000 species with one-quarter found nowhere else. The area also is home to many endangered and threatened species, including the endangered Hawaiian monk seal and the threatened green sea turtle. Ninety percent of all green sea turtles in the Hawaiian Archipelago nest at French Frigate Shoals in the NWHI.

Management of the Reserve is carried out through the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) under the National Marine Sanctuary Program (NMSP). The Reserve is not a National Marine Sanctuary but is currently in the process of sanctuary designation, an extensive and inclusive public process to determine if the Reserve will become a sanctuary. The NMSP seeks to increase the public awareness of America's maritime heritage by conducting scientific research, monitoring, exploration and educational programs. Today, 13 national marine sanctuaries encompass more than 18,000 square miles of America's ocean and Great Lakes natural and cultural resources.

The Reserve has an office in Honolulu and a Discovery Center as well as an administrative office in Hilo, Hawaii. No staff, facilities or offices are located in the NWHI. As of December 2003, the Reserve had eleven full-time and six part-time employees.

The Reserve's main activities are:

- Sanctuary Designation projects relating to designating the Reserve as a National Marine Sanctuary.
- Operations day-to-day operations, including office administration, Advisory Council meetings, and field operations.
- Education and Outreach educating the public and school-aged children about the special nature of this unique ocean region and why it is being protected. In May 2003, a NWHI Learning Center in Hilo was added to the Reserve's outreach program.
- Native Hawaiian Cultural Resources projects relating to Native Hawaiian culture, uses and locations.
- Maritime Heritage projects relating to maritime historic resources, their documentation and conservation.
- Research and Monitoring developing a greater understanding of the region and its inhabitants as well as monitoring for change over time.
- Mapping deep sea and shallow water mapping for resource management purposes.
- Response, Damage Assessment and Restoration – activities relating to conservation of the region and response to impacts.
- Marine Debris projects relating to the removal and prevention of marine debris in the NWHI.
- Enforcement air and sea support for existing enforcement operations and expansion of a vessel monitoring system

Obtaining the designation as a "National Marine Sanctuary" is currently the primary focus of the Reserve. With this designation, the Reserve's purpose will be to conserve, protect, and enhance the biodiversity, ecological integrity, and historic and cultural legacy of the NWHI marine ecosystems. This will be done by working in close cooperation with federal, state, and local officials, as well as the public. The designation process is expected to be completed by October 1, 2005.

http://hawaiireef.noaa.gov

A "Revolving Fund" Project

Genotyping Shared Resource Lab - Cancer Research Center of Hawaii (CRCH)

The purpose of the Genotyping Shared Resource (GSR) Laboratory is to provide expertise in the fast developing area of genetic analysis. The GSR is an offshoot of a molecular epidemiology laboratory established in 1992 by Dr. Loic Le Marchand using extramural grant support. In response to a growing need for genotyping services by a number of CRCH investigators, this laboratory was converted into a CRCH Shared Resource in 1999. Its mission is to provide nucleic acid extraction and genotyping services in support of the peer-reviewed and IRB-approved research conducted by CRCH members. A variety of assays are performed on samples collected in various epidemiological and clinical studies that take advantage of the genetic heterogeneity of Hawaii and California multiethnic populations. The goal is to translate information now available on the human genome into new knowledge about cancer etiology, prevention and treatment.

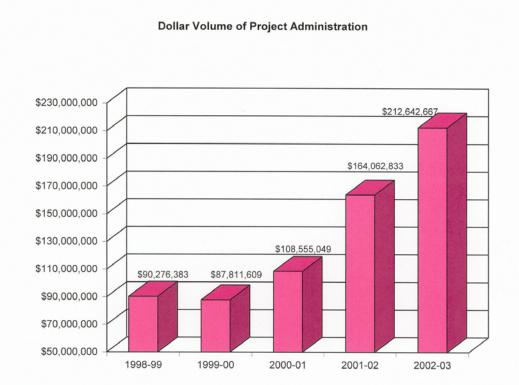
The tests performed by the GSR laboratory include a large number of polymorphism detection assays for genes involved in DNA synthesis or repair, cell cycle regulation, or metabolism of xenobiotics, nutrients or endogenous hormones. Tumor samples are also tested for microsatellite instability and DNA mismatch repair gene mutations.

An additional activity of the GSR is to develop protocols to facilitate the collection and long-term availability of DNA for genetic epidemiologic research. A simple, non-invasive mouthwash method was developed to collect DNA by mail. This method is now widely used in genetic epidemiologic research. Other methodological work focuses on the cryopreservation of

lymphocytes for future immortalization, and on the whole genome amplification of DNA samples

http://www.hawaii.edu/crch

Statistical Data - Fiscal Years 1999-2003



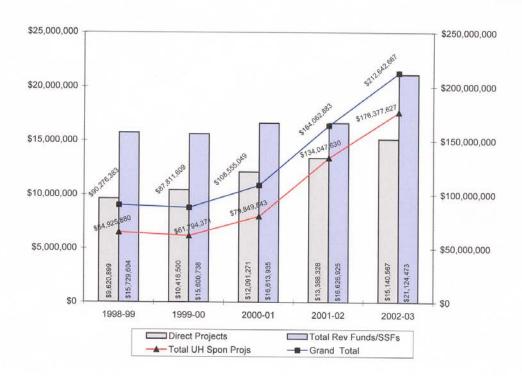
Distribution of Awards by Project Disciplines

	1999	2000	2001	2002	2003
Agriculture	\$6,504,725	\$5,864,154	\$5,765,112	\$6,874,096	\$5,435,998
Astronomy	\$9,707,733	\$10,991,189	\$16,489,668	\$21,389,807	\$21,348,650
Biomedicine	\$13,555,607	\$18,931,690	\$19,912,680	\$40,126,343	\$56,348,128
Fisheries & Aquaculture	\$1,600,011	\$1,517,608	\$3,128,072	\$3,173,514	\$4,277,010
Marine Programs	\$23,811,056	\$16,642,833	\$19,436,392	\$22,613,888	\$30,583,309
Natural Sciences	\$7,452,118	\$7,372,471	\$10,402,761	\$22,965,320	\$35,559,791
Publcns/Ed Materials	\$2,982,726	\$2,092,514	\$4,196,119	\$11,821,206	\$17,373,216
Revolving Funds	\$15,729,604	\$15,718,255	\$16,605,734	\$16,626,924	\$21,101,406
Social Sciences	\$8,932,803	\$8,680,895	\$12,618,511	\$18,471,785	\$20,615,159
Total	\$90,276,383	\$87.811.609	\$108.555.049	\$164,062,883	\$212,642,667

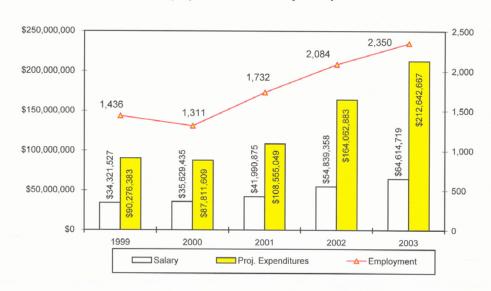
Operating Revenues Summary



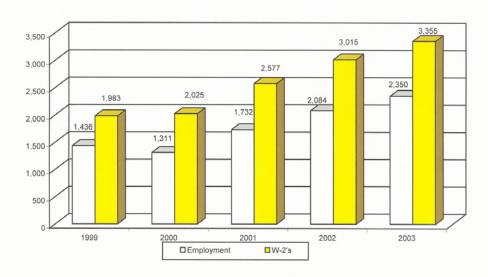
Project Expenditures



RCUH Employment/Salaries/Project Expenditures



RCUH Employment vs. Total W-2's



Volume of Business by Sponsoring Agency

1999	%	2000	%	2001	%	2002	%	2003	%
10.074.000	10.15	40 000 400	44.00	40.050.411	44.64				
									13.99
									5.51
									6.02
									2.46
									3.25
							0.47	779,864	0.37
							10.14	31,728,095	14.92
					3.92	10,229,809	6.24	10,781,062	5.07
					3.56	6,042,056	3.68	5,884,155	2.77
	3.27	3,323,168	3.78	2,922,028	2.69	2,980,994	1.82	2,280,616	1.07
	1.62	1,622,099	1.85	2,265,350	2.09	3,614,791	2.20	6,251,654	2.94
47,162,011	52.24	40,663,941	46.31	56,052,836	51.65	92,217,208	56.19	124,109,171	58.37
1 841 667	2.04	1 720 385	1 07	1 400 126	1 20	020 204	0.57	4 400 047	0.50
									0.52
									1.42
									0.37
1,111,597	1.20	1,006,209	1.20	004,004	0.74				0.40
2,337,648	2.59	7,183,701	8.18	5,245,978	4.83	7,954,234	4.85		9.61
450.000	0.54	101.010	0.45	0.540.400					
									2.91
									0.65
									0.10
									0.24
197,457	0.22	482,182	0.55	152,498	0.14	314,279	0.19	306,999	0.14
7,936,213	8.79	5,719,062	6.51	7,624,551	7.02	9,186,330	5.60	10,779,539	5.07
17,763,869	19.68	21,130,430	24.06	23,797,007	21.91	41,830,422	25.52	52,268,456	24.58
64 925 880	71 92	61 794 371	70.37	79 849 843	73.56	134 047 630	91 71	176 277 627	82.95
04,020,000	71.02	01,754,071	70.57	79,049,043	73.30	134,047,030	01.71	176,377,627	82.93
1999	%	2000	%	2001	%	2002	%	2003	%
203,823	0.23	349,115	0.40	1,061,822	0.98	947,249	0.58	2,064,179	0.97
1 421 750	1.58	1 145 081	1 30	1 368 640	1 26	1 102 903	0.67	1 407 000	0.66
1,421,100	1.00					1,102,093	0.07	1,407,029	0.00
980 993	1.09				Company of the last section of	1 267 504	0.77	1 180 097	0.55
	0.90								0.55
10,02		.50,043	3.00	.54,003	5.10	32,323	5.05	93,031	0.04
3,230,380	3.58	3,146,256	3.58	3,417,075	3.14	3,620,656	2.21	4.229.975	1.99
236,672	0.01	414,839	0.01	824,552	0.01				0.78
1,032,162	1.14		0.70						0.09
850,876	0.94								1.42
848,222	1.19	1,404,315	1.59	1,659,972	1.52	2,484,580	1.51	1,302,534	0.61
9,417,076	10.43	10,067,385	11.46	11,029,449	10.16	12,441,079	7.58	13,076,388	6.14
9,020,099	10.00	10,416,500	11.86	12,091,271	11.14	13,388,328	8.16	15,140,567	7.11
1999	96	2000	%	2001	%	2002	%	2003	%
(SSF's)						2002	,5	2000	70
		3,460,507	3.94	3,849,913	3.54	3,235,248	1.97	7,674,420	3.61
4,950,498	5.48								
4,950,498 10,779,106	11.94	12,140,231	13.83	12,764,022	11.76	13,391,677	8.16	13,450,053	6.33
10,779,106	11.94	12,140,231	13.83						
				12,764,022 16,613,935	11.76	13,391,677 16,626,925	8.16 10.13	13,450,053 21,124,473	6.33 9.94
	10,971,298 7,163,037 6,507,167 5,154,618 5,203,259 913,462 3,271,235 1,283,572 2,284,777 2,950,956 1,458,630 47,162,011 1,841,667 1,487,475 671,112 1,111,597 2,337,648 458,628 875,283 362,213 17,763,869 64,925,880 1999 203,823 1,421,750 980,993 816,021 3,230,380 236,672 1,032,162 850,876 848,222 9,417,076 9,620,899	10,971,298	10,971,298 12.15 7,163,037 7.94 6,507,167 7.21 4,834,609 5,154,618 5.71 3,904,449 5,203,259 5.76 913,462 10.1 555,160 3,271,235 3.62 1,235,763 1,231,692 1,242 7,72 5.3 2,950,956 3.27 3,323,168 1,458,630 1,62 4,0653,941 52.24 40,663,941 52.24 40,663,941 52.24 40,663,941 52.24 40,663,941 52.24 40,663,941 52.24 40,663,941 52.24 40,663,941 52.24 52.25 6,71,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 671,112 0,74 1,29,803 1,056,259 2,337,648 2.59 7,183,701 458,628 0.51 134,840 484,576 0.54 730,307 197,457 0.22 482,182 7,936,213 8.79 5,719,062 17,763,869 19.68 21,130,430 64,925,880 71.92 61,794,371 1999 % 2000 203,823 0.23 349,115 1,421,750 1.58 1,145,081 508,254 980,993 1.09 40,941 48,399 1.09 463,049 488,222 1.19 1,064,711 880,876 0.94 148,899 1,284,542 848,222 1.19 1,404,315 9,417,076 10,43 10,067,385 9,620,899 10,66 10,416,500	10,971,298 12.15 7,94 6507,163,037 7,94 6507,167 7,21 4,834,609 5,51 5,154,618 5,71 3,904,449 4,45 5,203,259 5,76 492,886 5,61 913,462 1.01 595,160 0,68 3,271,235 3,62 2,350,763 2,68 1,283,572 1.42 1,231,692 1.40 2,284,777 2,53 2,004,425 2,28 2,950,956 3,27 3,223,168 3,78 1,458,630 1,62 1,622,099 1,85 47,162,011 52.24 40,663,941 46,31 1,224,345 1,245,245 1,2	10,971,298 12.15	10,971,298 12,15	10,971,296 12.15 10,362,196 11.80 12,956,111 11.94 21,867,899 7,163,037 7,94 5,506,494 6.27 6,607,200 6.09 9,610,271 5,154,618 5,71 3,904,449 4.45 4,837,651 4.27 5,526,550 913,462 1.01 595,180 0.68 692,347 0.64 772,915 3,271,235 3.62 2,350,763 2.68 5,260,325 3.62 2,350,763 2.68 5,260,435 5.18 6,058,506 12,235,72 1.42 1,231,692 1.40 4,251,257 3.92 10,229,809 1,283,572 1.42 1,231,692 1.40 4,251,257 3.92 10,229,809 1,458,630 1.62 1,622,099 1.85 2,265,350 2.09 3,614,791 47,162,011 52.24 40,663,941 46.31 56,052,836 51.65 92,217,208 1.487,475 1.65 1,429,883 1.63 2,902,380 2.67 3,634,782 671,112 0.74 1,599,402 1.82 1,422,423 1.31 730,728 1.111,597 1.23 1,056,259 1.20 804,064 0.74 12,26,658 1.111,597 1.23 1,056,259 1.20 804,064 0.74 1.26,658 0.97 991,366 1.13 889,018 0.82 1,358,872 362,213 0.40 74,043 0.09 5,737 0.05 291,993 484,576 0.54 730,307 0.83 659,745 0.61 592,203 2.91 3,634,729 484,576 0.54 730,307 0.83 659,745 0.61 592,203 0.23 0.23 0.23 0.23 0.23 0.23 0.23 0	10,971,298 12,15	10.971.288 12.15 10.362.196 11.80 12.966.111 11.94 21.887.899 13.31 29.751.403 7.163.037 7.94 5.506.494 6.27 6.807.200 6.00 8.610.271 5.00 11.716.808 6.507.167 7.21 4.834.609 5.51 6.891.894 6.43 8.882.014 5.41 12.798.076 5.154.618 5.71 3.004.494 4.45 4.837.631 4.27 5.526.550 3.37 5.228.131 5.200.259 5.76 4.028.88 5.61 5.620.943 5.16 7.72.915 0.47 77.98.04 913.482 1.01 5.951.80 0.88 6.82.47 7.064 772.915 0.47 77.8864 3.271.235 3.62 2.350.783 2.68 5.280.167 4.84 16.803.419 10.14 31.72.8051 1.283.672 1.42 1.231.692 1.40 1.281.672 1.42 1.231.692 1.40 1.281.672 1.42 1.231.692 1.40 1.281.672 1.42 1.231.692 1.40 1.281.672 1.42 1.231.692 1.40 1.281.672 1.42 1.201.692 1.40 1.40 1.40 1.40 1.40 1.40 1.40 1.40

Financial Statements for the Years Ended June 30, 2003 and 2002

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII STATE OF HAWAII

June 30, 2003 and 2002

CONTENTS

l.	FINANCIAL	Page
	Report of Independent Certified Public Accountants	4
	Required Supplementary Information Management's Discussion and Analysis	
	Financial Statements Balance Sheets Statements of Revenues and Expenses and Changes in Net Assets Statements of Cash Flows Notes to Financial Statements	7 8
	Supplementary Information Report of Independent Certified Public Accountants on Supplementary Information Schedule of Expenditures of Federal Awards Note to the Schedule of Expenditures of Federal Awards	. 21
II.	COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING	
	Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	. 24
III.	COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS	
	Report on Compliance With Requirements Applicable to Each Major Program and On Internal Control Over Compliance in Accordance With OMB Circular A-133	. 26
	Schedule of Findings and Questioned Costs	. 27

SECTION I - FINANCIAL

Report of Independent Certified Public Accountants

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

We have audited the accompanying balance sheets of The Research Corporation of the University of Hawaii, State of Hawaii, a component unit of the University of Hawaii, as of June 30, 2003 and 2002, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Research Corporation of the University of Hawaii, State of Hawaii, as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note A to the financial statements, effective July 1, 2001, the Corporation implemented the new financial reporting model as prescribed by the Governmental Accounting Standards Board.

The Management's Discussion and Analysis on pages 6 and 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 1, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

GRANT THORNTON LLP Honolulu, Hawaii August 1, 2003

The Research Corporation of the University of Hawaii State of Hawaii MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2003 and 2002

The following discussion and analysis provides an overview of the financial position and results of operations for The Research Corporation of the University of Hawaii (RCUH) for the year ended June 30, 2003. It includes selected comparative information with the year ended June 30, 2002. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes.

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

Total assets of the Corporation at June 30, 2003 and June 30, 2002 were \$34,255,904 and \$29,817,624, respectively. The increase in assets is attributable to additional cash advances received from the University of Hawaii (University) for University funded projects, primarily construction-related projects.

Cash balances increased \$11,680,776 as a result of the additional cash advances from the University and the reclassification of time certificates of deposit (TCD's) from investments to cash. The Corporation classifies TCD's with maturity terms exceeding 90 days as investments. TCD's with maturity terms of 90 days or less are classified as cash. At June 30, 2002 the Corporation had \$5,932,038 in TCD's with maturity terms exceeding 90 days. During the current year, these TCD's were redeemed or renewed with maturity terms of 90 days or less resulting in an increase in cash balances and a corresponding decrease in investments.

Receivables under equipment lease agreements with the University declined from \$1,482,495 at June 30, 2002 to \$8,640 at June 30, 2003. The significant reduction was primarily attributable to the early buy-out of the Sun Computer lease for the University's student registration system. Funds received in connection with the early buy-out were used to prepay the bank loan obtained to purchase the computer system.

The net value of fixed assets was \$830,793 and \$1,029,558 at June 30, 2003 and June 30, 2002, respectively. Fixed asset acquisitions amounted to \$72,093 for the year ended June 30, 2003 compared to \$330,332 for the year ended June 30, 2002. Depreciation expense for the years ended June 30, 2003 and 2002 amounted to \$270,858 and \$293,778, respectively.

Total liabilities at June 30, 2003 was \$27,652,863 compared to \$23,784,263 at June 30, 2002. The increase was due to higher accounts payable, accrued expenses and University and other sponsors advances resulting from the general increase in business activity. The volume of business activity (project expenditures) grew from \$164,062,883 in fiscal year 2002 to \$212,642,667 in fiscal year 2003. The Corporation significantly reduced its long-term debt obligations with the pre-payment of a \$1,458,000 equipment bank loan in August 2002. The pre-payment of the loan was a result of the early buy-out by the University of the Sun Computer lease discussed earlier. Long-term debt, including current portions, was \$4,783 and \$1,479,563 at June 30, 2003 and June 30, 2002, respectively.

For the year ended June 30, 2003, net assets increased \$569,680 as operating profit and net non-operating revenues were \$406,066 and \$163,614, respectively. Operating revenues of \$4,615,500 were attained on a record volume of business activity and was 25% higher than fiscal year 2002 operating revenues of \$3,704,255. Non-operating revenues included interest income of \$203,932 and a market value loss of \$46,374 in the quasi-endowment investments held at the University of Hawaii Foundation. Operating expenses in fiscal year 2003 were \$4,209,434, a modest increase of 4% over the previous year's expenses of \$4,045,667. Insurance expense of \$270,476 was significantly higher than the previous year as premiums reflected the higher costs prevalent in the market following the events of 9/11. The Corporation continued to invest in the development and enhancement of its online web applications to improve processing and reporting services to its customers. Data processing services including maintenance for the various financial, human resources and web applications amounted to \$932,045.

At June 30, 2003 total net assets were \$6,603,041. Net assets invested in capital assets were \$830,793. There was no debt financing on capital assets and unrestricted net assets amounted to \$5,772,248.

The Research Corporation of the University of Hawaii State of Hawaii BALANCE SHEETS June 30,

ASSETS	2003	2002	LIABILITIES AND NET ASSETS	2003	2002
CURRENT ASSETS: Cash & Cash Equivalents (notes B and I) Investments (note C)	\$ 27,738,193 1,207,100	\$ 17,395,591 7,178,567	CURRENT LIABILITIES: Current installments of long-term debt (note H) Accounts payable Accrued salaries and wages	4,783 7,892,975 4,391,563	240,050 5,167,148 3,377,364
Receivables (note G): Other sponsoring agencies (note D) Receivables under lease agreements, excluding current portion of deferred credits	2,153,782	1,690,774	Advances: University of Hawaii projects (note D) Other sponsoring agencies (note D) Workers' compensation and unemployment	10,703,815 2,670,297	10,866,802 1,166,855
(note E)	8,640	245,142	claims reserve (note O)	1,367,899	1,219,902
Total Receivables	2,162,422	1,935,916	Current portion of accrued supplemental retirement benefits (note K) Accrued interest	20,000	44,000 2,932
Prepaid expenses	358,894	420,311	Total current liabilities	27,051,332	22,085,053
Total Current Assets	31,466,609	26,930,385	NONCURRENT LIABILITIES: Long-term debt, excluding current installments (note H) Accrued supplemental retirement benefits (notes I and K)	- 601.531	1,239,513 459.697
			Total Noncurrent Liabilities	601,531	1,699,210
			Total Liabilities	27,652,863	23,784,263
NONCURRENT ASSETS:			COMMITMENTS AND CONTINGENCIES (notes G, I, K, L, M. N, O and P)	-	-
Receivables under lease agreements, excluding current portion and deferred credits (note E) Capital assets (note F) Restricted assets - cash (notes B and D)	830,793 1,958,502	1,237,353 1,029,558 620,328	NET ASSETS (note I): Investment in capital assets Unrestricted	830,793 <u>5,772,248</u>	1,029,558 5,003,803
Total Noncurrent Assets	2,789,295	2,887,239	Total Net Assets	6,603,041	6,033,361
TOTAL ASSETS	<u>\$ 34,255,904</u>	<u>\$ 29,817,624</u>	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,255,904</u>	\$ 29,817,624

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

	2003	2002
Operating revenues — administrative expense recoveries: University of Hawaii (note J) Other sponsoring agencies	\$ 3,073,375 	\$ 2,451,906 <u>1,252,349</u>
Total operating revenues	<u>4,615,500</u>	<u>3,704,255</u>
Operating expenses: Salaries and wages Data processing services Employee fringe benefits (note K) Depreciation Insurance Project development Office supplies and services Office and equipment rental (note N) Professional and technical support Tuition support Travel Communications Professional services Staff development UH Research awards Retiree medical benefits (note L) Discretionary fund Transportation Board of Directors' meetings Project overruns and disallowances Interest	1,604,381 932,045 404,613 270,858 270,476 254,414 198,730 88,238 25,234 24,450 23,433 20,983 19,697 17,319 16,500 12,958 12,060 7,521 5,244 280	1,565,446 952,285 386,053 293,778 157,337 233,841 170,364 82,407 12,815 14,178 18,697 22,955 32,077 16,254 16,500 10,799 7,335 7,759 9,125 146 35,516
Total operating expenses	4,209,434	4,045,667
Operating profit (loss)	406,066	(341,412)
Nonoperating revenues (expenses): Interest income: Cash, certificates of deposit and investment Lease (note E) Interest expense — long-term debt (note H) Intergovernmental (Federal Awards): Revenue Expense Quasi-endowment income (expenses): Decrease in fair value of investments (note C) Investment (note I) Research assistantships expense (note I) Total nonoperating revenues, net	203,932 11,335 (11,335) 1,577,038 (1,577,038) (46,374) 28,164 (22,108)	302,873 6,306 (6,306) 432,899 (432,899) (265,864) 74,965 (51,227)
INCREASE (DECREASE) IN NET ASSETS	569,680	(280,665)
Net assets at beginning of year	<u>6,033,361</u>	<u>6,314,026</u>
Net assets at end of year	<u>\$ 6,603,041</u>	<u>\$ 6,033,361</u>

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

	2003	2002
Cash flows from operating activities: Project cost reimbursements received from: University of Hawaii Other sponsors	\$180,108,671 36,981,299	\$144,259,432 28,817,560
Management fees received from: University of Hawaii Other sponsors Payments to vendors	2,417,147 1,531,316 (149,702,970)	2,322,707 1,253,966 (110,368,692)
Payments to employees Payments of federal and state payroll taxes Project cost reimbursements to the University of HI Cash received under equipment lease agreements,	(44,643,259) (19,142,514) (2,379,297)	(37,733,838) (16,212,512) (1,666,832)
including interest Other receipts	1,354,474 <u>570,633</u>	73,093 776,607
Net cash provided by operating activities	7,095,500	11,521,491
Cash flows from noncapital financing activities: Proceeds from debt Repayment of excess debt Purchase of equipment under lease agreements Principal and interest payments on debt	- - - - (1,477,712)	1,458,000 (106,872) (1,351,128) (73,093)
Net cash used in noncapital financing activities	(1,477,712)	(73,093)
Cash flows from capital and related financing activities: Proceeds from capital debt Principal payments on capital debt Purchase of capital assets	- - (72,002)	400,708 (400,708)
Net cash used in capital and related financing activities	(72,093)	(300,332)
Subtotal carried forward	(72,093) \$ 5,545,695	(300,332) \$ 11,148,066

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

	2003	2002
Subtotal brought forward	\$ 5,545,695	\$ 11,148,066
Cash flows from investing activities: Proceeds from maturities of investments Purchase of investments Interest income received on cash deposits and investment income Contribution to University of Hawaii research assistantships	7,360,410 (1,435,317) 232,096 (22,108)	1,427,322 (6,007,003) 377,838 (51,227)
Net cash provided by (used in) investing activities	6,135,081	(4,253,070)
INCREASE IN CASH AND CASH EQUIVALENTS	11,680,776	6,894,996
Cash and cash equivalents at the beginning of the year	<u> 18,015,919</u>	11,120,923
Cash and cash equivalents at the end of the year	<u>\$ 29,696,695</u>	<u>\$ 18,015,919</u>
Cash and cash equivalents are presented in the accompanying balance sheets as follows: Cash and cash equivalents Restricted assets - cash	\$ 27,738,193 1,958,502_	\$ 17,395,591 <u>620,328</u>
Reconciliation of operating profit (loss) to net cash provided by operating activities: Operating profit (loss) Adjustments to reconcile operating profit (loss) to net cash provided by operating activities:	<u>\$ 29,696,695</u> \$ 406,066	<u>\$ 18,015,919</u> \$ (341,412)
Depreciation expense Change in assets and liabilities: Receivables Prepaid expenses Accounts payable and accrued wages Advances from University of Hawaii and	270,858 1,010,847 61,417 3,740,026	293,778 (23,173) (369,513) 1,313,095
other sponsors Workers' compensation and unemployment claims reserve	1,340,455 147,997	10,532,117 25,902
Accrued supplemental retirement benefits Net cash provided by operating activities	117,834 <u>\$ 7,095,500</u>	90,697 \$ 11,521,491
Supplemental disclosures of cash flow information		
Cash paid during the year for: Interest on capital debt	\$ -	\$ 35,516

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. Financial Statement Presentation and Financial Reporting Entity

The accompanying financial statements of the Corporation have been prepared in conformity with the accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This statement establishes new financial reporting requirements for State and Local Governments. They require new information and restructure of much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

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

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

The University is required to implement GASB Statement No. 34 for the fiscal year ended June 30, 2002 and since the Corporation's financial statements are blended with the University's financial statements, accordingly, the Corporation is required to implement GASB Statement No. 34 for the fiscal year ended June 30, 2002.

Other GASB Statements are required to be implemented in conjunction with Statement No. 34. Therefore, the Corporation has implemented the following GASB Statements: GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus and Statement No. 38, Certain Financial Statement Note Disclosures.

2. Measurement Focus and Basis of Accounting

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

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

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

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

3. Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents amounted to \$6,333,082 and \$1,000,000 at June 30, 2003 and 2002, respectively.

Investments

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

5. Capital Assets

Capital assets, which include office furniture and equipment and computer software acquired for the 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 the useful life exceeds 1 year. Purchased capital assets are valued at cost.

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

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

6. Retirement Plan

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

7. Vacation

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

8. Accumulated Sick Leave

Sick leave accumulates at the rate of 14 hours per month of service without limit and is not convertible to pay upon termination of employment. However, an employee who retires in good standing and meets certain eligibility requirements may be entitled to supplemental retirement benefits (see note K). Accumulated sick leave at June 30, 2003 and 2002 aggregated approximately \$1,062,000 and \$923,000, respectively.

9. Risk Management

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

10. Use of Estimates

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

NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2003 and 2002, the carrying amount of total bank deposits was \$29,614,274 and \$17,940,747, respectively, while the corresponding bank balances which are represented were \$33,352,000 and \$21,335,212, respectively. The portion of such deposits not covered by federal depository insurance or invested in U.S. treasury notes are covered by collateral held in the name of the Corporation by third party custodians.

NOTE C - INVESTMENTS

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2003 and 2002:

	June 30,	June 30, 2003		2002
	Fair value	Cost	Fair value	Cost
Investments Certificates of deposit	\$1,207,100 	\$1,407,153 —	\$1,246,529 5,932,038	\$1,380,081 5,932,038
	\$1,207,100	\$1,407,153	\$7,178,567	\$7,312,119

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

Investments at the Foundation consist primarily of foreign and domestic equity and fixed income securities. At June 30, 2003 and 2002, the Corporation had 26,961 and 39,711 shares, respectively, in the investment pool. The fair value of these investments are primarily based on quoted market prices reported to the Corporation by the Foundation. The investments at the Foundation amounted to \$799,947 and \$1,246,529 at June 30, 2003 and 2002, respectively. The decrease in fair value of investments (unrealized losses) for the years ended June 30, 2003 and 2002 amounted to \$46,374 and \$265,864, respectively.

In 2003, \$406,265 was transferred from the investment pool at the Foundation to HSDC. These funds are currently being held in an interest bearing demand deposit account for future investment in University of Hawaii developed technologies. At June 30, 2003, funds invested with HSDC amounted to \$407,153.

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

NOTE D - RECEIVABLES AND ADVANCES FROM OTHER SPONSORING AGENCIES

The Corporation's projects are divided into two groups: those administered under an agreement with the University, and those administered under direct agreements with other sponsors. Projects are either funded on a cost reimbursable basis or through advance fundings. Under cost reimbursable projects, expenditures are initially paid for by the Corporation and are later reimbursed by the sponsors. Under advance funded projects, the Corporation receives cash in advance of expenditures. Advances under direct agreements in excess of project expenditures totaled \$2,670,297 and \$1,166,855 at June 30, 2003 and 2002, respectively. Cash relating to a portion of the advances, amounting to \$1,958,502 and \$620,328 at June 30, 2003 and 2002, respectively, is restricted by the sponsors. Direct agreements allow for indirect cost recoveries based on a predetermined indirect cost rate. All claims are subject to audit and adjustments by the sponsoring agencies. Project expenditures less advances, and reimbursements from sponsors are accounted for within project accounts which are reflected on the Corporation's balance sheets. Except for direct federal awards, these transactions are not reflected on the Corporation's statements of revenues and expenses.

NOTE E - RECEIVABLES UNDER LEASE AGREEMENTS

The Corporation borrowed funds and purchased certain equipment. It simultaneously entered into agreements to lease the equipment to the University for the amount of the debt repayment installments with an option to purchase the equipment for \$1 at the end of the lease term. Maturities of receivables under lease agreements at June 30, 2003 are \$8,640 for the year ending June 30, 2004.

NOTE F - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003 is as follows:

	Beginning balance	Acquisitions	Dispositions	Ending balance
Office equipment	\$ 532,365 1,779,290	\$ 5,916 66,177	\$(19,658)	\$ 518,623 1,845,467
Computer software	2,311,655	72,093	(19,658)	2,364,090
Less accumulated depreciation Office equipment Computer software	205,189 1,076,908 1,282,097	19,207 251,651 270,858	(19,658) ————————————————————————————————————	204,738 1,328,559 1,533,297
	\$1,029,558	\$(198,765)	\$	\$ 830,793
activity for the year ended June 30, 2002 is	s as follows:			
	Beginning	Acquisitions	Dispositions	Ending Balance

Capital assets a

	Beginning balance	Acquisitions	Dispositions	Ending Balance
Office equipment	\$ 579,548	\$ -	\$(47,183)	\$ 532,365
Computer software	1,478,958	300,332		1,779,290
·	2,058,506	300,332	(47,183)	2,311,655
Less accumulated depreciation	, ,	,	(, ,	
Office equipment	202,433	49,939	(47,183)	205,189
Computer software	833,069	243,839		1,076,908
	1,035,502	293,778	(47,183)	1,282,097
	\$1,023,004	\$ 6,554	<u> </u>	\$1,029,558

Depreciation expense for the years ended June 30, 2003 and 2002 amounted to \$270,858 and \$293,778, respectively.

NOTE G - LINE OF CREDIT

The Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$2,000,000 for short-term working capital, expiring on December 1, 2003. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over accounts receivable. The rate of interest on borrowings outstanding is 75% of the bank's reference rate (4.0% at June 30, 2003). At June 30, 2003, there were no borrowings outstanding under this line.

NOTE H - LONG-TERM DEBT

A summary of long-term debt at June 30, 2003 and 2002 is as follows:

	2003	2002
6.75% note payable to First Hawaiian Bank, secured by a computer numeric controlled lathe, paid off in 2003 by the Institute for Astronomy.	\$ -	\$ 5,726
6.57% note payable to Bank of Hawaii, secured by vehicles, monthly payments of \$980 including interest, due November 2003, by the Institute for Astronomy	4,783	15,837
4.381% note payable to Bank of Hawaii, secured by a Sun Computer System, paid off in 2003 by the University of Hawaii.		
Less current installments of long-term debt	4,783 4,783	1,458,000 1,479,563 240,050
	\$	\$1,239,513
The following is a summary of changes in long-term debt for the two years ended June 30, 2003:		
Balance as of July 1, 2001	\$ 91,064	
Additions Deductions	1,858,708 470,209	<u>-</u>
Balance as of June 30, 2002	1,479,563	
Additions Deductions	1,474,780	-
Balance as of June 30 2003	\$ 4,783	=

The annual debt service requirements to maturity including principal and interest for long-tem debt as of June 30, 2003 are \$4,862.

NOTE I - NET ASSETS

1. Working Capital

Many of the projects administered by the Corporation are cost reimbursable. The time lag in receiving reimbursements makes the creation of a reserve for working capital necessary. The Board of Directors authorized the establishment of designated net assets for this purpose. The Corporation transferred \$606,735 from undesignated net assets to the designated net assets for working capital in 2003 and \$39,000 from the designated net assets for working capital to undesignated net assets in 2002.

In 2003, an additional \$406,265 was transferred from the quasi-endowment designated net assets to the designated net assets for working capital. The transfer was made to reflect the liquidation of investments in the quasi-endowment fund administered by the University of Hawaii Foundation and the re-investment of those funds in the Hawaii Strategic Development Corporation.

Quasi-Endowment

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

For the years ended June 30, 2003 and 2002, investment income of \$28,164 and \$74,965, respectively, was earned from investments administered by the Foundation. Research assistantship expenditures deducted from the quasi-endowment reserve during 2003 and 2002 amounted to \$22,108 and \$51,227, respectively.

In 2003, the quasi-endowment designated net assets were reduced by \$406,265 to reflect the liquidation of investments in the quasi-endowment fund administered by the University of Hawaii Foundation.

3. Supplemental Retirement Benefits

As described in note K, the Corporation offers supplemental retirement benefits. The liability as of June 30, 2003 and 2002 associated with the supplemental retirement benefits are accrued

3. Supplemental Retirement Benefits (continued)

in the accompanying balance sheets. The supplemental retirement benefits designated net assets balance represents supplemental retirement benefits surcharge collected in excess of supplemental retirement benefits paid or accrued in the balance sheets as of June 30, 2003 and 2002.

4. <u>Project Contingent Liabilities</u>

The Corporation and the University enter into contracts and agreements with a multitude of organizations, both public and private, locally, nationally and internationally. These organizations often require terms and conditions in the contract or agreement, which if breached, may require reimbursement of expenses or payment of expenses. On March 13, 1998, the Board of Directors designated net assets to cover such reimbursements or expenses, which may include, but are not limited to project overruns and disallowances, litigation expenses, professional services and other project-related expenses. In 2003 and 2002, the amount of the designation was increased by \$17,710 and \$39,359, respectively. A separate interest-bearing account is maintained for this reserve.

Net assets at June 30, 2003 and 2002 are summarized as follows:

	2003	2002
Designated	<u> </u>	
Working capital	\$4,811,000	\$3,798,000
Quasi-endowment	799,946	1,246,529
Supplemental retirement benefits	158,233	172,127
Project contingent liabilities	833,338	815,628
Undesignated	524	1,077
	\$6,603,041	\$6,033,361

NOTE J - OPERATING REVENUES - UNIVERSITY OF HAWAII

Operating revenues received from the University of Hawaii for the years ending June 30, 2003 and 2002 amounted to \$2,932,769 and \$2,294,325, respectively, for extramurally sponsored projects and \$140,606 and \$157,581, respectively, for internally funded projects.

NOTE K - PENSION INFORMATION

The Corporation participates with other institutions in the Teachers Insurance and Annuity Association and College Retirement Equities Fund, a noncontributory defined contribution retirement plan which covers substantially all qualified employees. Employees are eligible to participate in this plan upon completion of one year of service. Required contributions by the Corporation to the retirement plan are based on 10% of the gross salary of each employee. All contributions are fully vested and nonforefeitable when made. While it is expected that this retirement plan will continue indefinitely, the Board of Directors of the Corporation reserves the right to modify or discontinue the plan at any time. Total contributions to the retirement plan for the years ended June 30, 2003 and 2002 were \$152,618 and \$131,480, respectively.

The Corporation offers supplemental retirement benefits in addition to benefits available under the previously mentioned pension plan. To be eligible, a terminating employee must be at least age 45 years 4 months, have service of 10 years or more and have accumulated unused sick leave of 60 days or more. The supplemental retirement benefits amount to 10% of the value of the unused sick leave reduced by 1/2% for each month below the age of 62. The terminating employee may elect to purchase an annuity or receive the benefit in cash. At June 30, 2003 and 2002, the Corporation accrued supplemental retirement benefits amounting to \$621,531 and \$503,697, respectively, in the accompanying balance sheets. The accrual represents the Corporation's best estimate based on available information. Supplemental retirement benefits paid during the years ended June 30, 2003 and 2002 were \$13,895 and \$39,485, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2003 and 2002:

	2003	2002
Beginning balance	\$503,697	\$413,000
Additions Deductions	131,729 (13,895)	130,182 (39,485)
Ending balance	621,531	503,697
Less current portion of accrued supplemental retirement benefits	20,000	44,000
	\$601,531	\$459,697

NOTE L - POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the Corporation also provides certain health care and life insurance benefits to all employees who retire in good standing with 10 years or more of continuous service, 10 years of participation in the Corporation's retirement and life insurance program and attain age 55. Contributions for health benefits are fixed at \$50 per month. The costs of retiree insurance benefits are recognized when the premiums are paid. The amounts paid for health care and life insurance for the years ended June 30, 2003 and 2002 aggregated to \$12,958 and \$10,799, respectively.

NOTE M - PROJECT EXPENDITURES AND COMMITMENTS

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

	University projects	Direct projects	Other projects	Total
2003:				
Salaries and wages	\$ 45,849,725	\$ 9,031,725	\$ 8,753,280	\$ 63,634,730
Equipment	38,101,387	607,111	205,493	38,913,991
Other	92,426,515	5,501,731	12,165,700	110,093,946
	\$176,377,627	\$15,140,567	\$21,124,473	\$212,642,667
2002:		_		
Salaries and wages	\$ 39,584,467	\$ 7,532,512	\$ 6,488,505	\$ 53,605,484
Equipment	11,168,252	1,420,983	350,697	12,939,932
Other	83,294,911	4,434,833	9,787,723	97,517,467
	\$134,047,630	\$13,388,328	\$16,626,925	\$164,062,883

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

Commitments in the form of outstanding project purchase orders that are not reflected on the accompanying balance sheets amounted to approximately \$50,169,000 and \$33,662,000 at June 30, 2003 and 2002, respectively.

NOTE N - OPERATING LEASE

The Corporation occupies office space under noncancelable operating leases that expire through January 2004. The leases contain escalation and renewal clauses and provide that the Corporation pay taxes, maintenance and certain other operating expenses applicable to the leased premise. Total office and equipment rental expense for the years ended June 30, 2003 and 2002 was \$88,238 and \$82,407, respectively, which includes \$65,776 and \$64,050, respectively, of office rental expense under the operating leases for the years ended June 30, 2003 and 2002.

Future minimum lease payments under noncancelable operating leases as of June 30, 2003 are \$32,945 for the year ending June 30, 2004.

NOTE O - RISK MANAGEMENT

1. Torts

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

2. Property and General Liability Insurance

The Corporation is covered under the statewide insurance program of the State of Hawaii. Under this program, the Corporation has property damage insurance for losses that may occur from hurricane, earthquake, flood, fire, windstorm and other occurrences of \$25 million per occurrence. Deductibles for windstorm losses are 3% of values at each location, subject to a minimum of \$250,000. Deductible for losses caused by earthquake, flood, tsunami and volcanic action is 3%, subject to a \$250,000 minimum. For other lines of coverage the deductible is \$250,000.

The Corporation has general liability insurance under the State with loss coverage of \$7 million for each occurrence. Exclusions include pollution, asbestos, airport and medical-professional losses. The deductible is \$3 million per occurrence. The State program includes crime insurance with loss coverage of \$10 million for criminal losses. Faithful performance of duties coverage is \$1 million. The deductible is \$250,000 per occurrence.

The Corporation has an additional general liability policy with loss coverage of \$2 million for each occurrence and in the annual aggregate; coverage is \$250,000 for fire damage losses. Exclusions include professional liability, pollution, employment related practices, sexual abuse,

fiduciary liability, securities and financial interest, and product completed operations. The deductible is \$25,000 per claim. In addition, the Corporation has a \$5 million umbrella liability policy in excess of the \$2 million coverage for general liability. The Corporation has a \$5 million insurance policy for directors' and officers' liability losses, with a deductible of \$75,000.

3. Workers' Compensation Policy

The Corporation is self-insured for workers' compensation losses incurred prior to July 1, 1997 and unpaid as of June 30, 1997, and is liable for all workers' compensation claims filed by its employees for that period. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. These liabilities include amounts for claims that have been incurred but not reported. At June 30, 2003 and 2002, the workers' compensation reserve amounted to \$756,902 and \$812,809, respectively, and is reported as a current liability in the accompanying balance sheets. The change in workers' compensation reserve resulted from the payments for workers' compensation claims of \$66,046 and \$43,171 during the year ended June 30, 2003 and 2002, respectively. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

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

4. Unemployment Claims Reserve

The Corporation is self-insured for unemployment claims. Liabilities for unemployment claims are established if information indicates that it is probable that liabilities have been incurred and the amount for those claims can be reasonably estimated. At June 30, 2003 and 2002, the unemployment reserve amounted to \$610,997 and \$407,093, respectively, and is reported as a current liability in the accompanying balance sheets.

NOTE P - COMMITMENT

At June 30, 2003, the Corporation had an outstanding stand-by letter of credit commitment in the amount of \$143,750. The commitment is collateral for the deductible portion of a workers' compensation insurance policy obtained by the Corporation in relation to the administration of a University of Hawaii project to construct a new medical center. The commitment increases to \$287,500 in October 2003 and to \$575,000 in October 2004.

SUPPLEMENTARY INFORMATION

Report of Independent Certified Public Accountants on Supplementary information

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of The Research Corporation of the University of Hawaii, State of Hawaii, a component unit of the University of Hawaii, as of and for the years ended June 30, 2003 and 2002, which are presented in the preceding section of this report. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

GRANT THORNTON LLP Honolulu, Hawaii August 1, 2003

The Research Corporation of the University of Hawaii State of Hawaii SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Program Award Amount	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE Cooperative State Research, Education, and Extension Service Passed through the Pacific International Center for High Technology Research: Agriculture-Based Remediation Program	10.500	98-COOP-1-5891	\$ 818,692	\$ 144,089
DEPARTMENT OF COMMERCE Economic Development Administration Stimulation, Telemedicine, Applied Technology and Incubator Center	11.300	07-01-05270	3,000,000	1,970
U.S. DEPARTMENT OF DEFENSE Office of Naval Research Maritime Fire Training at Barber's Point Sensor Integration and Testbed Technologies Passed through DCS Corporation: Sensors C41 and Networking Technology Support U.S. DEPARTMENT OF INTERIOR	12.300 12.000 12.000	N00014-02-1-0999 N00421-03-C-0013 N00173-01-C-2016	1,931,000 1,163,028 616,181	5,891 403,723 536,888
Office of Insular Affairs Economic, Social, and Political Development of the Territories and the Freely Associated States U.S. Pacific Region Public Health Assistance	15.875 15.875	GEN-151 GEN-162	258,698 103,561	2,480 82,599
U.S. Geological Survey Hawaii GAP Analysis Project	15.808	01HQAG0195	618,525	255,117
Fish & Wildlife Service Malama Hawaii	15.000	122000G026	40,000	15,917
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES Maternal and Child Health Bureau Pacific Island Health Officers Association (PIHOA) Total Expenditures of Federal Awards	93.110	1 U93 MC00185	250,000	128,364 \$ 1,577,038

The accompanying note on page 22 is an integral part of this schedule.

The Research Corporation of the University of Hawaii State of Hawaii NOTE TO THE SCHEDULE OF EXPENDITURES AND FEDERAL AWARD Year ended June 30, 2003

NOTE 1 - BASIS OF PRESENTATION

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

SECTION II – COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

We have audited the financial statements of The Research Corporation of the University of Hawaii, State of Hawaii (Corporation), as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated August 1, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

GRANT THORNTON LLP Honolulu, Hawaii August 1, 2003

SECTION III – COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS

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

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

Compliance

We have audited the compliance of The Research Corporation of the University of Hawaii, State of Hawaii (Corporation), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

GRANT THORNTON LLP Honolulu, Hawaii August 1, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year ended June 30, 2003

	Section I – Summary of Auditor's	Results		
Financial Statements				
Type of auditors' report i	ssued: Unqualified opinion.			
weaknesses? Noncompliance ma		yes yes yes	$\underline{\checkmark}$ no $\underline{\checkmark}$ none reported $\underline{\checkmark}$ no	
Federal Awards				
Internal control over majMaterial weakness(Reportable condition weakness(es)?		yes yes		
Type of auditor's report i	ssued on compliance for major programs: Unqualified opinion	on on compliance.		
Any audit findings disclosection 510(a) of Circula	sed that are required to be reported in accordance with ar A-133?	yes	\underline{ullet} no	
Identification of major pr	ograms:			
CFDA <u>Number(s)</u>	Name of Federal Program			
12.000 12.000	U.S. Department of Defense Office of Naval Research Sensor Integration and Testbed Technologies Passed through DCS Corporation Sensors C41 and Networking Technology Support			
	o distinguish between type A and type B programs:	\$300,000		
	low-risk auditee under Section .530 of OMB Circular A-	√ yes	no	
	Section II – Financial Statemer	t Findings		
None noted.				
	Section III – Federal Award Findings and	d Questioned Cost	S	
	2000011 III I Oddidi / Wala i Malingo dik		▼	

None noted.

FS - 27