

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

Annual Report



Contents

Table of Contents

Information on the Research Corporation of the University of Hawaii.....	2
EEO / AA Policy	4
The Year in Review	5
Board of Directors	7
Project Review	8
Statistical Data	16
Financial Statements.....	21



Upon request, this report is available in alternate format for persons with print disabilities.

For assistance, please call 808-988-8300.

Information

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

Its creation . . .

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

Its mission . . .

THE FUNDAMENTAL MISSION of RCUH is to support the research and training programs of the University of Hawaii and to enhance research, development, and training generally in Hawaii.

Its need . . .

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

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

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

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

ALTHOUGH PENNED MORE THAN FORTY-FIVE YEARS AGO, these words 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.

(continued on the following page)

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.

(continued on the following page)

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

THE RCUH RESEARCH ADMINISTRATION and Project Development Office in Hilo is staffed by 9 employees who are located in the Institute for Astronomy building at the UH Hilo Research Park.

AT ANY GIVEN TIME, an average of 2,800 project personnel are on RCUH's payroll. 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.

Review

The Year in Review

DRAMATIC GROWTH, CHALLENGES, AND RE-EVALUATION of services/processes best describe the fiscal year 2011.

A record volume of business was the highlight ... \$391 million. That was a significant increase ... 26% to be exact! The University of Hawaii continued to maintain a successful track record of securing research dollars which translated to increased volume for RCUH. The University enjoyed an 8% growth in extramurally-funded research and training contracts/grants during the 2011 fiscal year with \$489 million in awards. This will result in an increase in RCUH's volume of business in 2012 and beyond.

Two major construction projects, UH West Oahu and UH Cancer Center, also contributed to RCUH's increased volume as these projects progressed toward completion. UH West Oahu is scheduled for completion in 2012, in time for the 2012-13 academic year, and the UH Cancer Center is slated for completion in late 2012 for occupancy in early 2013. Our direct projects activity (non-University projects) also increased slightly.

A major challenge we faced in 2011 was the impact of Act 179, passed by the State Legislature in 2010, which relates to retirants of the State Employees Retirement System (ERS). Act 179 states that ERS retirees must be "retired" for at least a six-month period before they can be re-employed by a State or County agency. Because RCUH is not a participant of the ERS, it appeared that we would not be affected. However, after months of discussions and review by ERS, their legal counsel, and our Deputy Attorney General, it was determined that individuals who are ERS retirants and are hired by RCUH are subject to Act 179. Consequently, a number of RCUH employees had to take steps to comply with the law or risk losing their ERS benefits. For the most part, those projects that had affected employees experienced minimal disruptions.

RCUH continued to make enhancements to its on-line financial and human resources systems and this helped our clients and our staff cope with the increased volume of business in 2011. We added staff for our Hilo operations because of increased activity there, but staffing levels for other RCUH units remained static.

As work progressed on the University's new Kualii Financial System (KFS), RCUH staff actively participated in Kualii implementation meetings to gain a better understanding of the new system so that the necessary interfaces between the RCUH system and KFS can be in place. More effort will be devoted to this project during the 2012 fiscal year since the University is targeting the launch of KFS in July 2012.

(continued on the following page)

In the human resources arena, a new Career Transition and Outreach Workshop was introduced to assist RCUH employees facing a change in careers because of job terminations (project ending), with a focus on helping the individuals prepare for other employment opportunities.

We continue to re-evaluate our operations and are looking for ways to improve business processes, policies, and the delivery of our services for our clients.

Our Board of Directors continues to provide the support we need to further nurture and grow RCUH so it can continue to meet the diverse needs of the research community. At the conclusion of the year, we bid aloha to Joelle Kane, who served us for eight years, and Howard Karr, who served us for three years. We extend our sincerest thanks and appreciation to them both for their contributions to RCUH.

Thank you for the opportunity of serving you. We look forward to another great year!



Directors

RCUH Board of Directors (as of June 30, 2011)



Carl Carlson



Robert Dewitz
Vice Chairman



Dennis Hirota



Joelle Kane



Howard Karr



Eric Martinson



James Lee



Guy Ontai



Donn Takaki
Chairman



Mark Yamada

Project Review: SERVICE ORDER PROJECT

Data Collection after the Tohoku Tsunami

by Ian Robertson

ON MARCH 11, 2011, AT 2:26 PM, the Great East Japan Earthquake of Moment Magnitude 9.0 generated a tsunami of unprecedented height and spatial extent along the coast of the main island of Honshu. Portions of all coastal cities and numerous ports on the Tohoku (Northeast) coast were inundated by the tsunami waves; the scenes of widespread destruction stretched up to several miles inland. It has been reported that 535 square kilometers (207 square miles) of land were inundated as estimated from aerial and satellite photography.

There is great interest in the US for studying the effects of the Tohoku Tsunami due to the analogous threat posed by the Cascadia subduction zone to the Pacific Northwest of North America, which in 1700 generated a tsunamigenic earthquake estimated to be magnitude 9. Inundation of the Washington, Oregon and Northern California coastlines would occur within 30 minutes of the earthquake under this scenario.



Survey team in Otsuchi, Japan.

Soon after the Japan earthquake and tsunami, the American Society of Civil Engineers, ASCE, sponsored a team of structural, geotechnical and coastal engineers to perform an extensive survey of structural damage resulting from the tsunami inundation. The ASCE Tsunami Reconnaissance Team visited the Tohoku coast in mid-April, roughly one month after the earthquake, and in the course of two weeks was able to examine nearly all the towns and cities with significant damage due to the tsunami.

The purpose of this ASCE tsunami reconnaissance trip was to investigate and document the performance of buildings and other structures in Japan, with the specific intent to apply this experience in ongoing work to develop the US tsunami structural design provisions for the ASCE 7 Standard, Minimum Design Loads for Buildings and Other Structures.

(continued on the following page)



Overturned 4-story building in Onagawa, Japan.

A subsequent survey in June, 2011, sponsored by a National Science Foundation RAPID grant, focused on LIDAR surveys of selected buildings, bridges and coastal topography. The purpose of this more focused data collection was to enable development of computer models for structural analysis of these selected structures to determine more precisely the hydrodynamic loading effects that were required to cause the observed damage.

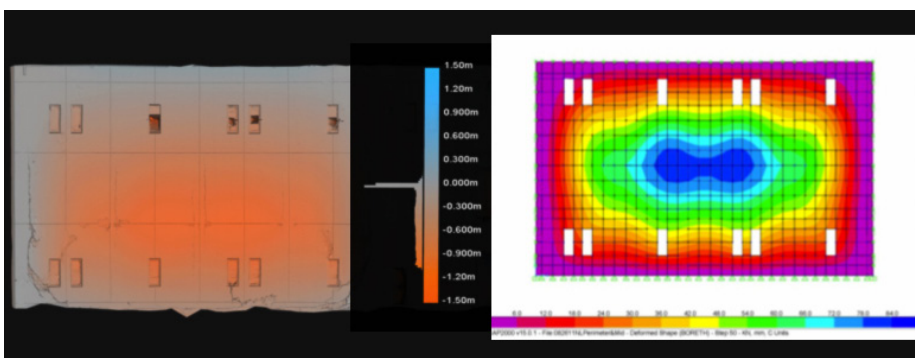
Data from these reconnaissance efforts will help resolve some key questions in the tsunami design provisions regarding flow velocities and momentum of tsunami surges over land, fluid hydrodynamic forces on structural elements, debris flow, debris strike effects, and erosion and scouring of foundations.



LIDAR scan capturing precise deformation of steel-framed structure.

Faculty members in the Department of Civil and Environmental Engineering, UH Manoa College of Engineering, have a long history of research in hazard mitigation, including hurricane, earthquake and tsunamis. In addition to reconnaissance efforts, these faculty members are involved in developing national code standards for tsunami design, specific standards for design of vertical evacuation buildings, and assisting in the development of a tsunami hazard assessment module as part of FEMA's multi-hazard damage and loss estimation model, HAZUS.

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



Project Review: REVOLVING FUND PROJECT

Hawaii International Conference on System Sciences

by Ralph H. Sprague, Jr., Tung X. Bui, and Sandra P. Laney

SINCE 1968, THE HAWAII INTERNATIONAL CONFERENCE ON SYSTEM SCIENCES (HICSS) has attracted highly respected experts, including Nobel Laureates and other award winners, from government agencies, corporations and academic institutions around the world. HICSS is sponsored by the University of Hawaii at Manoa's Shidler College of Business (www.shidler.hawaii.edu). This annual January conference provides a prestigious forum for the lively exchange of ideas, research results, development activities, and practical applications among various information, computer, and system sciences fields. On January 4, 2012, HICSS celebrates its 45th conference.



As a long-standing RCUH program, the HICSS conference brings high value to University faculty, PhD students, and staff by allowing ready access to up-to-date and original research by international experts in many areas. Accepted papers cannot be published elsewhere prior to being considered for HICSS. The conference maintains an acceptance rate of approximately 50% over its ten research tracks, variances depending on whether new research is being nurtured. All authors compete for paper acceptance with others from more than 40 countries. All papers are peer-reviewed in a strict, double-blind process during June-August of each year.

Conference papers may be theoretical, conceptual, tutorial or descriptive in nature. Areas of research currently cover ten “tracks”, each divided further into over 100 more specific mini-tracks: Collaboration Systems and Technology; Decision Technology, Mobile Technologies and Service Science; Digital Documents and Media; Electric Energy Systems; Electronic Government; Information Technology in Healthcare; Internet and the Digital Economy; Knowledge Systems; Organizational Systems and Technology; and Software Technology.

HICSS has been described informally as the “best working conference” in the Information Systems field. It is the only conference that integrates Computer Science and Information Systems and is particularly well-known for the cross-over among themes and areas of research throughout its ten tracks, encouraging wide-ranging and exciting in-person discussion.

On the first day of the conference SWTs (symposia, workshops, and tutorials) generally serve as intensive short courses on developments in a particular subject area. These SWT sessions may set the foundation for related paper presentations during the next three days. Best Paper awards in each track – ten papers out of approximately 550 presented during the week – are presented at an awards ceremony on the conference’s last day.

(continued on the following page)

HICSS conferences are professionally rewarding and stimulating to everyone who attends. For the upcoming 2012 conference attendance is now reaching over 800, and represents about 40 countries, with researchers from academia, government, and a variety of corporations. To facilitate important informal discussions (outside the paper sessions) during the week, a workshop-like ambiance is carefully structured to encourage lively interaction that often leads to exciting future research. Most registrants attend the entire 4-day conference, taking advantage of such informal discussion opportunities. In addition to the daily paper sessions usually covering 15-18 concurrent sessions over three days, there are the SWTS on the first day, as well as a Keynote Lecture, plenary lectures, and a Distinguished Lecture.

An essential on-going goal of HICSS is to include younger researchers and their ideas. However, as a not-for-profit activity funded entirely by registration fees, HICSS is unable to offer registration discounts. Participants (or their employers) must bear all costs of registration and attendees are encouraged to solicit community support for their research.



The well-regarded status of HICSS as a conference strengthens the international reputation of the Shidler College of Business and the University, thereby enhancing the recruitment of faculty and students, and increasing publication possibilities and research development. Recent research shows that HICSS ranked second in citations among 18 Information Systems (IS) conferences, ranked third in value to the MIS field among 13 Management Information Systems (MIS) conferences, and ranked second in conference rating among 11 IS conferences.

The Australian Government's Excellence in Research project (ERA) gives HICSS an "A" rating, one of 32 Information Systems conferences so honored out of 241, 46-B and 146-C ratings. (Data supplied by the Australian-Research Council, December 2009. <http://lamp.infosys.deakin.edu.au/era/?page=cfordet&selfor=0806>)



The conference has earned a designation as being Technically Co-sponsored by the IEEE Computer Society. HICSS Proceedings are published by the IEEE Computer Society Conference Publishing Services and are included in the web-based IEEE Xplore Digital Library which is included in all IEEE journals and conferences. The HICSS Proceedings are among the most frequently accessed of conference volumes tracked by the Library. In recent years, access (or "hits") for HICSS papers has been in the top 2% of IEEE conferences.

Usually with over 750 attendees, the conference brings to the State of Hawaii approximately \$3 million of additional revenues each year. More importantly, with almost 600 papers, and with a conservative estimate of six months of research per accepted paper, the proceedings from this annual conference represent for the scientific community about 300 man-years of research effort.

For complete information, please visit <http://www.hicss.hawaii.edu> or contact the HICSS Conference Office (808) 956-3251 fax (808) 956-5759 or by e-mail: hicss@hawaii.edu

Project Review: DIRECT PROJECT

Hawaii Tobacco Prevention and Control Trust Fund Project

by Lola Irvin

SINCE 2000, HAWAII HAS EXPERIENCED A RAPID DECLINE in cigarette use. Today, most youth and adults in Hawaii are now tobacco free. As of 2009, smoking among high school students decreased by 54% from 24.5% in 2000 to 11.3% in 2009. Likewise, smoking among adults decreased by 26% from 19.7% in 2000 to 14.5% in 2010. Hawaii also has comprehensive policies that now: 1) protect employees from second-hand smoke, 2) allows for increased cigarette sales tax, and 3) restricts the sale of tobacco to minors. The public health accomplishments correlate to the development of the comprehensive tobacco prevention and control program in Hawaii that relies heavily on funding through the Tobacco Prevention and Control Trust Fund (Trust Fund).



The moneys to the Trust Fund come from payments from the master settlement agreement between 46 states and several U.S. territories and five of the largest tobacco companies. The Trust Fund was established by law as a separate fund in the Hawaii Community Foundation (HCF) to support tobacco prevention and control in the

State of Hawaii. The community grant-making program is maintained by the HCF which is under contract with the Hawaii State Department of Health (DOH) to invest, manage, and expend the Trust Fund. The DOH provides the oversight for the comprehensive tobacco prevention and control program that is in part contracted through the Research Corporation of the University of Hawaii (RCUH). The Trust Fund activities through RCUH are those that have a state-wide reach and are competitively contracted out.

Evaluation and surveillance are key components to add to the knowledge of tobacco prevention and control in Hawaii – to understand what works and to assess and improve the overall state program. The Trust Fund works closely with partners in tobacco control, and its strategies are based on the categories developed by the Centers for Disease Control and Prevention:

- state and community interventions;
- health communications interventions;
- cessation interventions;
- surveillance and evaluation; and
- administration and management.

(continued on the following page)

These combined activities are designed to meet the goal of preventing tobacco use, increasing cessation, and reducing exposure to tobacco smoke. The activities of the Trust Fund and that of the HCF are described in **Table 1**.

Table 1. Hawaii Tobacco Prevention and Control Trust Fund Activities by CDC Categories	
CDC Categories	Programs/Activities Supported by the Trust Fund
State and Community Interventions	<ul style="list-style-type: none"> • Social Norm Change/Advocacy and Policy Change - The Trust Fund supports coalition building activities, public education, and a youth-led coalition. Results include comprehensive tobacco control laws, increased taxes on cigarettes, sales restrictions to minors, and smoke-free workplaces. • Community Grants Program through the HCF – These grants support community-based initiatives to prevent the use of tobacco by youth and to fund non-profit organizations providing a range of face-to-face cessation services.
Health Communications Interventions	<ul style="list-style-type: none"> • Deliver strategic, culturally appropriate, and high-impact multi-media messages in sustained and adequately funded campaigns integrated into the overall tobacco program effort. • Current marketing includes: “Clear the Smoke” social norm campaign, promotion of the Hawaii State Quitline, and a Health Communications Initiative begun in FY 2008-09 to combine/integrate marketing efforts and support/integrate community tobacco control efforts. • Train and provide technical assistance to grantees to develop and disseminate community-based communications. • Develop and maintain web-based tools to link grantees and other tobacco control stakeholders with state-level programs. • Conduct audience and market research, counter-marketing surveillance, and process and outcome evaluation to ensure social norms campaign and Quitline promotion activities are based on proven practices and to ensure efficacy of communications. • Assist community-based organizations on grassroots promotion and local media advocacy. • Create and disseminate promotional materials to grantees and other stakeholders and toolkits for physicians and other healthcare providers to support and triage community-level cessation services with the Quitline.

(continued on the following page)

Table 1. *continued below*

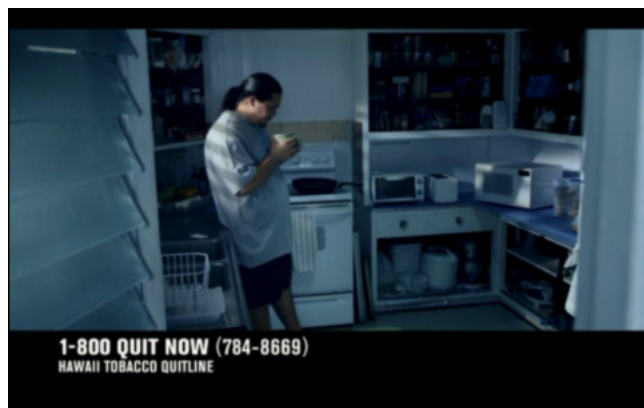
CDC Categories	Programs/Activities Supported by the Trust Fund
Cessation Interventions	<ul style="list-style-type: none"> • The Hawaii Tobacco Quitline (1-800-QUITNOW) - Provides free telephone counseling and nicotine replacement therapy (NRT) regardless of insurance status. The Quitline has a statewide reach, and callers include a greater proportion of tobacco users who are at the lower levels of the education continuum or are of Native Hawaiian descent as compared to all tobacco users in the state. Intensive counseling in-language (translation services are available) and NRT are also available through Hawaii's participation in the Asian Smokers' Quitlines. Web coaching is also available 24/7. Quitline callers enrolled in the intensive counseling program are 3 to 13 times more likely to quit than those unassisted, and more than 80% of callers report being very or mostly satisfied with the services they received.
Surveillance and Evaluation	<ul style="list-style-type: none"> • Evaluation is conducted on all programmatic activities such as the Hawaii Tobacco Quitline, Health Communications Interventions, grantees, and advocacy programs. Surveillance is being strengthened to collect county level data for youth tobacco use and attitude.
Administration and Management	<ul style="list-style-type: none"> • Includes leadership, management, coordination of, communication between and alignment of programmatic activities, monitoring of contracts, and ensuring accountability, establishing linkages through Trust Fund Project Team.

Since the inception of the Trust Fund, there has been a significant increase, especially in the last five years, in activities and interventions to reduce the use and to change the overall social norms towards tobacco:

- Fifty organizations have received funding via 161 grants from the HCF to provide community-level activities and interventions.
- The Hawaii Tobacco Quitline has been in place for five years.
- Social marketing campaigns are in place at the local and state levels.
- Training and capacity building efforts are provided to grantee organizations.
- Evaluation and surveillance efforts have been increased to assess the impact of the comprehensive efforts.
- Partners have developed the third edition of the state strategic plan for tobacco prevention and control, which is set to launch in early 2012.

(continued on the following page)

Hawaii has a large, active tobacco prevention and control constituency that works to change policies and to transform social expectations and norms around tobacco use. There are over 4,000 members and organizations in the network of the Coalition for Tobacco Free Hawaii and the youth empowerment group, REAL. The impact of the work by concerned citizens and state and local leadership has resulted in a comprehensive slate of policies on tobacco sales, workplace protections, and protecting our youth through restricting sales and increasing the price of cigarettes and other tobacco products.



Hawaii's statewide workplace and public places smoking law is one of the most comprehensive in the nation (Chapter 328J, HRS) to protect employees and others from second-hand smoke and restricts smoking in various facilities.

However, while the overall cigarette use has gone down, disparity still exists by income, employment, educational attainment, race and ethnicity. In 2010, smoking rates were:

- 20.3% = people with incomes less than \$10,000 a year,
- 23.0% = the unemployed,
- 32.3% = those with less than a high school diploma, and
- 26.8% = Native Hawaiians.

[Note: The prevalence rate is analyzed separately by demographic categories so will not equal 100%.]

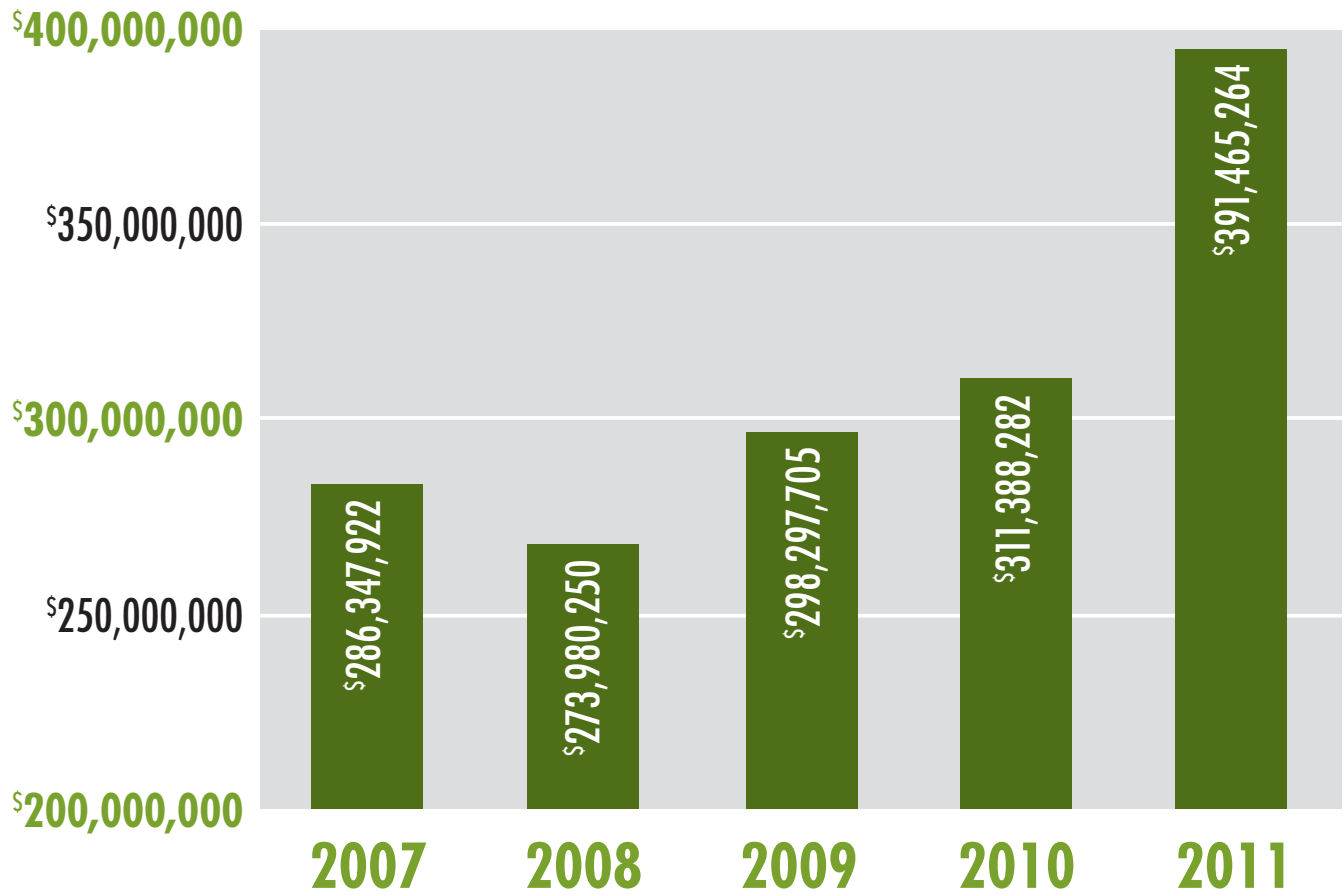
The Trust Fund is addressing these disparities and relying on the latest research findings in applying social marketing strategies. Preliminary evaluation results are promising. There is a correlation in the increased use of the Hawaii Tobacco Quitline as a result of adjustments that have been made. The ability to feed outcome results into the project and partnership activities requires a long-term commitment to maintaining the Tobacco Prevention and Control Trust Fund.

Hawaii is a healthy state thanks to the vision and commitment of lawmakers, constituents, and partner organizations, so our residents, especially, our keiki, can expect to live without the damaging health effects of tobacco use.

<http://www.hawaiitobaccocontrol.org/>

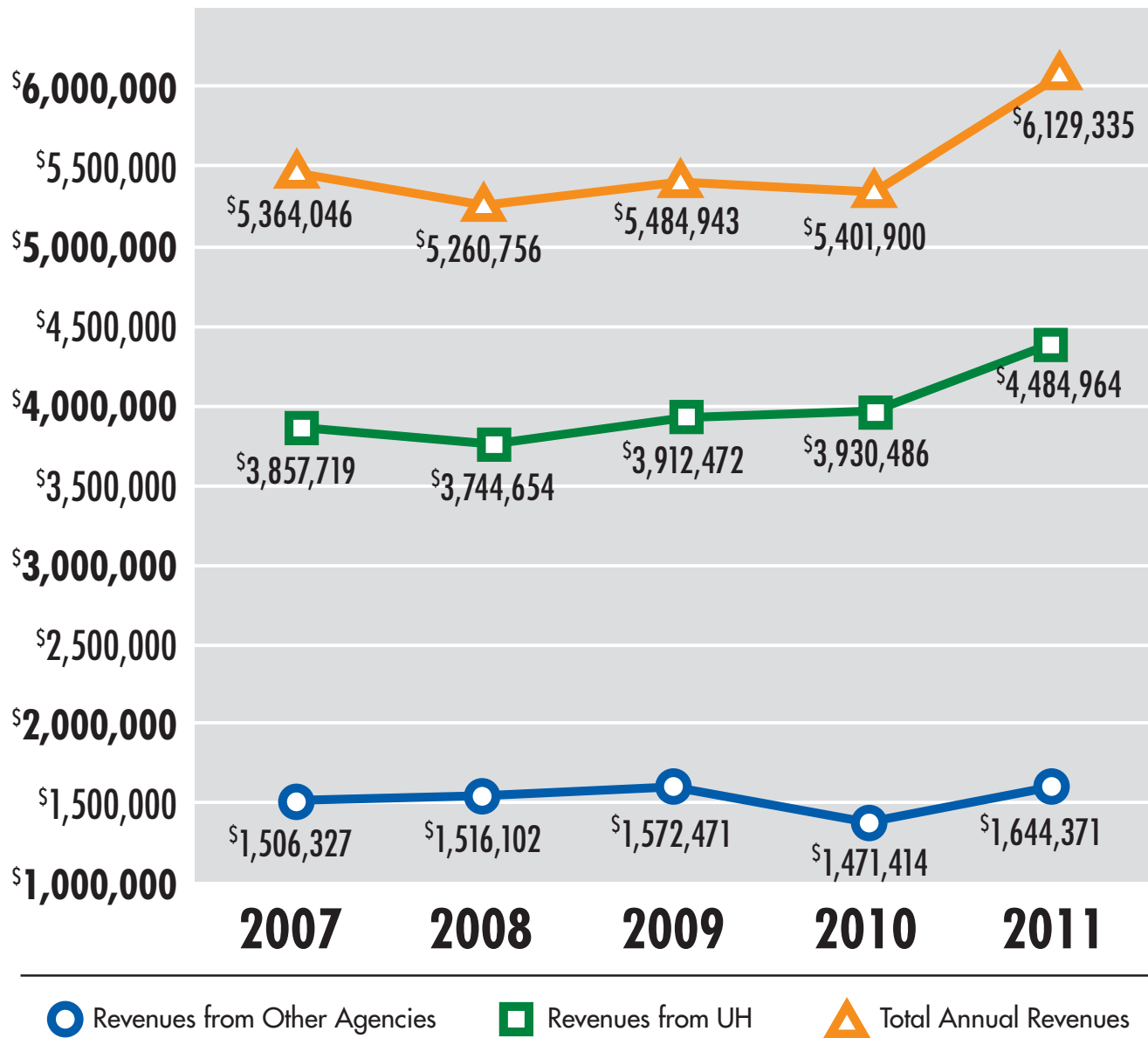
Statistical Data

Dollar Volume of Project Administration



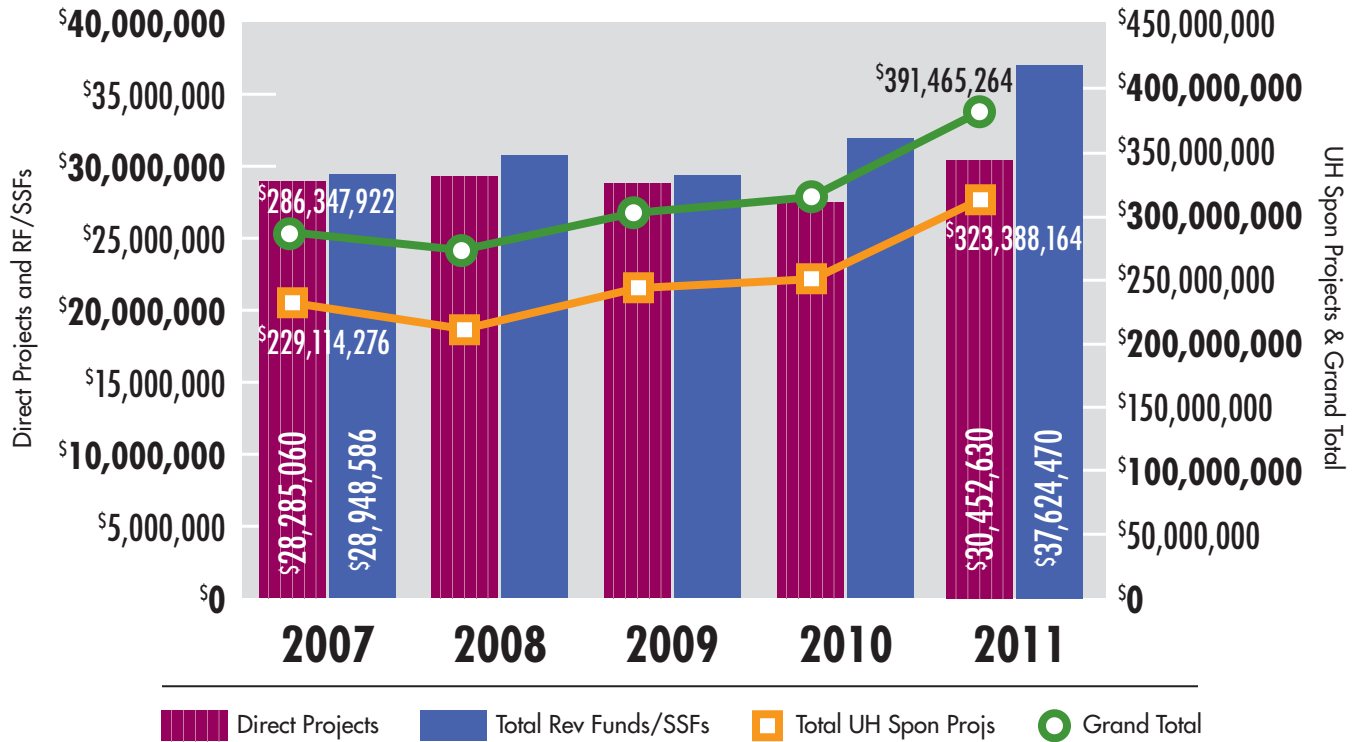
Statistical Data

Operating Revenues Summary

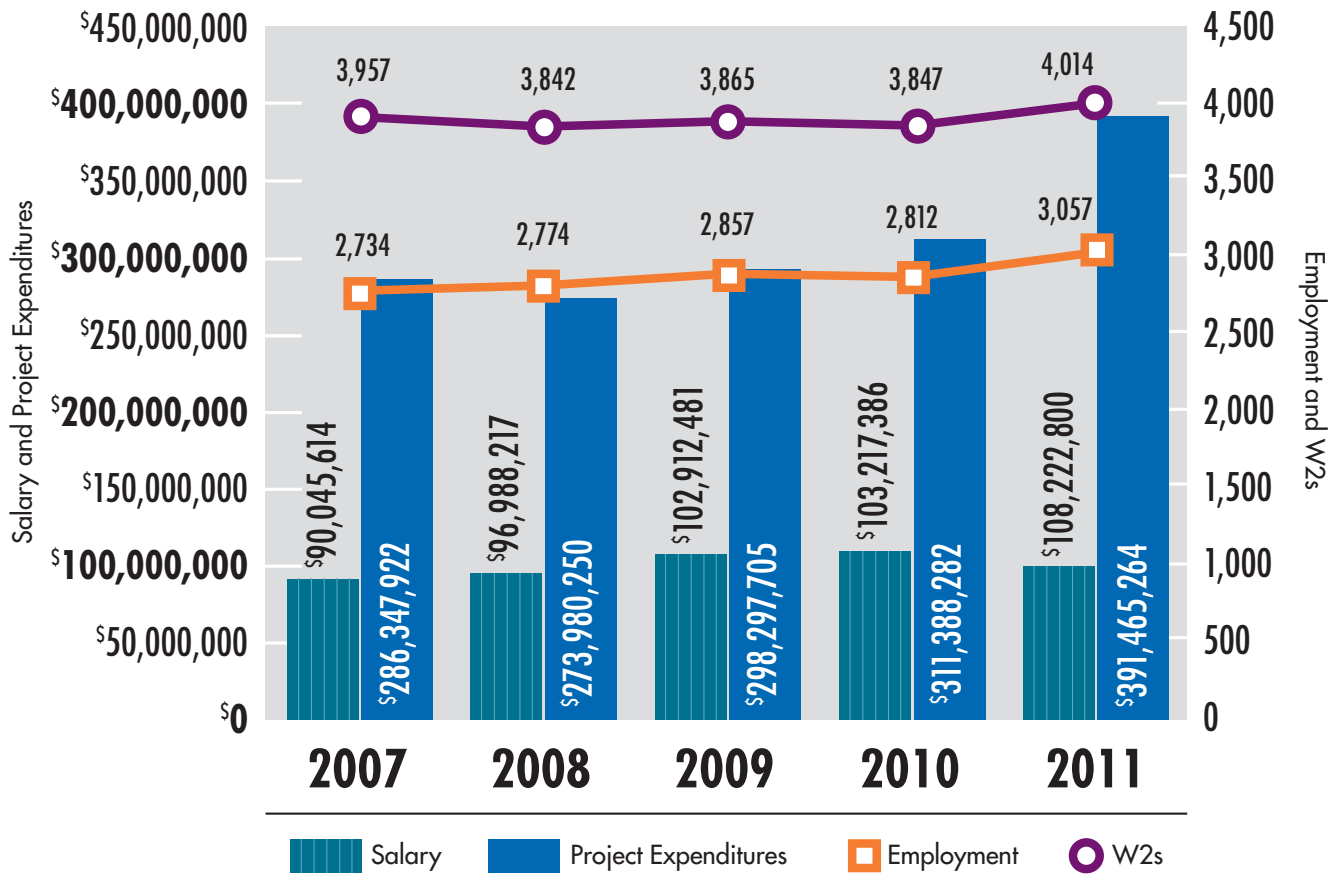


Statistical Data

Project Expenditures



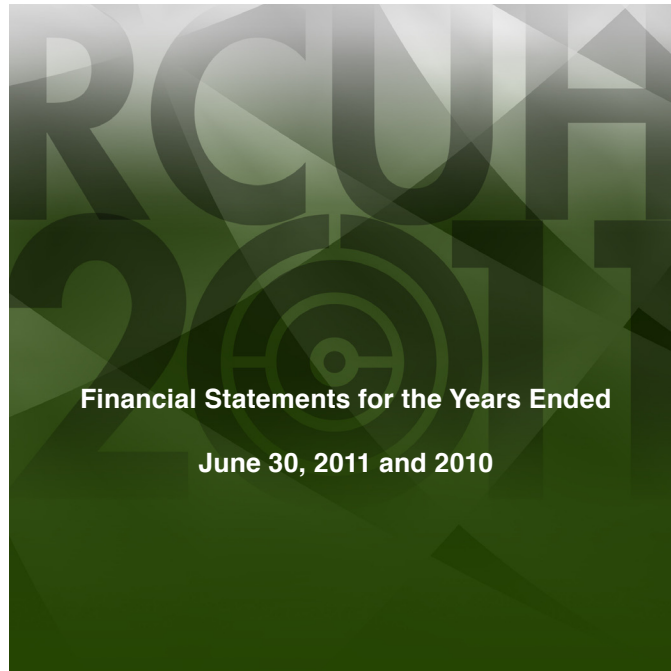
Statistical Data

Employment / W2s / Salaries / Project Expenditures

Statistical Data

Volume of Business by Sponsoring Agency

UNIVERSITY PROJECTS	2011	%	2010	%	2009	%	2008	%	2007	%
Federal										
Dept of Health & Human Services	41,855,658	10.69	38,481,602	12.36	36,434,473	12.21	34,153,561	12.47	34,283,944	11.97
Dept of Commerce	28,727,020	7.34	21,929,131	7.04	17,828,453	5.98	18,415,323	6.72	17,089,703	5.97
National Science Foundation	28,943,530	7.39	20,339,989	6.53	18,329,030	6.14	20,174,746	7.36	21,198,574	7.40
Dept of Agriculture	5,600,502	1.43	4,821,373	1.55	4,207,894	1.41	5,068,068	1.85	5,927,800	2.07
Dept of Interior	7,085,493	1.81	5,709,702	1.83	6,410,302	2.15	6,610,648	2.41	8,172,546	2.85
Dept of Energy	4,044,951	1.03	2,722,910	0.87	2,362,731	0.79	1,994,777	0.73	2,382,267	0.83
Dept of Defense	35,199,944	8.98	47,941,114	15.40	46,260,920	15.51	42,623,170	15.56	57,183,981	19.97
Dept of Education	18,098,012	4.62	18,466,414	5.93	15,020,082	5.04	12,520,850	4.57	13,519,384	4.72
Natl Aeronautics & Space Adminis	7,274,115	1.86	5,654,337	1.82	5,553,813	1.86	7,516,914	2.74	6,756,116	2.36
Dept of State	383,578	0.10	403,254	0.13	1,170,695	0.39	1,978,417	0.72	3,767,101	1.32
Dept of Labor	1,882,767	0.48	1,309,896	0.42	1,207,515	0.40	1,951,517	0.71	2,051,693	0.72
Other Miscellaneous Federal	14,351,898	3.67	10,047,431	3.23	6,498,044	2.18	3,315,801	1.21	4,193,930	1.46
UH FEDERAL PROJECTS	193,447,468	49.40	177,827,153	57.11	161,283,952	54.06	156,323,792	57.06	176,527,039	61.65
Non-Federal State & County Governments										
University of Hawaii:										
Sch of Ocean & Earth Sci and Technlgy	2,618,613	0.67	3,673,713	1.18	5,604,628	1.88	2,913,915	1.06	2,459,292	0.86
Institute for Astronomy	2,282,359	0.58	2,326,501	0.75	3,995,871	1.34	3,003,939	1.10	2,951,578	1.03
Ofc of Technlgy Transfer & Econ Dev	453,611	0.12	630,772	0.20	796,689	0.27	1,060,930	0.39	1,088,039	0.38
Cancer Research Center of Hawaii	35,363,985	9.03	6,753,907	2.17	2,595,077	0.87	1,826,892	0.67	1,668,812	0.58
School of Medicine	2,657,121	0.68	2,475,810	0.80	2,574,661	0.86	5,403,709	1.97	6,152,077	2.15
UH-Hilo	3,826,244	0.98	3,900,592	1.25	4,144,359	1.39	4,067,309	1.48	3,384,750	1.18
West Oahu	34,708,439	8.86	4,126,277	1.33	16,081,809	5.39	4,671,703	1.71	1,987,911	0.69
UH-Other	21,371,678	5.46	14,584,742	4.68	8,992,101	3.01	6,459,567	2.36	10,508,499	3.67
Dept of Health	2,889,621	0.74	5,077,543	1.63	5,373,156	1.80	7,410,754	2.70	6,561,666	2.29
Dept of Land & Natural Resources	3,234,322	0.83	5,210,141	1.67	5,567,939	1.87	5,220,077	1.91	4,213,730	1.47
Dept of Education	231,957	0.06	259,883	0.08	230,287	0.08	233,227	0.09	299,639	0.10
Dept of Defense		0.00	47,292	0.02	617,065	0.21	102,330	0.04	231,717	0.08
County Government	907,548	0.23	859,918	0.28	800,620	0.27	806,657	0.29	603,602	0.21
OTHER SPONSORS	19,395,198	4.95	22,706,584	7.29	21,423,960	7.18	14,937,765	5.45	10,475,927	3.66
UH NON-FEDERAL PROJECTS	129,940,696	33.19	72,633,675	23.33	78,798,222	26.42	58,118,774	21.21	52,587,239	18.36
TOTAL UH PROJECTS	323,388,164	82.59	250,460,828	80.44	240,082,174	80.48	214,442,566	78.27	229,114,278	80.01
DIRECT PROJECTS	2011	%	2010	%	2009	%	2008	%	2007	%
FEDERAL PROJECTS	4,046,976	1.03	3,810,816	1.22	4,538,938	1.73	4,999,559	1.82	7,203,921	2.52
Non-Federal State & County Governments										
Dept of Health	816,672	0.21	867,508	0.28	863,918	0.29	1,264,302	0.46	1,153,002	0.40
Dept of Land & Natural Resources	1,479,376	0.38	1,615,186	0.52	2,065,677	0.69	1,903,520	0.69	1,841,986	0.64
Dept of Education	76,935	0.02	193,054	0.06	191,173	0.06	17,941	0.01	111,817	0.04
County Government				0.00	783	0.00	4,578	0.00	18,340	0.01
Others:										
Joint Astronomy Centre	4,684,618	1.20	4,999,980	1.61	4,947,293	1.66	4,705,069	1.72	4,323,743	1.51
Academia Sinica Inst of Astronomy	2,211,427	0.56	2,008,857	0.65	1,824,166	0.61	1,668,948	0.61	2,069,149	0.72
Natl Astronomical Observ of Japan	5,023,577	1.28	5,004,651	1.61	5,313,418	1.78	5,250,271	1.92	5,516,458	1.93
PICHTR	5,825,286	1.49	4,559,692	1.46	3,804,747	1.28	2,888,535	1.05	1,636,929	0.57
Hawaii Community Foundation	3,749,482	0.96	3,284,627	1.05	2,444,542	0.82	2,880,236	1.05	1,078,672	0.38
Other Sponsors	1,535,591	0.39	1,041,357	0.33	2,382,674	0.80	2,870,413	1.05	3,331,042	1.16
NON-FEDERAL PROJECTS	26,405,654	6.75	23,574,912	7.57	23,838,391	7.99	23,453,813	8.56	21,081,138	7.36
TOTAL DIRECT PROJECTS	30,452,630	7.78	27,385,728	8.79	28,377,329	9.72	28,453,372	10.39	28,285,059	9.88
REVOLVING FUNDS	2011	%	2010	%	2009	%	2008	%	2007	%
<i>(Including Specialized Service Facilities (SSF's))</i>										
Specialized Service Fac/Ship Ops	13,573,525	3.47	12,137,819	3.90	9,627,413	3.23	12,572,209	4.59	9,004,842	3.14
Revolving Funds & Other SSFs	24,050,945	6.14	21,403,907	6.87	20,210,789	6.78	18,512,104	6.76	19,943,743	6.96
Total Revolving Funds & SSFs	37,624,470	9.61	33,541,726	10.77	29,838,202	10.01	31,084,313	11.35	28,948,585	10.11
TOTAL PROJECTS	391,465,264	100.00	311,388,282	100.00	298,297,705	100.00	273,980,251	100.00	286,347,922	100



Financial Statements and report of independent
certified public accountants

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

June 30, 2011 and 2010



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

Financial and Compliance Audit
June 30, 2011 and 2010

Quality

Integrity

Insight

The Research Corporation of the University of Hawai'i State of Hawai'i Index June 30, 2011 and 2010

	Page(s)
1. FINANCIAL	
Report of Independent Auditors	
Management's Discussion and Analysis (Unaudited)	3–8
Statements of Net Assets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows.....	11–12
Notes to Financial Statements.....	13–24
Required Supplementary Information Other Than Management's Discussion and Analysis	
Schedule of Funding Progress (Unaudited)	25
Supplementary Information	
Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards.....	27
2. INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
3. COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS	
Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	
Section I – Summary of Auditor's Results	32
Section II – Financial Statement Findings	33
Section III – Federal Award Findings and Questioned Costs.....	34

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, 2011 and 2010. 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 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 audit provides 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The Management's Discussion and Analysis ("MD&A") 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, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accounty LLP

Honolulu, Hawai'i
December 6, 2011

The Research Corporation of the University of Hawai'i State of Hawai'i Management's Discussion and Analysis (Unaudited) June 30, 2011 and 2010

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, 2011. It includes selected comparative information with the years ended June 30, 2010 and 2009. 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 2011, 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 26% increase from fiscal year 2010 to 2011, which followed a 4% increase from fiscal year 2009 to 2010.

Fiscal Year	Amount	Annual	
		Amount Increase (Decrease)	Percentage Increase (Decrease)
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%
2001	108,555,049	20,743,440	24%

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2011 and 2010**

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, 2011, 2010, and 2009 are summarized below:

	2011	2010	2009
Current assets			
Cash	\$ 12,510,070	\$ 17,092,392	\$ 8,735,557
Time certificates of deposit	7,999,519	6,997,325	6,979,322
Receivables	40,286,275	19,974,830	23,284,918
Other assets	122,822	143,195	152,414
Restricted cash	5,522,624	2,947,689	2,595,246
Total current assets	66,441,310	47,155,431	41,747,457
Noncurrent assets			
Investment	297,747	315,024	400,587
Capital assets	450,016	387,864	489,208
	747,763	702,888	889,795
Total assets	\$ 67,189,073	\$ 47,858,319	\$ 42,637,252
Current liabilities	\$ 55,157,071	\$ 36,447,201	\$ 31,814,178
Noncurrent liabilities	3,068,087	2,471,153	1,941,641
Total liabilities	58,225,158	38,918,354	33,755,819
Net assets			
Invested in capital assets	450,016	387,864	489,208
Unrestricted, as restated	8,513,899	8,552,101	8,392,225
Total net assets	8,963,915	8,939,965	8,881,433
Total liabilities and net assets	\$ 67,189,073	\$ 47,858,319	\$ 42,637,252

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, 2011 and 2010**

Assets

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. Conversely, cash increased from 2009 to 2010 due to an increase in project cost reimbursements for University extramural awards, which relates to the decrease in the net receivable from the University.

Receivables increased by 102% from 2010 to 2011 and decreased by 14% from 2009 to 2010. 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 \$33,857,658 at June 30, 2011, compared to \$14,588,753 at June 30, 2010 and \$18,158,910 at June 30, 2009.

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

Fixed asset acquisitions amounted to \$194,970 for 2011 compared to \$78,107 for 2010. Significant acquisitions were made in 2011 to develop software applications. Depreciation expense for 2011 and 2010 amounted to \$132,818 and \$176,493, respectively.

Liabilities

Current liabilities increased by 51% from 2010 to 2011 and by 15% from 2009 to 2010. 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 2010 to 2011 and by 27% from 2009 to 2010. 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, 2011 and 2010 were \$450,016 and \$387,864, 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, 2011 and 2010**

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, 2011, 2010, and 2009 are summarized as follows:

	2011	2010	2009
Operating revenues			
University of Hawai'i	\$ 4,484,964	\$ 3,930,486	\$ 3,912,472
Other sponsor agencies	1,644,371	1,471,414	1,572,471
Total operating revenues	<u>6,129,335</u>	<u>5,401,900</u>	<u>5,484,943</u>
Operating expenses			
Personnel costs	3,612,265	3,226,419	3,179,484
Data processing services	935,255	713,807	952,947
Retiree medical benefits	316,000	316,000	274,000
Office supplies and services	411,708	303,385	254,765
Insurance	275,510	296,001	341,833
Depreciation	132,818	176,493	158,780
Project Development	121,982	-	-
Other expenses	401,983	338,451	383,272
Total operating expenses	<u>6,207,521</u>	<u>5,370,556</u>	<u>5,545,081</u>
Operating income (loss)	<u>(78,186)</u>	<u>31,344</u>	<u>(60,138)</u>
Nonoperating revenues			
Interest income	119,413	112,752	173,159
Net investment expense	<u>(17,277)</u>	<u>(85,564)</u>	<u>(24,133)</u>
Increase in net assets	<u>23,950</u>	<u>58,532</u>	<u>88,888</u>
Net assets			
Beginning of year	<u>8,939,965</u>	<u>8,881,433</u>	<u>8,792,545</u>
Ending of year	<u>\$ 8,963,915</u>	<u>\$ 8,939,965</u>	<u>\$ 8,881,433</u>

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. Under the terms of the Internal Agreement, the management fee is based on a percentage of administrative operating expenses. The increase in operating revenues earned from other sponsoring agencies was an effect of the increase in volume of business.

In fiscal year 2010, operating revenues earned from the University increased slightly in comparison to fiscal year 2009. Operating revenues earned from other sponsoring agencies decreased as a result of a lower negotiated indirect cost rates assessed on direct and other projects. The indirect cost rate for direct projects decreased from 3.1% to 2.7% and other projects decreased from 2.9% to 2.4% in 2010.

Operating expenses increased significantly by 16% from 2010 to 2011 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.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2011 and 2010**

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

For fiscal year 2011, net assets increased by \$23,950. For fiscal year 2010, net assets increased by \$58,532.

Condensed Statement of Cash Flows

The Corporation's statement of cash flows for the fiscal years ended June 30, 2011, 2010, and 2009 are summarized as follows:

	2011	2010	2009
Operating activities			
Cash received from operations	\$ 5,386,102	\$ 8,104,678	\$ 6,843,460
Cash payments for operations	(5,426,572)	(4,676,948)	(4,998,338)
Project expenditures and reimbursements, net	<u>(889,166)</u>	<u>5,264,907</u>	<u>184,442</u>
Net cash provided by (used in) operating activities	<u>(929,636)</u>	<u>8,692,637</u>	<u>2,029,564</u>
Financing activities	<u>(194,970)</u>	<u>(78,107)</u>	<u>(260,429)</u>
Investing activities	<u>(882,781)</u>	<u>94,748</u>	<u>(2,838,355)</u>
Net cash provided by (used in) investing activities	<u>(882,781)</u>	<u>94,748</u>	<u>(2,838,355)</u>
Increase (decrease) in cash	<u>(2,007,387)</u>	<u>8,709,278</u>	<u>(1,069,220)</u>
Cash			
Beginning of year	<u>20,040,081</u>	<u>11,330,803</u>	<u>12,400,023</u>
Ending of year	<u>\$ 18,032,694</u>	<u>\$ 20,040,081</u>	<u>\$ 11,330,803</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 and 2009 was due to the purchase and reclassification of TCD's.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2011 and 2010**

Looking Forward

Although the economic recovery has slowed, the financial outlook for the Corporation remains positive. Management projects the volume of business to continue to increase in the coming year. The University has received approximately \$490 million in extramural research and training awards for the fiscal year 2011, an increase of 22% over 2010. As these awards are service ordered to the Corporation in accordance with the Internal Agreement, the Corporation will continue to have the opportunity to help diversify and strengthen Hawaii's economy by providing research support services to the University research community. For the Corporation to build organizational capacity and provide additional services, the budget for fiscal year 2012 was approved with a 9% increase in administrative operating expenses above fiscal year 2011 budget. Management strives to continue improving operational efficiency and maximizing its resources to ensure that the needs of the University research community and other clients are met.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Statements of Net Assets
June 30, 2011 and 2010**

	2011	2010
Assets		
Current assets		
Cash	\$ 12,510,070	\$ 17,092,392
Time certificates of deposit	7,999,519	6,997,325
Receivables		
University of Hawai'i, net	33,857,658	14,588,753
Other sponsoring agencies	6,428,617	5,386,077
Total receivables	<u>40,286,275</u>	<u>19,974,830</u>
Prepaid expenses	122,822	143,195
Restricted cash	5,522,624	2,947,689
Total current assets	<u>66,441,310</u>	<u>47,155,431</u>
Noncurrent assets		
Investment	297,747	315,024
Capital assets, net	450,016	387,864
Total noncurrent assets	<u>747,763</u>	<u>702,888</u>
Total assets	<u>\$ 67,189,073</u>	<u>\$ 47,858,319</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 34,866,802	\$ 18,502,748
Accrued salaries and other	13,263,566	13,304,150
Advances from other sponsoring agencies	5,767,883	3,186,193
Workers' compensation and unemployment claims reserve	1,111,820	1,327,110
Current portion of accrued supplemental retirement benefits	67,000	59,000
Current portion of accrued postemployment health care and life insurance benefits	80,000	68,000
Total current liabilities	<u>55,157,071</u>	<u>36,447,201</u>
Noncurrent liabilities		
Accrued supplemental retirement benefits	1,489,234	1,314,750
Postemployment health care and life insurance benefits	1,578,853	1,156,403
Total noncurrent liabilities	<u>3,068,087</u>	<u>2,471,153</u>
Total liabilities	<u>58,225,158</u>	<u>38,918,354</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	450,016	387,864
Unrestricted	8,513,899	8,552,101
Total net assets	<u>8,963,915</u>	<u>8,939,965</u>
Total liabilities and net assets	<u>\$ 67,189,073</u>	<u>\$ 47,858,319</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, 2011 and 2010**

	2011	2010
Operating revenues		
University of Hawai'i	\$ 4,484,964	\$ 3,930,486
Other sponsoring agencies	<u>1,644,371</u>	<u>1,471,414</u>
Total operating revenues	<u>6,129,335</u>	<u>5,401,900</u>
Operating expenses		
Personnel costs	3,612,265	3,226,419
Data processing services	935,255	713,807
Office supplies and services	411,708	303,385
Retiree medical benefits	316,000	316,000
Insurance	275,510	296,001
Depreciation	132,818	176,493
Project development	121,982	-
Office and equipment rental	92,788	88,005
Professional and technical support	84,718	66,575
Tuition support	65,350	64,140
Travel	56,737	38,639
Professional services	53,788	46,314
Other expenses	<u>48,602</u>	<u>34,778</u>
Total operating expenses	<u>6,207,521</u>	<u>5,370,556</u>
Operating income (loss)	<u>(78,186)</u>	<u>31,344</u>
Nonoperating revenues (expenses)		
Intergovernmental (Federal awards)		
Revenue	910,394	934,629
Expense	<u>(910,394)</u>	<u>(934,629)</u>
Interest income		
Cash and time certificates of deposit	119,413	112,752
Investment income (expense)		
Interest income	-	12,217
Investment expenses	<u>(17,277)</u>	<u>(16,528)</u>
Decrease in fair value of investments	<u>-</u>	<u>(81,253)</u>
Net nonoperating revenues	<u>102,136</u>	<u>27,188</u>
Increase in net assets	<u>23,950</u>	<u>58,532</u>
Net assets		
Beginning of year	<u>8,939,965</u>	<u>8,881,433</u>
End of year	<u>\$ 8,963,915</u>	<u>\$ 8,939,965</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, 2011 and 2010**

	2011	2010
Cash flows from operating activities		
Receipts for		
University of Hawai'i management fee	\$ 3,088,500	\$ 4,816,250
Other sponsoring agencies indirect cost recoveries	1,644,371	1,471,414
Refund for workers compensation insurance policy premium	653,231	1,817,015
Payments to vendors	<u>(1,874,175)</u>	<u>(1,433,133)</u>
Payments for employee compensation	<u>(3,552,397)</u>	<u>(3,243,816)</u>
Project expenditures and cost reimbursements, net	<u>(889,166)</u>	<u>5,264,907</u>
Net cash provided by (used in) operating activities	<u>(929,636)</u>	<u>8,692,637</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	<u>(194,970)</u>	<u>(78,107)</u>
Net cash used in capital and related financing activities	<u>(194,970)</u>	<u>(78,107)</u>
Cash flows from investing activities		
Purchase of investments	<u>(1,002,194)</u>	<u>(30,221)</u>
Interest income received on cash deposits and investment	<u>119,413</u>	<u>124,969</u>
Net cash provided by (used in) investing activities	<u>(882,781)</u>	<u>94,748</u>
Increase (decrease) in cash	<u>(2,007,387)</u>	<u>8,709,278</u>
Cash		
Beginning of year	<u>20,040,081</u>	<u>11,330,803</u>
End of year	<u>\$ 18,032,694</u>	<u>\$ 20,040,081</u>
Cash presented in the accompanying statement of net assets		
Cash	\$ 12,510,070	\$ 17,092,392
Restricted cash	<u>5,522,624</u>	<u>2,947,689</u>
	<u>\$ 18,032,694</u>	<u>\$ 20,040,081</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, 2011 and 2010**

	2011	2010
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ (78,186)	\$ 31,344
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	132,818	176,493
Loss on disposal of equipment	-	2,958
Change in assets and liabilities		
Receivables	(20,311,445)	3,310,088
Prepaid expenses	20,373	9,219
Accounts payable and accrued wages	16,323,470	4,249,140
Advances from other sponsors	2,581,690	352,443
Workers' compensation and unemployment claims reserve	(215,290)	16,440
Accrued supplemental retirement benefits	182,484	125,280
Postemployment health care and life insurance benefits	434,450	419,232
Net cash provided by (used in) operating activities	<u>\$ (929,636)</u>	<u>\$ 8,692,637</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, 2011 and 2010**

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, 2011 or 2010.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

Time Certificates of Deposit

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

Restricted Cash

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

Investment

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

Capital Assets

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

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

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

Retirement Plan

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

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, 2011 and 2010 aggregated \$5,606,514 and \$5,463,435, 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.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

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, 2011 or 2010.

Risk Management

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

Use of Estimates

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

Risks and Uncertainties

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

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on operating results as previously reported.

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 and 2010, funds invested with HSDC amounted to \$297,747 and \$315,024, respectively.

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

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, 2011 and 2010 as follows:

	2011	2010
Uninsured and collateral held by trust department or agent not in the Corporation's name	<u>\$ 297,747</u>	<u>\$ 315,024</u>

3. Receivables and Advances

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

The net receivable balance from the University was comprised of the following at June 30, 2011 and 2010:

	2011	2010
Extramurally sponsored accounts	\$ 32,393,213	\$ 28,564,003
Internally funded accounts	4,059,608	(5,793,361)
Revolving accounts	(8,673,820)	(8,964,057)
Miscellaneous agency accounts	6,100,921	1,939,525
Management fee	562,736	(572,357)
Advance	<u>(585,000)</u>	<u>(585,000)</u>
	<u>\$ 33,857,658</u>	<u>\$ 14,588,753</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$5,767,883 and \$3,186,193 at June 30, 2011 and 2010, respectively. Cash relating to a portion of the advances, amounting to \$5,522,624 and \$2,947,689 at June 30, 2011 and 2010, respectively, is restricted by the sponsors.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

4. Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 were as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
2011				
Office equipment	\$ 596,168	\$ 7,931	\$ -	\$ 604,099
Computer software	<u>2,873,682</u>	<u>187,039</u>	<u>-</u>	<u>3,060,721</u>
	<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	<u>2,576,873</u>	<u>100,541</u>	<u>-</u>	<u>2,677,414</u>
	<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>
2010				
Office equipment	\$ 562,464	\$ 45,536	\$ (11,832)	\$ 596,168
Computer software	<u>2,841,111</u>	<u>32,571</u>	<u>-</u>	<u>2,873,682</u>
	<u>3,403,575</u>	<u>78,107</u>	<u>(11,832)</u>	<u>3,469,850</u>
Less: Accumulated depreciation				
Office equipment	482,941	31,046	(8,874)	505,113
Computer software	<u>2,431,426</u>	<u>145,447</u>	<u>-</u>	<u>2,576,873</u>
	<u>2,914,367</u>	<u>176,493</u>	<u>(8,874)</u>	<u>3,081,986</u>
	<u>\$ 489,208</u>	<u>\$ (98,386)</u>	<u>\$ (2,958)</u>	<u>\$ 387,864</u>

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, 2012. 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, 2011 and June 30, 2010. At June 30, 2011 and 2010, 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
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

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 2011 and 2010, the amount of the designation was increased by \$2,195 and \$18,003, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted net assets at June 30, 2011 and 2010 were comprised of the following:

	2011	2010
Designated		
Working capital	\$ 7,513,984	\$ 7,554,136
Project contingent liabilities	999,519	997,324
Undesignated	396	641
	<u>\$ 8,513,899</u>	<u>\$ 8,552,101</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, 2011 and 2010 amounted to \$4,223,593 and \$3,667,999, respectively, for extramurally sponsored projects and \$261,371 and \$262,487, respectively, for internally funded projects.

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

8. Pension Information

The Corporation participates with other institutions in the Teachers Insurance and Annuity Association and College Retirement Equities Fund, a noncontributory defined contribution retirement plan which covers substantially all qualified employees. Employees are eligible to participate in this plan upon completion of one year of service. Required contributions by the Corporation to the retirement plan are based on 10% of the gross salary of each employee. All contributions are fully vested and non-forfeitable when made. While it is expected that this retirement plan will continue indefinitely, the Board of Directors of the Corporation reserves the right to modify or discontinue the plan at any time. Total contributions to the retirement plan for the years ended June 30, 2011 and 2010 were \$244,360 and \$238,106, respectively.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

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, 2011 and 2010, the Corporation's accrued supplemental retirement benefits were \$1,556,234 and \$1,373,750, 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, 2011 and 2010 were \$84,366 and \$36,773, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the years ended June 30, 2011 and 2010:

	2011	2010
Beginning balance	\$ 1,373,750	\$ 1,248,470
Additions	266,850	162,053
Deductions	<u>(84,366)</u>	<u>(36,773)</u>
Ending balance	1,556,234	1,373,750
Less: Current portion of accrued supplemental retirement benefits	<u>(67,000)</u>	<u>(59,000)</u>
Noncurrent portion of accrued supplemental retirement benefits	<u>\$ 1,489,234</u>	<u>\$ 1,314,750</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, 2011 and 2010 aggregated to \$30,550 and \$28,768, respectively.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

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:

	2011	2010
Annual required contribution	\$ 485,000	\$ 459,000
Interest on net OPEB obligation	56,000	38,000
Adjustment to annual required contribution	(76,000)	(49,000)
Annual OPEB cost	465,000	448,000
Contributions made	(30,550)	(28,768)
Increase in net OPEB obligation	434,450	419,232
Net OPEB obligation – beginning of year	1,224,403	805,171
Net OPEB obligation – end of year	1,658,853	1,224,403
Less: Current portion of OPEB obligation – end of year	(80,000)	(68,000)
Noncurrent portion of postemployment health care and life insurance benefits	\$ 1,578,853	\$ 1,156,403

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010, and 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 465,000	6.6%	\$ 1,658,853
June 30, 2010	\$ 448,000	6.4%	\$ 1,224,403
June 30, 2009	\$ 422,000	6.2%	\$ 805,171

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.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

In the July 1, 2010 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, 2011 was 16 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
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

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, 2011 and 2010 were as follows:

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

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net assets amounted to approximately \$277,165,000 and \$104,563,000 at June 30, 2011 and 2010, 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, 2011 and 2010 were \$92,788 and \$88,005, respectively, which includes \$64,459 and \$60,066, respectively, of office rental expense under the operating leases for the years ended June 30, 2011 and 2010.

At June 30, 2011, the future minimum lease payments for equipment under noncancelable operating leases are as follows:

Years ending June 30	Lease Amount
2012	\$ 12,630
2013	4,200
	<u>\$ 16,830</u>

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

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 \$50,000 per occurrence for terrorism.

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, 2011 and 2010, the workers' compensation reserve amounted to \$511,290 and \$598,532, respectively, and is reported as a current liability in the accompanying statements of net assets. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Notes to Financial Statements
June 30, 2011 and 2010**

The following is a summary of changes in the workers' compensation reserve for the years ended June 30, 2011 and 2010.

	2011	2010
Beginning balance	\$ 598,532	\$ 668,917
Additional claims	-	-
Payments on claims	(80,679)	(60,158)
Other (interest credits, etc.)	(6,563)	(10,227)
Ending balance	<u>\$ 511,290</u>	<u>\$ 598,532</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, 2011 and 2010, the unemployment reserve amounted to \$600,530 and \$728,578, respectively, and is reported as a current liability in the accompanying statements of net assets.

13. Commitments

At June 30, 2011, the Corporation had the following outstanding contract commitments through May 31, 2013, related to computer software and hardware maintenance:

Years ending June 30	
2012	\$ 147,627
2013	<u>135,325</u>
	<u>\$ 282,952</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, 2011

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, 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%
July 1, 2008	\$ -	\$ 3,538,000	\$ 3,538,000	0%	\$82,700,000	4.3%

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, 2011**

	CFDA No.	Award Number	Federal Expenditures
U.S. Department of the Interior			
Office of Insular Affairs			
Secretariat for the All Island Coral Reef Committee	15.875	CRI-RCUH-2008-6	\$ 22,615
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	43.000	1379504	10,542
U.S. Department of Health and Human Services			
Health Resources and Service Administration			
Regional Collaborative Pacific Basin	93.224	U1BOA08583-03-00	191,057
Executive Office of the President			
Office of National Drug Control Policy			
Hawai‘i High Intensity Drug Trafficking Areas – FY08	95.001	I8PHIP506Z	454,112
Hawai‘i High Intensity Drug Trafficking Areas – FY09	95.001	G09HI0006A	196,718
Hawai‘i High Intensity Drug Trafficking Areas – FY10	95.001	G10HI0006A	35,350
			<u>686,180</u>
			<u>\$ 910,394</u>

**The Research Corporation of the University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011**

1. Basis of Presentation

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

2. Subrecipients

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

Program Title	CFDA No.	Amount
Regional Collaborative Pacific Basin	93.224	\$ 6,755

SECTION 2

INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS



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

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

We have audited the financial statements of the Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 6, 2011. 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting 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.

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

Compliance and Other Matters

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

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

Accuity LLP

Honolulu, Hawai'i
December 6, 2011

SECTION 3

COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS



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

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

Compliance

We have audited the 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, 2011. 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, 2011. 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.

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

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 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
December 6, 2011

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of Major Programs

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

**The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

Section II – Financial Statement Findings

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

The Research Corporation of the University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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.