

# **Board of Directors Meeting**

**Tuesday, December 14, 2021  
Virtual meeting  
9:00 a.m.**

Meeting  
BOARD OF DIRECTORS  
The Research Corporation of the University of Hawaii  
Tuesday, December 14, 2021  
Virtual meeting  
9:00 a.m.

AGENDA

Public Testimony on Agenda Items

*Due to the COVID-19 pandemic, this will be a virtual meeting. Written/oral testimony will be accepted in lieu of in-person testimony and may be submitted via email to [rcuhed@rcuh.com](mailto:rcuhed@rcuh.com), U.S. mail, or facsimile at (808) 988-8319 up to 24 hours in advance of the meeting. Individuals wishing to provide oral testimony for the virtual meeting must register via email to [rcuhed@rcuh.com](mailto:rcuhed@rcuh.com) no later than 7:00 a.m. on the day of the meeting to be accommodated. Oral testimony will be limited to three (3) minutes per testifier. See the RCUH website for information on accessing the livestream: <https://www.rcuh.com/about/board-of-directors/>*

1. Call to Order
2. Public Comment Period (if applicable)
3. Approval of Minutes of the November 15, 2021 meeting
4. Financial Statement for November 2021
5. Report of Audit Committee
  - a. Audited Report for FY Ending June 30, 2021
  - b. Ratification of Audit Committee's Acceptance of the FY 2021 Financial Audit
6. Executive Director's Report
7. 2022-2026 Strategic Plan Review and Ratification
8. Adjournment

c: Office of the Lieutenant Governor

*Individuals who require special needs accommodations may request assistance in writing to [rcuhed@rcuh.com](mailto:rcuhed@rcuh.com) or (808) 988-8311 three (3) business days prior to the scheduled meeting.*



**DRAFT** Minutes  
BOARD OF DIRECTORS  
The Research Corporation of the University of Hawai'i  
November 15, 2021  
Virtual Meeting

**PRESENT:**

Eugene Bal, Kelli Goodin, David Karl, Michael Maberry, Diane Paloma, Joseph Pickard, Vassilis Syrmos. Excused: Ken Hayashida.

RCUH Staff: Leonard Gouveia, Nelson Sakamoto, Glenn Yee, Kaylee Hull  
Attorney General's Office: Reese Nakamura  
Strategic Planner: Peter Adler

**CALL TO ORDER:**

The meeting was called to order by Chair Bal at 1:03 p.m.

**PUBLIC COMMENT PERIOD (IF APPLICABLE)**

No written or oral testimony was received.

**APPROVAL OF MINUTES OF THE OCTOBER 25, 2021 MEETING**

Upon motion made (Maberry), seconded (Goodin), and duly carried, the minutes of the October 25, 2021 meeting was approved as circulated.

**STRATEGIC PLAN DISCUSSION**

Mr. Adler started the discussion by reinforcing the importance of having a strategic plan, and reminded the board of directors that the purpose of today's meeting is to receive their counsel and guidance on the proposed goals and objectives. Once RCUH receives feedback from the board of directors, staff will take into account their ideas, criticisms, and viewpoints and propose a firmer plan for approval.

Before moving onto the proposed goals and objectives, Mr. Adler recommended that the board take a look at the existing plan, which he frequently uses as a model to other non-profits and businesses. He quickly reviewed the format of the current plan and inquired whether the board would like to change the format moving forward. Several board members commented that they were pleased with the existing format and felt it was effective with measurable metrics. Executive Director Gouveia proposed that the format remain the same, but suggested adding a comment section at the end of each objective for more efficient tracking and record-keeping.

As the discussion proceeded to the new plan, ED Gouveia shared that there are three key points to keep in mind before getting into the details:

- 1) RCUH is committed to working more closely with UH in the future in all aspects of the relationship;
- 2) The development of most objectives and benchmarks will be dictated by the 10% cap and the outcome of the UH Management Fee Task Force Committee; and
- 3) Keep it simple. ED Gouveia believes that RCUH should focus on getting back to the basics and refine what is already in place. This includes making necessary and appropriate changes to RCUH's policies and procedures, as well as the services that are provided to UH, with UH's input.

ED Gouveia expressed that he wants to ensure that RCUH is providing services that UH needs, not what we think they want. He also reiterated the importance of having everyone at the table for these discussions. Director Syrmos shared that he liked that the proposed goals and objectives tie into the strategic plan. He noted that UH does not control RCUH's operating budget or the percentage of these expenditures of the University as a whole of the RCUH. Director Syrmos suggested that to keep RCUH within the 10% cap, the corporation could keep the operating budget constant or find other stakeholders besides the University, such as other state agencies. He added that UH comprises more than 90% of RCUH's business, and therefore pays 90% of this management fee; however, it is not a good business decision to have one main client.

Director Karl inquired whether a goal which has been deemed satisfied/completed, should still be considered a goal in the future. Mr. Adler suggested that the board consider some of the carryover goals, since the 10% cap on the management fee may change some of the objectives. Director Syrmos noted that he liked that these goals were dynamic; using the example that providing good service is something that has to constantly be worked on and can always be improved. Mr. Adler then transitioned the discussion to review the proposed goals.

Goal #1: Evaluate and implement recommendations from the RCUH Task Force.

Director Syrmos had suggested adding a bullet point that references "increasing services provided to other entities outside of UH," but Director Paloma recognized that it could fall under Goal #5 "Expand services to non-UH research, development, and training projects." ED Gouveia concurred with her comment and noted that RCUH must follow different rules when providing services to UH versus other state agencies.

In regards to the objective of updating the UH/RCUH Internal Agreement, Director Goodin asked whether the act of updating the document is in RCUH's control or if it has to be negotiated. ED Gouveia responded that both RCUH and the UH president sign off on that agreement and that negotiations will likely begin shortly. He explained that the agreement dictates how RCUH gets paid and that it has been renegotiated many times over the years. ED Gouveia also recognized that the 10% cap conflicts with the current agreement.

Director Syrmos clarified that the 10% cap is on the Research Training and Revolving Fund (RTRF) and does not apply to other fund options, such as General Funds or Tuition and Fees Special Funds (TFSF). He suggested that since RCUH handles a large amount of TFSF projects for the University, that fund could be a viable option to help pay for the management fee. ED Gouveia stated that the Task Force has touched upon that issue, but hasn't had an in-depth discussion on the topic yet.

Director Karl asked whether the Task Force Report will be a public document and Director Syrmos affirmed that was correct. Director Syrmos disclosed that the report has been shared with President Lassner and Chair Bal, who is head of the Research and Innovation Committee for the UH Board of Regents. The report is expected to be shared with both the UH Board of Regents as well as the RCUH Board of Directors in early 2022. Director Karl explained that he wanted to ensure the Task Force Report is a public document since it will be referenced in RCUH's strategic plan.

Goal #2: Redefine and clarify RCUH's identity and services to stakeholders.

Director Karl inquired whether there are misconceptions for RCUH to dispel. ED Gouveia declared that there are misconceptions about RCUH from many stakeholders, not just one in particular. He emphasized that RCUH was created to serve the University of Hawai'i, which is why UH is RCUH's main client. ED Gouveia exclaimed that further discussions are needed with RCUH, UH, and legislators to evaluate the statute and determine expectations for all parties. Mr. Adler also recalled that prior to Lenny's hiring, he facilitated a meeting with former ED Sylvia Yuen, Principal Investigators (PIs), and project staff and noted that a lot of researchers had misunderstood RCUH's mission and services. He suggested that the last bullet be re-worded for clarity.

Director Syrmos stated that RCUH only has exemptions for procurement and civil service for research-related purposes, but believes that its use has expanded outside of research at the University. He recognized that ED Gouveia has been doing an outstanding job in attempting to articulate what RCUH can do versus what UH can do and the responsibilities for each entity. Director Syrmos added that while he may question a few of the requests RCUH has processed for PIs in the past, ED Gouveia is developing a good process and that UH also needs to educate its faculty members and staff.

Goal #3: Reform RCUH's internal operations to improve client services.

Director Goodin suggested that the last two bullets may overlap, but recognized that the last bullet is focused on IT. Mr. Adler mentioned that it seems like IT will be a continued challenge that will carry over to this new strategic plan. ED Gouveia explained that the replacement of the AS400 for the financial system was put on hold due to the pandemic, but it is currently being evaluated by UH to determine whether the proposed replacement will be cost-effective and useful to both parties. There is also uncertainty on how to pay for the replacement, which is estimated to cost \$1.5 million. RCUH has recently made a concerted effort to invest in its IT infrastructure, which was previously overlooked for many years. Mr. Sakamoto confirmed that the AS400 is more than 30 years old.

Goal #4: Improve client relations through increased engagement.

Mr. Adler acknowledged that some of these objectives blur into each other, which is normal. ED Gouveia explained that this goal ties into the misconceptions individuals have about RCUH, and that these objectives apply to both the University of Hawai'i, as well as state agencies.

Director Paloma inquired how she and Chair Bal can support RCUH in their role as Regents, and how the board as a whole can help RCUH in communicating the desired message. ED Gouveia stated that the presentation at the previous board meeting was intended to provide background information so that the board has a better understanding of RCUH's operations. While some updates need to be made to the presentation, it should help clear most misconceptions of RCUH and can help the board ensure that RCUH is following its intended purpose.

Director Karl felt that Objective #2 is inherent in the state mandate, so he's unsure of what benchmarks would fall under that objective. Mr. Adler suggested that the objective could be removed if the intention is implicit. ED Gouveia stated that the objective ties into the misconceptions of RCUH, specifically RCUH's role in construction. Mr. Adler asked if there are other areas besides construction that the objective could apply to and ED Gouveia mentioned revolving accounts, which he plans to address with Velma Kameoka (Interim Vice Provost for Research).

Goal #5: Expand services to non-UH research, development, and training projects.

Director Karl asked how the cost would be determined if a not-for-profit requested RCUH's services. Mr. Yee explained that RCUH would charge a 5% indirect cost rate; the negotiating federal indirect rate is 3.1%. RCUH uses the federal indirect rate for any state direct projects, but the rate is slightly higher for not-for-profits using private monies. He added that the rate can be revisited.

Director Karl inquired whether they would run a contract/grant through RCUH rather than requesting specific services. Mr. Yee responded that RCUH sometimes receives requests, but each request is reviewed, including the source of funds. RCUH conducts a more intensive review for state funds to ensure there is no violation of union rules. ED Gouveia added that there are parameters to accepting service orders from direct projects. Director Karl thanked them for their explanation, but commented that it seems like it would be a lot of work for a small percentage of business. He suggested that RCUH would need another large client like UH in order to share the cost of services. ED Gouveia agreed and stated that opportunities are limited and RCUH needs to be wise with how much effort is put into this initiative.

On the other hand, ED Gouveia acknowledged that it would be beneficial to conduct more outreach as RCUH has recently received a higher number of direct project requests and nearly half of the requests have been rejected or needed to be re-routed through different processes.

During the final comments, Director Karl remarked that RCUH should consider having the same number of objectives per goal, but noted it was a minor suggestion. Mr. Adler agreed that there should be a cap on the number of objectives, but recognized that it may be difficult to make it consistent since each goal carries different weight.

In closing, Mr. Adler reconfirmed that the goals and objectives will be cleaned up and reformatted to the existing template in preparation for the next board meeting for ratification. ED Gouveia added that he feels RCUH is going in the right direction and that the Task Force has helped tremendously. Mr. Adler turned the meeting back to Chair Bal, who wanted to share some closing remarks.

Chair Bal recalled that the original strategic plan was created in response to the State Audit, which set guideposts to help structure the strategic plan five years ago. Today, there is a similar correlation in the sense that RCUH is responding to the Task Force. He also recognized that the expenditure of funds that resulted from that strategic plan were largely driven from an inattention to modernization. Lastly, Chair Bal noted that five years ago there were no restrictions on what could or could not be considered for the plan. He shared that he does not want to limit the board or RCUH staff and encouraged them to share their thoughts if they believe something important is missing from the current proposal. Chair Bal reinforced that he likes the structure of the strategic plan and believes the salient points are being addressed. Mr. Adler informed the board that he will work with ED Gouveia and his staff to refine the proposed plan and encouraged the directors to submit any suggested changes as soon as possible.

Director Paloma stated that as a relatively new member of the board, it seems that RCUH is going through an identity crisis. She feels that this is a prime opportunity to solidify the identity and parameters of what RCUH can and cannot do, before taking it on a “roadshow” to inform others. Director Paloma expressed that it seems like others have defined that identity for RCUH in the past, but this strategic plan is an opportunity to avoid future misconceptions, which have taken time away from daily operations. She believes this is an opportune time to not only affirm the RCUH identity, but also capitalize on communicating that identity so that stakeholders, including the board of directors, have an easier time articulating that message within the community. ED Gouveia affirmed that Director Paloma had a good read of the current situation. He also noted for the record that prior to the Task Force established by the legislature, Director Syrmos had already convened a committee to evaluate the issues.

Director Karl thanked the staff for their effort, and inquired whether a formal SWOT analysis would be appropriate for this document. Mr. Adler recognized that a SWOT analysis can be used to amplify strengths and minimize weaknesses, and stated that RCUH has a good plan so staff may not need to do too much, however a quick effort may be worth it. He also claimed that the SWOT can be accomplished over the next few years and the plan can be refined over time. ED Gouveia agreed that Director Karl had a good suggestion, and shared that he has been considering doing an internal audit, primarily to focus on compliance. Director Syrmos concurred with Director Karl and emphasized that outliers are endangering the larger objective and mission of RCUH and UH. He acknowledged that RCUH is there to facilitate the research enterprise of the University, and appreciates that ED Gouveia has begun to implement conditions on what RCUH can and cannot do, given that the statute is so broad. Director Syrmos noted that RCUH needs to use that freedom wisely.

## **ADJOURNMENT**

The meeting adjourned at 2:20 p.m.

Kaylee Hull  
Executive Administrator

NOTE: Unless otherwise noted in minutes, all motions were passed unanimously.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
BALANCE SHEETS  
NOVEMBER 30, 2021 and 2020**

<b>ASSETS</b>	<b><u>2021</u></b>	<b><u>2020</u></b>
CASH AND CASH EQUIVALENTS	\$ 21,734,128	\$ 8,912,075
RESTRICTED CASH (RETIREE MEDICAL AND LIFE INSURANCE)	1,700,000	1,700,000
TIME CERTIFICATES OF DEPOSIT	13,026,329	9,774,718
SHORT TERM INVESTMENT	2,988,246	3,000,000
RECEIVABLES	-	-
PREPAID EXPENSES	<u>160,348</u>	<u>119,367</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>39,609,051</u></b>	<b><u>23,506,160</u></b>
FIXED ASSETS (Less accumulated depreciation of \$7,221,119 and \$6,343,060 for FY 2022 and FY 2021, respectively)	<u>2,522,436</u>	<u>3,077,961</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 42,131,487</u></b>	<b><u>\$ 26,584,121</u></b>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>LIABILITIES:</b>		
ACCOUNTS PAYABLE	\$ 184,465	\$ 244,730
ACCRUED EXPENSES AND PAYROLL TAXES WITHHELD	2,707,859	2,519,262
ADVANCES		
UNIVERSITY OF HAWAII, NET	15,200,268	4,469,079
OTHER SPONSORING AGENCIES, NET	5,293,310	1,457,348
WORKER'S COMPENSATION RESERVE	2,779,667	2,856,177
UNEMPLOYMENT RESERVE	1,502,078	894,124
VACATION PAY OUT RESERVE	<u>412,108</u>	<u>490,649</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>28,079,755</u></b>	<b><u>12,931,369</u></b>
ACCRUED SUPPLEMENTAL RETIREMENT BENEFITS	1,875,469	1,595,596
RETIREE MEDICAL AND LIFE INSURANCE BENEFITS	<u>2,587,046</u>	<u>2,612,330</u>
<b>TOTAL LIABILITIES</b>	<b><u>32,542,270</u></b>	<b><u>17,139,295</u></b>
<b>RETAINED EARNINGS:</b>		
INVESTED IN CAPITAL ASSETS	2,522,436	3,077,961
DESIGNATED FOR:		
WORKING CAPITAL	5,990,452	5,292,147
PROJECT CONTINGENT LIABILITIES RESERVE	<u>1,076,329</u>	<u>1,074,718</u>
<b>TOTAL RETAINED EARNINGS</b>	<b><u>9,589,217</u></b>	<b><u>9,444,826</u></b>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<b><u>\$ 42,131,487</u></b>	<b><u>\$ 26,584,121</u></b>

NOTES:

- 1) This balance sheet does not include accruals for liabilities related to project expenditures.
- 2) Outstanding purchase orders totaled \$57,765,791 and \$53,016,352 at November 30, 2021 and 2020, respectively.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE PERIOD ENDED NOVEMBER 30, 2021 and 2020**

	FYE 6/30/22 BUDGET	YTD ACTUAL	% OF BUDGET	YTD LAST YEAR
<b>REVENUES:</b>				
UNIVERSITY OF HAWAII	\$ 7,058,000	\$ 2,631,023	37.3%	\$ 2,717,798
OTHER SPONSORING AGENCIES	596,725	369,764	62.0%	229,675
INTEREST AND OTHER INCOME	176,440	52,350	29.7%	93,764
<b>TOTAL OPERATING REVENUES</b>	<b>7,831,165</b>	<b>3,053,137</b>	<b>39.0%</b>	<b>3,041,237</b>
<b>OPERATING EXPENSES:</b>				
SALARIES & WAGES	3,744,739	1,278,557	34.1%	1,412,749
FRINGE BENEFITS	999,623	324,488	32.5%	350,335
INFO TECH SERVICES	452,051	136,998	30.3%	187,495
HUMAN RES./PAYROLL SYSTEM	629,323	247,761	39.4%	203,994
SUPPLIES	96,200	19,838	20.6%	18,751
TRAVEL	8,500	-	0.0%	-
CPA SERVICES	47,120	47,120	100.0%	47,120
UTILITIES	20,880	6,171	29.6%	5,343
RENTAL - SPACE/EQUIP/OTHER	322,500	121,224	37.6%	125,470
REPAIRS & MAINTENANCE	500	-	0.0%	-
BANK FEES	24,000	9,478	39.5%	9,426
TRANSPORTATION	500	-	0.0%	-
BOARD OF DIRECTORS MEETINGS	7,000	-	0.0%	8
INSURANCE	493,420	222,636	45.1%	198,440
PROFESSIONAL/TECHNICAL SUPPORT	179,272	76,928	42.9%	37,413
DISCRETIONARY FUND	10,000	-	0.0%	1,112
STAFF DEVELOPMENT	5,350	7,348	137.3%	718
TRAINING MATERIAL DEVELOPMENT	80,000	45,213	56.5%	5,372
RETIREE MEDICAL AND LIFE INS BENEFITS	-	-	0.0%	-
TUITION SUPPORT	37,500	10,538	28.1%	12,306
UH RESEARCH AWARDS	16,500	-	0.0%	-
OTHER	106,600	34,095	32.0%	44,257
DEPRECIATION EXPENSE	855,000	356,250	41.7%	351,500
PROJ OVERRUNS & DISALLOWANCE	-	-	0.0%	189
<b>TOTAL OPERATING EXPENSES</b>	<b>8,136,578</b>	<b>2,944,643</b>	<b>36.2%</b>	<b>3,011,998</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (305,413)</b>	<b>\$ 108,494</b>		<b>\$ 29,239</b>
<b>INVESTMENT IN CAPITAL ASSETS</b>				
FIXED ASSETS	-	-		-
IT SYSTEM DEV - INFO TECH SERVICES	750,000	-		117,016
IT SYSTEM DEV - HR/PAYROLL SYSTEM	268,953	47,864		52,293
<b>TOTAL INVESTMENT IN CAPITAL ASSETS</b>	<b>\$ 1,018,953</b>	<b>\$ 47,864</b>		<b>\$ 169,309</b>

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
RETAINED EARNINGS (NET ASSETS)  
NOVEMBER 30, 2021**

**CHANGES IN RETAINED EARNINGS**

	INVESTED IN CAPITAL ASSETS	WORKING CAPITAL	PROJ CONTING LIABILITIES	TOTAL OPER FUND BALANCE
BEGINNING BALANCE	\$ 2,830,822	\$ 5,573,572	\$ 1,076,329	\$ 9,480,723
OPERATING INCOME	(356,250)	464,744	-	108,494
INVESTMENT IN CAPITAL ASSETS	47,864	(47,864)	-	-
ENDING BALANCE	<u>\$ 2,522,436</u>	<u>\$ 5,990,452</u>	<u>\$ 1,076,329</u>	<u>\$ 9,589,217</u>

**VOLUME OF BUSINESS**

	FY 2022	FY2021
UH PROJECTS		
EXTRAMURAL	\$ 91,167,023	\$ 88,095,896
INTRAMURAL (GRS)	5,839,380	5,990,677
REVOLVING & SSF	12,766,747	11,850,398
DIRECT PROJECTS		
FEDERAL	131,728	167,595
NON-FEDERAL	10,187,888	5,589,032
	<u>\$ 120,092,766</u>	<u>\$ 111,693,598</u>

**UH EXTRAMURAL AWARDS**

(obtained from UH Office of Research Services)

	FY 2022	FY 2021	VARIANCE	% VARIANCE
Fiscal Year to Date (Jul 01 to Nov 30)	\$ 268,873,363	\$ 282,989,166	(14,115,803)	-5.0%
12 month period (Dec 01 to Nov 30)	471,063,923	497,608,113	(26,544,190)	-5.3%
3 month period (Sep 01 to Nov 30)	171,867,402	176,988,299	(5,120,897)	-2.9%

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
STATEMENT OF CASH FLOW  
FOR THE PERIOD ENDED NOVEMBER 30, 2021 and 2020**

	CURRENT MONTH	FY 2022 YEAR-TO-DATE	FY 2021 YEAR-TO-DATE
<b>BEGINNING CASH BALANCE</b>	\$ 25,039,691	\$ 21,749,404	\$ 14,518,614
<b>Receipts:</b>			
UH Projects	16,460,836	93,489,960	88,492,841
Direct Projects	157,757	12,380,766	4,420,838
Revolving Funds and Other	959,816	5,881,687	3,844,489
UH Management Fee	1,321,645	1,321,645	-
	<u>18,900,054</u>	<u>113,074,058</u>	<u>96,758,168</u>
TCD Redemption	-	4,000,000	7,150,000
<b>Total Receipts</b>	<u>18,900,054</u>	<u>117,074,058</u>	<u>103,908,168</u>
<b>Disbursements:</b>			
Vendors	9,561,938	52,368,159	42,404,826
UH Payroll Clearing	201,587	1,060,588	1,263,515
Salaries & Wages	7,229,046	34,892,714	33,967,060
Payroll taxes	3,015,574	14,746,491	14,296,946
TIAA-CREF	1,007,705	5,174,131	4,944,729
HMSA/Kaiser/HDS	1,188,767	5,843,601	5,737,903
TCD Purchase	-	3,000,000	3,900,000
Short Term Investment Purchase	-	-	3,000,000
Other	-	-	-
	<u>22,204,617</u>	<u>117,085,684</u>	<u>109,514,979</u>
<b>Total Disbursements</b>	<u>22,204,617</u>	<u>117,085,684</u>	<u>109,514,979</u>
<b>Increase(Decrease):</b>			
Petty Cash Balances	(1,000)	(2,650)	900
Bank of Hawaii (PR)	-	-	(628)
Savings - TCD	-	-	-
Retricted Cash - Retiree Health Ben	-	-	-
Other	-	(1,000)	-
	<u>(1,000)</u>	<u>(3,650)</u>	<u>272</u>
<b>ENDING CASH BALANCE</b>	<u>\$ 21,734,128</u>	<u>\$ 21,734,128</u>	<u>\$ 8,912,075</u>

**NOTES:**

This statement of cash flow does not include transactions for revolving accounts or specialized service facilities which are processed by journal entry transactions.

October 29, 2021

Audit Committee of the Board of Directors  
The Research Corporation of the University of Hawai'i  
State of Hawai'i

We have audited the financial statements of The Research Corporation of the University of Hawai'i (the Corporation) for the fiscal year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 17, 2021. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Matters

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Corporation during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Corporation's financial statements were:

Liability for accrued supplemental retirement benefits and other postemployment health care and life insurance benefits. The liabilities for accrued supplemental retirement benefits and other postemployment health care and life insurance benefits was determined by an actuarial valuation. We evaluated the key factors and assumptions used to develop the liability for accrued supplemental retirement benefits and other postemployment health care and life insurance benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

##### *Difficulties Encountered in Performing the Audit*

The completion of our audit was delayed because of the inability of management to provide information requested to perform audit procedures in a timely manner.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- An adjustment to record accounts payable and related receivables due from the University of Hawai'i.
- Improper classification of purchase and redemption of time certificates of deposit on the statement of cash flows.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 28, 2021.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to management's discussion and analysis (MD&A) and the schedule of changes in postemployment health care and life insurance benefits liability and related ratios, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

Restriction on Use

This information is intended solely for the information and use of the audit committee, board of directors and management of the Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

N&K CPAs, Inc.

**The Research Corporation of the University of Hawaii**  
**Summary of Unrecorded Misstatements**  
**June 30, 2021**

PAJE #	Account	Description	Debit	Credit	INCREASE (DECREASE)			Change in Net Assets
					Assets	Liabilities	Net Assets	
201		To pass recording reversing effect of prior year proposed audit entry #204 for additional fringe benefit on compensated absences for Core Staff.						
	2900	UNRESTRICTED FUND BAL	39,193				\$ (39,193)	
	5002	Fringe Benefits		39,193				\$ 39,193
<b>Total Passed Adjustments</b>					<b>\$ --</b>	<b>\$ --</b>	<b>\$ (39,193)</b>	<b>\$ 39,193</b>
<b>Financial Statement Balance</b>					<b>\$ 46,539,471</b>	<b>\$ 37,058,748</b>	<b>\$ 9,415,588</b>	<b>\$ 65,135</b>
<b>Effect of Passed Adjustments on Financial Statement Balance</b>					<b>0.00%</b>	<b>0.00%</b>	<b>-0.42%</b>	<b>60.17%</b>

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I  
STATE OF HAWAI'I**

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY  
INFORMATION WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2021 and 2020



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RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII

STATE OF HAWAII

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Research Corporation of the University of Hawai'i (Corporation), a component unit of the University of Hawai'i, as of and for the fiscal years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2021 and 2020, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 11 and the schedule of changes in postemployment health care and life insurance benefits liability and related ratios on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021, 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 solely 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 effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

**N&K CPAs, Inc.**

Honolulu, Hawai'i  
October 28, 2021

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
STATE OF HAWAII  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2021 and 2020**

The following discussion and analysis provides an overview of the financial position and results of operations for The Research Corporation of the University of Hawaii, State of Hawaii ("Corporation") for the fiscal year ended June 30, 2021. It includes selected comparative information with the fiscal years ended June 30, 2020 and 2019. 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 of the State of Hawaii ("State") in 1965, with a mission to support the research and training programs of the University of Hawaii ("University") and to enhance research, development and training in Hawaii. The Corporation's exemption from certain of 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**

The Corporation's volume of business (project expenditures) has stabilized with a 3% decrease from 2020 to 2021. There was a 3% increase from 2019 to 2020. The Corporation has experienced a leveling of business activity for the fiscal years 2016 through 2021, following a decrease in activity for the fiscal years 2013 through 2015 after record volume was attained in 2012. The record volume in 2012 was attributed to the construction of the University of Hawaii at West Oahu campus and the University of Hawaii Cancer Center.

Fiscal Year	Project Expenditures	Annual	
		(Decrease) Increase	(Decrease) Increase
2021	\$ 261,295,061	\$ (9,250,362)	(3%)
2020	270,545,423	7,324,395	3%
2019	263,221,027	(12,712,386)	(5%)
2018	275,933,413	(1,754,935)	(1%)
2017	277,688,348	(13,681,774)	(5%)
2016	291,370,122	(10,137,997)	(3%)
2015	301,508,119	(48,131,887)	(14%)
2014	349,640,006	(67,153,292)	(16%)
2013	416,793,298	(67,921,354)	(14%)
2012	484,714,652	93,249,388	24%

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I  
STATE OF HAWAI'I  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Years Ended June 30, 2021 and 2020**

**Using the Financial Statements**

The financial reports of the Corporation include three statements:

- The statements of net position summarize assets, liabilities and net position, and present the financial condition of the Corporation at fiscal year end.
- The statements of revenues, expenses and changes in net position summarize the financial results of operations for the fiscal year.
- The statements of cash flows identify the nature and extent of the sources and uses of cash.

The Corporation's statements of revenues, expenses and changes in net position present the revenues earned and expenses incurred by the Corporation in connection with the administrative support services provided to the University and other sponsoring agencies. The University and other sponsoring agencies are responsible for all programmatic decisions and for authorizing and approving all project expenditures and commitments. The Corporation's responsibilities are limited to providing administrative support services such as human resources, payroll processing, procurement, and disbursement services. Accordingly, the Corporation's statements of revenues, expenses and changes in net position present the results of the Corporation's operations as a service provider. Project expenditures are accounted for within project accounts and are not reflected in the Corporation's statements of revenues, expenses and changes in net position. However, since the contractual commitments of the projects are in the name of the Corporation, the Corporation's statements of net position include the liability relating to such commitments and a corresponding receivable for reimbursement from the University and other sponsoring agencies.

Additional information essential for obtaining an understanding of the Corporation's financial statements are provided in the accompanying notes to the financial statements.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI‘I  
STATE OF HAWAI‘I  
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Years Ended June 30, 2021 and 2020**

**Condensed Statements of Net Position**

The Corporation’s assets and deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2021, 2020 and 2019 are summarized below:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 43,570,646	\$ 40,880,000	\$ 42,071,471
Noncurrent assets	--	1,750,000	--
Capital assets	<u>2,830,822</u>	<u>3,260,152</u>	<u>3,216,587</u>
Total assets	46,401,468	45,890,152	45,288,058
Deferred outflows of resources	<u>138,003</u>	<u>189,550</u>	<u>54,722</u>
Total assets and deferred outflows of resources	\$ <u>46,539,471</u>	\$ <u>46,079,702</u>	\$ <u>45,342,780</u>
Current liabilities	\$ 31,596,937	\$ 31,291,424	\$ 30,718,857
Noncurrent liabilities	<u>4,826,947</u>	<u>4,919,604</u>	<u>4,568,448</u>
Total liabilities	36,423,884	36,211,028	35,287,305
Deferred inflows of resources	<u>634,864</u>	<u>453,086</u>	<u>501,065</u>
Total liabilities and deferred inflows of resources	37,058,748	36,664,114	35,788,370
Net position			
Invested in capital assets	2,830,822	3,260,152	3,216,587
Unrestricted	<u>6,649,901</u>	<u>6,155,436</u>	<u>6,337,823</u>
Total net position	<u>9,480,723</u>	<u>9,415,588</u>	<u>9,554,410</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>46,539,471</u>	\$ <u>46,079,702</u>	\$ <u>45,342,780</u>

Overall, the Corporation’s financial condition at June 30, 2021 remains stable.

**Assets**

Current assets consist primarily of cash and cash equivalents, money market mutual funds, and time certificates of deposit. Current assets increased by 7% from 2020 to 2021 and decreased by 3% from 2019 to 2020. The changes were due to the timing of cash receipts from the University for cost reimbursable and advance funded projects.

Noncurrent assets in 2020 consisted of time certificates of deposit that matured after June 30, 2021.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I  
STATE OF HAWAI'I  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Years Ended June 30, 2021 and 2020**

Fixed asset acquisitions for 2021 and 2020 totaled \$443,979 and \$807,883, respectively. Significant acquisitions were made in 2020 to invest in the Corporation's information technology infrastructure by developing and enhancing software applications for human resources and financial services. Depreciation expense for 2021 and 2020 was \$873,309 and \$764,318, respectively.

**Liabilities**

Current liabilities consist primarily of accounts payable, accrued salaries, and other liabilities. Current liabilities increased by 1% from 2020 to 2021 and increased by 2% from 2019 to 2020 as a result of the timing of payments to vendors.

Noncurrent liabilities decreased by 2% from 2020 to 2021 and increased by 8% from 2019 to 2020. Changes in noncurrent liabilities are primarily due to changes in the liability for postemployment health care and life insurance benefits as a result of changes in certain actuarial assumptions and differences between expected and actual experience in the actuarial valuation of the liability.

**Net Position**

Resources invested in capital assets at June 30, 2021 and 2020 totaled \$2,830,822 and \$3,260,152, respectively. There was no debt financing on capital assets.

Resources that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. Although unrestricted resources are not subject to externally imposed restrictions, the Corporation's unrestricted resources are internally designated for working capital and project contingent liabilities.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
STATE OF HAWAII  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Years Ended June 30, 2021 and 2020**

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

The Corporation's statements of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2021, 2020 and 2019 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues			
University of Hawai'i	\$ 6,665,561	\$ 7,760,462	\$ 7,398,495
Other sponsor agencies	<u>552,855</u>	<u>593,243</u>	<u>794,121</u>
Total operating revenues	7,218,416	8,353,705	8,192,616
Operating expenses			
Personnel costs	4,098,339	4,673,096	4,382,802
Data processing services	1,139,123	1,609,753	1,548,963
Depreciation	873,309	764,318	682,072
Insurance	477,322	436,680	421,271
Office and equipment rental	291,077	288,606	232,579
Professional and technical support	151,610	196,445	226,183
Project development	--	500,000	502,616
Other expenses	<u>297,194</u>	<u>578,995</u>	<u>565,067</u>
Total operating expenses	<u>7,327,974</u>	<u>9,047,893</u>	<u>8,561,553</u>
Operating loss	(109,558)	(694,188)	(368,937)
Nonoperating revenues			
Intergovernmental (Federal awards)			
Revenue	307,889	191,730	18,488
Expense	(307,889)	(191,730)	(18,488)
Interest income	199,670	555,366	653,545
Unrealized loss	<u>(24,977)</u>	<u>--</u>	<u>--</u>
Increase (decrease) in net position	65,135	(138,822)	284,608
Net position			
Beginning of year	<u>9,415,588</u>	<u>9,554,410</u>	<u>9,269,802</u>
End of year	\$ <u>9,480,723</u>	\$ <u>9,415,588</u>	\$ <u>9,554,410</u>

In fiscal year 2021, management fees earned from the University decreased by 14% in comparison to fiscal year 2020. Under the terms of the Internal Agreement, the management fee for extramurally sponsored accounts is based on a percentage of administrative operating expenses. The decrease in management fees from the University was due to a decrease in administrative operating expenses. The effective rate charged to the University by the Corporation was 3.5% of modified total direct costs for fiscal year 2021. Operating revenues earned from other sponsoring agencies decreased as a result of the decrease in volume of business for direct projects. The blended indirect cost rate for other sponsoring agencies was 3.1% for fiscal year 2021.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
STATE OF HAWAII  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Years Ended June 30, 2021 and 2020**

In fiscal year 2020, management fees earned from the University increased by 5% in comparison to fiscal year 2019. The increase in management fees from the University was due to an increase in administrative operating expenses. The effective rate charged to the University by the Corporation was 4.5% of modified total direct costs for fiscal year 2020. Operating revenues earned from other sponsoring agencies decreased as a result of the decrease in volume of business for direct projects. The blended indirect cost rate for other sponsoring agencies was 3.1% for fiscal year 2020.

Operating expenses in fiscal year 2021 decreased by 19% in comparison to fiscal year 2020. The decrease was the result of the Corporation's efforts to reduce administrative operating expenses in anticipation of the economic downturn due to the COVID-19 pandemic. The decrease in administrative operating expenses was primarily attributed to a decrease in personnel costs, data processing costs, and project development costs.

Operating expenses in fiscal year 2020 increased by 6% in comparison to fiscal year 2019. The increase in administrative operating expenses was primarily attributed to an increase in personnel costs.

For fiscal year 2021, the Corporation's net position (excess of assets over liabilities) increased by \$65,135 as a result of the year's activities. For fiscal year 2020, the Corporation's net position decreased by \$138,822 as a result of the year's activities.

**Condensed Statements of Cash Flows**

The Corporation's statements of cash flows for the fiscal years ended June 30, 2021, 2020 and 2019 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating activities			
Cash received from operations	\$ 8,235,545	\$ 7,605,984	\$ 8,895,337
Cash payments for operations	(6,558,201)	(8,192,458)	(7,852,458)
Project expenditures and reimbursements, net	<u>9,781,624</u>	<u>(7,919,874)</u>	<u>5,145,869</u>
Net cash provided by (used in) operating activities	11,458,968	(8,506,348)	6,188,748
Financing activities			
Capital	<u>(443,979)</u>	<u>(807,883)</u>	<u>(753,955)</u>
Net cash used in financing activities	<u>(443,979)</u>	<u>(807,883)</u>	<u>(753,955)</u>
Investing activities	<u>(4,565,164)</u>	<u>(3,367,382)</u>	<u>8,533,247</u>
Increase (decrease) in cash	6,449,825	(12,681,613)	13,968,040
Cash			
Beginning of year	<u>15,299,580</u>	<u>27,981,193</u>	<u>14,013,153</u>
End of year	\$ <u><u>21,749,405</u></u>	\$ <u><u>15,299,580</u></u>	\$ <u><u>27,981,193</u></u>

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
STATE OF HAWAII  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Years Ended June 30, 2021 and 2020**

Changes in net project expenditures and reimbursements stem from the timing of receipts from the University for cost reimbursable and advance funded projects. The change in capital financing activities in 2021, 2020 and 2019 was due to fixed asset acquisitions which included the development and enhancement of software applications. The change in investing activities in 2021, 2020 and 2019 was mainly due to the redemption and purchase of time certificates of deposit.

**Looking Forward**

Management projects the volume of business to remain stable during fiscal year 2022. The University received approximately \$486,000,000 in extramural research and training awards during fiscal year 2021, an increase of 8% over fiscal year 2020. In 2020, the University received approximately \$450,000,000 in extramural research and training awards, an increase of 7% over fiscal year 2019.

In anticipation of a recovering economy and return to normal operations, the Corporation budgeted revenues for fiscal year 2022 to reflect a marginal increase of 1% over fiscal year 2021. The budget for administrative operating expenses for fiscal year 2022 was approved with a 1% decrease below the fiscal year 2021 budget. Management strives to continue improving operating efficiency and maximizing its resources, while ensuring that the Corporation meets the needs of the University research community and other clientele.

**Research Corporation of the University of Hawai'i**  
**State of Hawai'i**  
**STATEMENTS OF NET POSITION**  
**June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Assets and Deferred Outflows of Resources</b>		
Current assets		
Cash and cash equivalents	\$ 18,594,540	\$ 12,591,946
Time certificates of deposit	15,726,329	12,224,718
Investments	2,988,246	--
Receivables		
University of Hawai'i, net	2,918,276	13,198,586
Allowance for doubtful accounts	<u>(5,000)</u>	<u>(5,000)</u>
Total receivables	<u>2,913,276</u>	<u>13,193,586</u>
Prepaid expenses	193,390	162,116
Restricted cash	<u>3,154,865</u>	<u>2,707,634</u>
Total current assets	43,570,646	40,880,000
Noncurrent assets		
Time certificates of deposit	--	1,750,000
Capital assets, net	<u>2,830,822</u>	<u>3,260,152</u>
Total noncurrent assets	<u>2,830,822</u>	<u>5,010,152</u>
Total assets	<u>46,401,468</u>	<u>45,890,152</u>
Deferred outflows of resources		
Deferred outflows for postemployment health care and life insurance benefits	<u>138,003</u>	<u>189,550</u>
Total deferred outflows of resources	<u>138,003</u>	<u>189,550</u>
Total assets and deferred outflows of resources	<u>\$ 46,539,471</u>	<u>\$ 46,079,702</u>
<b>Liabilities and Deferred Inflows of Resources</b>		
Current liabilities		
Accounts payable	\$ 8,832,451	\$ 9,480,714
Accrued salaries and other	16,815,442	15,561,554
Advances from other sponsoring agencies	4,074,402	3,334,453
Workers' compensation and unemployment claims reserve	1,632,642	2,686,703
Current portion of accrued supplemental retirement benefits	<u>242,000</u>	<u>228,000</u>
Total current liabilities	<u>31,596,937</u>	<u>31,291,424</u>
Noncurrent liabilities		
Accrued supplemental retirement benefits	2,365,283	2,220,700
Postemployment health care and life insurance benefits	<u>2,461,664</u>	<u>2,698,904</u>
Total noncurrent liabilities	<u>4,826,947</u>	<u>4,919,604</u>
Total liabilities	<u>36,423,884</u>	<u>36,211,028</u>
Deferred inflows of resources		
Deferred inflows for postemployment health care and life insurance benefits	<u>634,864</u>	<u>453,086</u>
Total deferred inflows of resources	<u>634,864</u>	<u>453,086</u>
Total liabilities and deferred inflows of resources	<u>37,058,748</u>	<u>36,664,114</u>
Commitments and contingencies		
	--	--
<b>Net position</b>		
Invested in capital assets	2,830,822	3,260,152
Unrestricted	<u>6,649,901</u>	<u>6,155,436</u>
Total net position	<u>9,480,723</u>	<u>9,415,588</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 46,539,471</u>	<u>\$ 46,079,702</u>

The accompanying notes are an integral part of these statements.

**Research Corporation of the University of Hawai'i**  
**State of Hawai'i**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Fiscal Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES</b>		
University of Hawai'i	\$ 6,665,561	\$ 7,760,462
Other sponsoring agencies	<u>552,855</u>	<u>593,243</u>
Total operating revenues	7,218,416	8,353,705
<b>OPERATING EXPENSES</b>		
Personnel costs	4,098,339	4,673,097
Data processing services	1,139,123	1,609,753
Depreciation	873,309	764,318
Insurance	477,322	436,680
Office and equipment rental	291,077	288,606
Professional and technical support	151,610	196,445
Other expenses	119,751	243,224
Office supplies and services	78,546	143,975
Professional services	47,120	46,283
Tuition support	36,770	59,985
Training material development	15,007	68,679
Project development	--	500,000
Travel	--	<u>16,848</u>
Total operating expenses	<u>7,327,974</u>	<u>9,047,893</u>
Operating loss	<u>(109,558)</u>	<u>(694,188)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental (Federal awards)		
Revenue	307,889	191,730
Expense	(307,889)	(191,730)
Interest income		
Cash, cash equivalents, money market mutual fund time certificates of deposit, and investments	199,670	555,366
Decrease in fair value of investments	<u>(24,977)</u>	<u>--</u>
Total nonoperating revenues	<u>174,693</u>	<u>555,366</u>
Increase (decrease) in net position	65,135	(138,822)
<b>NET POSITION</b>		
Beginning of year	<u>9,415,588</u>	<u>9,554,410</u>
End of year	\$ <u>9,480,723</u>	\$ <u>9,415,588</u>

The accompanying notes are an integral part of these statements.

**Research Corporation of the University of Hawai'i**  
**State of Hawai'i**  
**STATEMENTS OF CASH FLOWS**  
**Fiscal Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts for		
University of Hawai'i management fee	\$ 7,277,110	\$ 6,658,793
Other sponsoring agencies indirect cost recoveries	552,855	593,243
Refund for workers' compensation insurance policy premium	405,580	353,948
Payments to vendors	(2,422,447)	(3,611,191)
Payments for employee compensation	(4,135,754)	(4,581,267)
Project expenditures	(246,070,825)	(253,941,566)
Project cost reimbursements	<u>255,852,449</u>	<u>246,021,692</u>
Net cash provided by (used in) operating activities	<u>11,458,968</u>	<u>(8,506,348)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	<u>(443,979)</u>	<u>(807,883)</u>
Net cash used in capital and related financing activities	<u>(443,979)</u>	<u>(807,883)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of time certificates of deposits	(9,900,000)	(13,650,000)
Redemption of time certificate of deposits	8,150,000	9,750,000
Purchase of investments	(3,000,000)	--
Interest income received on cash deposits	<u>184,836</u>	<u>532,618</u>
Net cash used in investing activities	<u>(4,565,164)</u>	<u>(3,367,382)</u>
Increase (decrease) in cash and cash equivalents	6,449,825	(12,681,613)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>15,299,580</u>	<u>27,981,193</u>
End of year	\$ <u><u>21,749,405</u></u>	\$ <u><u>15,299,580</u></u>
Cash and cash equivalents presented in the accompanying statements of net position		
Cash and cash equivalents	\$ 18,594,540	\$ 12,591,946
Restricted cash	<u>3,154,865</u>	<u>2,707,634</u>
	\$ <u><u>21,749,405</u></u>	\$ <u><u>15,299,580</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating loss	\$ (109,558)	\$ (694,188)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation expense	873,309	764,318
Change in assets, liabilities, deferred outflows of resources, and deferred inflows of resources		
Receivables	10,280,310	(9,289,634)
Prepaid expenses	(31,274)	(27,760)
Accounts payable and accrued wages	605,625	(1,038,608)
Advances from other sponsoring agencies	739,949	272,562
Workers' compensation and unemployment claims reserve	(1,054,061)	1,335,613
Accrued supplemental retirement benefits	158,583	113,946
Postemployment health care and life insurance benefits	(237,240)	240,210
Deferred outflows for postemployment health care and life insurance benefits	51,547	(134,828)
Deferred inflows for postemployment health care and life insurance benefits	<u>181,778</u>	<u>(47,979)</u>
Net cash provided by (used in) operating activities	\$ <u><u>11,458,968</u></u>	\$ <u><u>(8,506,348)</u></u>

The accompanying notes are an integral part of these statements.

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**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 ("Sponsors"). For these services, the Corporation receives reimbursements for administrative expenses based on a negotiated fee under an agreement between the Corporation and the University ("Internal Agreement") or based on an indirect cost rate predetermined or negotiated with other Sponsors.

The Corporation's Board of Directors consists of two members of the University Board of Regents, three members appointed by the Governor, one member appointed by the Senate President, and one member appointed by the Speaker of the House of Representatives. Additionally, the Vice President for Research of the University serves as a nonvoting ex officio member of the Board.

**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. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, established standards for defining and reporting on the financial reporting entity. This statement requires that the financial statements of the University include the financial statements of organizations for which the University is financially accountable and other organizations for which the nature and significance of their relationship are such that exclusion would cause the financial statements of the University to be misleading. As defined by Statement No. 61, 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 should be included in 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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**New Accounting Pronouncements**

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Corporation has not yet determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for subscription-based information technology arrangements, improving the comparability of financial statements that have entered into subscription-based information technology arrangements, and enhancing the understandability, reliability, relevance, and consistency of information about subscription-based information technology arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Corporation has not yet determined the effect this Statement will have on its financial statements.

**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 and Cash Equivalents**

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments with original maturities of 3 months or less to be cash equivalents.

**Money Market Mutual Fund**

The Corporation's investment in the BlackRock FedFund is a money market mutual fund that seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity.

Investments in the BlackRock Fed Fund are valued at the net asset value ("NAV") of the custodian bank liquid asset portfolio and are generally categorized within Level 1 of the fair value hierarchy. NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity based investments is expected to substantially impact the value of such investments at any given time. It is likely that the Corporation's investment in the BlackRock Fed Fund has fluctuated since June 30, 2021.

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Additional information on the Corporation's investment in the BlackRock FedFund are as follows:

	<u>2021</u>	<u>2020</u>
Fair Value	\$ 25,063,477	\$ 18,100,791
Unfunded Commitments	None	None
Redemption Frequency	Daily	Daily
Required Redemption Notice	Same as trade date	Same as trade date

**Time Certificates of Deposit**

Time certificates of deposit with an original maturity greater than 3 months are separately reported. Time certificates of deposit are reported at cost.

**Investments**

Investments in fixed income securities with readily determinable fair values are reported at fair value based on quoted market prices. Unrealized gains and losses on investments are included in the Statement of Revenues, Expenses, and Changes in Net Position. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost basis of the investment sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments.

**Fair Value Measurements**

For financial assets reported at fair value, the Corporation defines fair value as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants. The Corporation measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- **Level 1** - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2** - Inputs other than quoted market prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3** - Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions of market participants. Level 3 inputs should be used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

**Restricted Cash**

Restricted cash consists of the portion of the advances from other sponsoring agencies that are for project expenditures that will occur within one year or less.

**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.

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Depreciation expense is recorded in the financial statements using the straight-line method over the assets' estimated useful lives. 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 serviced by the Corporation passes directly to the University.

**Deferred Inflows of Resources and Deferred Outflows of Resources**

The Corporation accounts for deferred inflows of resources and deferred outflows of resources as an acquisition of resources that are applicable to future reporting periods and a consumption of resources that are applicable to future reporting periods, respectively.

The deferred outflows of resources related to postemployment health care and life insurance benefits resulted from changes in actuarial assumptions and other inputs which will be amortized over a period of 6.05 years which has been actuarially determined. The deferred inflows of resources related to postemployment health care and life insurance benefits primarily resulted from differences between expected and actual experience in the measurement of the total postemployment health care and life insurance benefits liability and will be amortized over a period of 4.98 years which has been actuarially determined.

**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 accumulation of such vacation credits is limited to a maximum of 360 hours at calendar year end. Accumulated vacation for administrative and project personnel has been accrued and reflected in the accompanying statements of net position. Accumulated vacation at June 30, 2021 and 2020 totaled \$7,564,915 and \$7,171,540, respectively.

The Corporation established a vacation payout fringe benefit rate to accumulate a cash reserve to pay for unused vacation hours upon termination of employment. The Corporation's collections, net of payments to terminated employees as of June 30, 2021 and 2020, totaled \$621,404 and \$515,287, respectively. The balance of the accrued liability for earned but unused vacation is included as an offsetting component of the receivable from the University and other Sponsors in the accompanying statements of net position.

**Supplemental Retirement Benefits**

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

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**Net Position**

Resources 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 resources. 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 resources at June 30, 2021 or 2020.

**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.

**2. Cash, Money Market Mutual Fund, and Time Certificate of Deposits**

The portion of cash and time certificates of deposits not covered by federal depository insurance is covered by collateral held in the name of the Corporation by third party custodians.

Cash equivalents consist of investments in the BlackRock FedFund money market mutual fund which are not covered by collateral held in the name of the Corporation by third party custodians. However, substantially all of the underlying investments in the BlackRock FedFund money market mutual fund are maintained in assets issued or guaranteed as to principal and interest by the United States Government, its agencies, or instrumentalities.

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**3. Investments**

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2021:

	2021	
	Fair Value	Cost
U.S. Treasury	\$ 2,115,183	\$ 2,134,675
U.S. Government agencies	847,840	853,325
Other investments	25,223	25,223
	\$ 2,988,246	\$ 3,013,223

Investments consist primarily of United States Treasury and Government agency securities. The fair value of these investments are primarily based on quoted prices for similar securities and classified as Level 2 in the fair value hierarchy. The decrease in fair value of investments (unrealized loss) for the fiscal year ended June 30, 2021 was (\$24,977).

Custodial credit risk is the risk that in the event of a financial institution failure, the Corporations' investments may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. 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.

Investments in United States Treasury and Government agency securities are classified as Category 2.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The price of fixed income securities with a longer time to maturity tend to be more sensitive to changes in interest rates and therefore, are more volatile than those with shorter maturities. The composition of the Corporation's fixed income investments and maturities at June 30, 2021 was as follows:

	2021	Investment Maturities (in Years)		
	Fair Value	Less than 1	1 to 5	More than 5
U.S. Treasury	\$ 2,115,183	\$ 363,312	\$ 1,751,871	\$ --
U.S. Government agencies	847,840	177,444	670,396	--
Other investments	25,223	25,223	--	--
	\$ 2,988,246	\$ 565,979	\$ 2,422,267	\$ --

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**4. Receivables and Advances**

The Corporation's projects are divided into two groups: those administered under the Internal 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Extramurally sponsored accounts	\$ 23,497,419	\$ 25,375,686
Internally funded accounts	(6,996,639)	(5,539,864)
Revolving accounts	(11,433,381)	(8,884,509)
Ship operations revolving accounts	(4,611,708)	(412,010)
Miscellaneous agency accounts	1,725,941	1,311,090
Management fee	1,321,644	1,933,193
Advance	<u>(585,000)</u>	<u>(585,000)</u>
	<u>\$ 2,918,276</u>	<u>\$ 13,198,586</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$4,074,402 and \$3,334,453 at June 30, 2021 and 2020, respectively. Cash relating to a portion of the advances of 3,154,865 and 2,707,634 at June 30, 2021 and 2020, respectively, is restricted by the sponsors.

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**5. Capital Assets**

Capital assets activity for the fiscal years ended June 30, 2021 and 2020 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
<b>2021</b>				
Office equipment	\$ 541,819	\$ 115,183	\$ --	\$ 657,002
Computer software	<u>8,709,892</u>	<u>328,796</u>	<u>--</u>	<u>9,038,688</u>
	9,251,711	443,979	--	9,695,690
Less: Accumulated depreciation				
Office equipment	429,949	47,694	--	477,643
Computer software	<u>5,561,610</u>	<u>825,615</u>	<u>--</u>	<u>6,387,225</u>
	<u>5,991,559</u>	<u>873,309</u>	<u>--</u>	<u>6,864,868</u>
	<u>\$ 3,260,152</u>	<u>\$ (429,330)</u>	<u>\$ --</u>	<u>\$ 2,830,822</u>
<b>2020</b>				
Office equipment	\$ 531,261	\$ 17,152	\$ (6,594)	\$ 541,819
Computer software	<u>7,919,161</u>	<u>790,731</u>	<u>--</u>	<u>8,709,892</u>
	8,450,422	807,883	(6,594)	9,251,711
Less: Accumulated depreciation				
Office equipment	391,735	44,808	(6,594)	429,949
Computer software	<u>4,842,100</u>	<u>719,510</u>	<u>--</u>	<u>5,561,610</u>
	<u>5,233,835</u>	<u>764,318</u>	<u>(6,594)</u>	<u>5,991,559</u>
	<u>\$ 3,216,587</u>	<u>\$ 43,565</u>	<u>\$ --</u>	<u>\$ 3,260,152</u>

**6. Line of Credit**

The Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$5,000,000 for short-term working capital, expiring on February 1, 2022. 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 2.60% at June 30, 2021 and 2020. At June 30, 2021 and 2020, there were no borrowings outstanding under this line.

**7. Net Position**

**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 designation of a portion of accumulated surplus for this purpose.

**Project Contingent Liabilities**

The Corporation enters into contracts and agreements in the ordinary course of business on behalf of research projects of the University and other sponsoring agencies. The Internal Agreement and the Corporation's agreements with other sponsoring agencies generally hold

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the University and the other sponsoring agencies responsible for liabilities resulting from such contracts and agreements. However, due to the risk associated with the Corporation being a party to the contracts and agreements, the Board of Directors authorized the designation of a portion of accumulated surplus to cover such contingent liabilities, which may include, but are not limited to project overruns and disallowances, litigation expenses, professional services, and other project related expenses. For the fiscal years ended June 30, 2021 and 2020, the amount of the designation was increased by \$1,611 and \$22,749, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted accumulated surplus at June 30, 2021 and 2020 was comprised of the following:

	<u>2021</u>	<u>2020</u>
Designated		
Working capital	\$ 5,573,572	\$ 5,080,718
Project contingent liabilities	<u>1,076,329</u>	<u>1,074,718</u>
	<u>\$ 6,649,901</u>	<u>\$ 6,155,436</u>

## 8. Operating Revenues

Under the terms of the Internal Agreement, the Corporation is reimbursed for administrative expenses incurred to provide specialized administrative services to projects of the University. Operating revenues from the University for the fiscal years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Extramurally sponsored accounts	\$ 5,531,531	\$ 6,438,148
Internally funded accounts	406,716	387,043
Revolving accounts	<u>727,314</u>	<u>935,271</u>
	<u>\$ 6,665,561</u>	<u>\$ 7,760,462</u>

Direct agreements with other sponsors allow for indirect cost recoveries based on a predetermined or negotiated indirect cost rate.

## 9. Retirement Plan

The Corporation participates with other institutions in the Teachers Insurance and Annuity Association and College Retirement Equities Fund, a noncontributory defined contribution retirement plan which covers substantially all qualified employees. Employees are eligible to participate in this plan upon completion of one year of service. Required contributions by the Corporation to the retirement plan are based on 10% of eligible employees' regular compensation, as defined. All contributions are fully vested and non-forfeitable when made. While it is expected that this retirement plan will continue indefinitely, the Board of Directors of the Corporation reserves the right to modify or discontinue the plan at any time. Total contributions to the retirement plan for the fiscal years ended June 30, 2021 and 2020 were \$273,758 and \$307,182, respectively.

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The Corporation offers supplemental retirement benefits in addition to benefits available under the previously mentioned retirement 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, 2021 and 2020, the Corporation's accrued supplemental retirement benefits totaled \$2,607,283 and \$2,448,700 respectively, in the accompanying statements of net position. The accrual represents the Corporation's best estimate of future supplemental retirement benefits based on available information. Supplemental retirement benefits paid during the fiscal years ended June 30, 2021 and 2020 were \$269,087 and \$216,939, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the fiscal years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<b>Beginning balance</b>	\$ 2,448,700	\$ 2,334,754
Additions	647,768	233,886
Deductions	(269,087)	(216,939)
Adjustments	<u>(220,098)</u>	<u>96,999</u>
<b>Ending balance</b>	2,607,283	2,448,700
Less: Current portion of accrued supplemental retirement benefits	<u>(242,000)</u>	<u>(228,000)</u>
Noncurrent portion of accrued supplemental retirement benefits	\$ <u><u>2,365,283</u></u>	\$ <u><u>2,220,700</u></u>

**10. Postemployment Health Care and Life Insurance Benefits**

**Plan Description**

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 or older, be an annuitant of the RCUH retirement program at the time of application, and retirement status must be in good standing. The Corporation funds the postemployment health care and life insurance benefits plan on a pay-as-you-go basis. Accordingly, there are no assets currently accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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**Benefits Provided**

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. The program was established by the Board of Directors and may be changed or rescinded at the Board's discretion. Effective August 1, 2014, the \$50 per month subsidy was eliminated for participants not already receiving the benefit. Employees remain eligible to participate in the postemployment health insurance program by paying the entire premium costs themselves. Term life insurance in the amount of \$5,000 is provided for the retiree only.

**Employees Covered by Benefit Terms**

At June 30, 2021 and 2020, the following employees were covered by the benefit terms:

	<b>2021</b>	<b>2020</b>
Retirees and surviving spouses currently receiving benefits	91	93
Active employees	2,097	1,960
Total	2,188	2,053

**Total Postemployment Health Care and Life Insurance Benefits Liability**

The Corporation's total postemployment health care and life insurance benefit liability at June 30, 2021 and 2020 of \$2,461,664 and \$2,698,904, respectively, was measured as of June 30, 2021 and 2020, and was determined by an actuarial valuation as of that date.

**Actuarial Assumptions and Other Inputs**

The total postemployment health care and life insurance benefit liability in the actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

<b>Salary Increases:</b>	3.00%, including inflation
<b>Discount Rate:</b>	2021 - 2.18%, based on the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2021.
	2020 - 2.66%, based on the S&P Municipal Bond 20 Year High Grade Index as of June 28, 2020.
<b>Healthcare Cost Trend Rate:</b>	2021 - 7.50%
	2020 - 7.75%
<b>Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate):</b>	4.50%

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**Year that the Rate Reaches the Ultimate Trend Rate:** 2034

**Mortality:** 2021 - PUBT-2010 Amount-weighted Teachers Mortality Tables, scaled back to 2010, and projected on a fully generational basis using mortality scale MP-2020.

2020 - PUBT-2010 Amount-weighted Teachers Mortality Tables, scaled back to 2010, and projected on a fully generational basis using mortality scale MP-2019.

**Changes in the Total Postemployment Health Care and Life Insurance Benefits Liability**

The following table reconciles the changes in the total postemployment health care and life insurance benefits liability for the fiscal years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<b>Balance at beginning of fiscal year</b>	\$ 2,698,904	\$ 2,458,694
Increase (decrease) in postemployment health care and life insurance benefits attributed to		
Service cost	124,671	110,852
Interest cost	74,773	71,285
Differences between expected and actual experience	(174,773)	(99,009)
Changes in actuarial assumptions	(236,598)	186,375
Benefits paid to participants	<u>(25,313)</u>	<u>(29,293)</u>
<b>Balance at end of fiscal year</b>	<u>\$ 2,461,664</u>	<u>\$ 2,698,904</u>

The changes in actuarial assumptions for the fiscal year ended June 30, 2021 are primarily due to an update of election and spousal coverage assumptions, combined with a decrease in the discount rate from 2.66% to 2.18% and a change in per capita claims costs and premiums. The changes in actuarial assumptions for the fiscal year ended June 30, 2020 are primarily due to the impact of COVID-19 claims, combined with a decrease in the discount rate from 2.79% to 2.66% and a change in per capita claims costs and premiums.

**Research Corporation of the University of Hawai'i**  
**State of Hawai'i**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021 and 2020**

**Sensitivity of the Total Postemployment Health Care and Life Insurance Benefits Liability to Changes in the Discount Rate**

The discount rate assumption has a significant effect on the amounts reported in the accompanying financial statements. The following presents the total postemployment health care and life insurance benefits liability of the Corporation, as well as what the total postemployment health care and life insurance benefits liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate at June 30, 2021 and 2020:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
<b>2021</b>	<b>1.18%</b>	<b>2.18%</b>	<b>3.18%</b>
Total postemployment health care and life insurance benefits liability	\$ 2,872,213	\$ 2,461,664	\$ 2,140,138
	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
<b>2020</b>	<b>1.66%</b>	<b>2.66%</b>	<b>3.66%</b>
Total postemployment health care and life insurance benefits liability	\$ 3,110,337	\$ 2,698,904	\$ 2,370,949

**Sensitivity of the Total Postemployment Health Care and Life Insurance Benefits Liability to Changes in the Healthcare Cost Trend Rate**

The health care cost trend rate assumption has a significant effect on the amounts reported in the accompanying financial statements. The following presents the total postemployment health care and life insurance benefits liability of the Corporation, as well as what the total postemployment health care and life insurance benefits liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate at June 30, 2021 and 2020:

	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
<b>2021</b>	<b>6.50%</b>	<b>7.50%</b>	<b>8.50%</b>
Total postemployment health care and life insurance benefits liability	\$ 2,364,563	\$ 2,461,664	\$ 2,574,546
	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
<b>2020</b>	<b>6.75%</b>	<b>7.75%</b>	<b>8.75%</b>
Total postemployment health care and life insurance benefits liability	\$ 2,567,948	\$ 2,698,904	\$ 2,850,857

**Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Postemployment Health Care and Life Insurance Benefits**

Prior to retirement, the health insurance premiums for the Corporation's employees are project expenditures and are not reflected on the Corporation's statements of revenues and expenses. Accordingly, for the fiscal years ended June 30, 2021 and 2020, the Corporation

**Research Corporation of the University of Hawai'i**  
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recognized postemployment health care and life insurance benefit expense of \$0. In addition, the net receivable balance from the University and other sponsors presented in the accompanying statements of net position includes an amount for the postemployment health care and life insurance benefit expense.

At June 30, 2021 and 2020, the Corporation reported deferred outflows of resources of \$138,003 and \$189,550, respectively, due to changes in actuarial assumptions and other inputs. At June 30, 2021 and 2020, the Corporation reported deferred inflows of resources of \$634,864 and \$453,086, respectively, primarily due to differences between expected and actual experience in the measurement of the total postemployment health care and life insurance benefits liability.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to postemployment health care and life insurance benefits will be recognized as follows:

<b>Fiscal Years ending June 30,</b>	<b>Amount</b>
2022	\$ (178,046)
2023	(171,983)
2024	(65,881)
2025	(80,951)
	\$ (496,861)

## **11. Project Expenditures and Commitments**

### **University Projects**

University projects are comprised of extramurally sponsored, internally funded and other projects. The Internal 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 and other projects, the University establishes the requirements and, accordingly, 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.

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.

### **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.

**Research Corporation of the University of Hawai'i**  
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**June 30, 2021 and 2020**

Project expenditures, less advances and reimbursements from sponsors, are accounted for within project accounts which are reflected on the Corporation's statements of net position. Except for direct intergovernmental projects that fall under the Corporation's responsibility, these transactions are not reflected on the Corporation's statements of revenues, expenses, and changes in net position. Project expenditures for the fiscal years ended June 30, 2021 and 2020 were as follows:

	<u>University Projects</u>	<u>Direct Projects</u>	<u>Total</u>
<b>2021</b>			
Salaries and wages	\$ 105,332,364	\$ 9,308,631	\$ 114,640,995
Equipment	13,948,941	65,410	14,014,351
Other	<u>128,288,913</u>	<u>4,350,802</u>	<u>132,639,715</u>
	<u>\$ 247,570,218</u>	<u>\$ 13,724,843</u>	<u>\$ 261,295,061</u>
<b>2020</b>			
Salaries and wages	\$ 99,876,012	\$ 9,313,517	\$ 109,189,529
Equipment	14,604,720	62,085	14,666,805
Other	<u>141,307,255</u>	<u>5,381,834</u>	<u>146,689,089</u>
	<u>\$ 255,787,987</u>	<u>\$ 14,757,436</u>	<u>\$ 270,545,423</u>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net position were approximately \$52,881,000 and \$49,646,000 at June 30, 2021 and 2020, respectively.

## 12. Operating Leases

The Corporation occupies office space under month-to-month operating leases. The leases provide that the Corporation also pay taxes, maintenance and certain other operating expenses applicable to the leased premises. Total office and equipment rental expenses for the fiscal years ended June 30, 2021 and 2020 was \$291,077 and \$288,606, respectively, which includes \$271,971 and \$268,303, respectively, of office rental expense under the operating leases for the fiscal years ended June 30, 2021 and 2020.

## 13. 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 windstorm losses, losses from earthquake, flood, boiler and machinery, and terrorism.

The Corporation has general liability insurance under the State. Major exclusions include pollution, asbestos, airport, aircraft and medical-professional losses. The State program also includes crime insurance.

**Research Corporation of the University of Hawai'i**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021 and 2020**

The Corporation also purchases commercial insurance policies to supplement the State of Hawai'i insurance program, as needed.

The Corporation's insurance policies and those in which it is covered under the statewide insurance program are subject to various deductibles.

**Workers' Compensation**

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 an estimate for claims that have been incurred but not reported. At June 30, 2021 and 2020, the workers' compensation reserve amounted to \$546,061 and \$795,994, respectively, and is reported as a current liability in the accompanying statements of net position. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

The following is a summary of changes in the workers' compensation reserve for the fiscal years ended June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
<b>Beginning balance</b>	\$ 795,994	\$ 865,587
Payments on claims	(59,452)	(68,385)
Claim adjustment	(195,481)	--
Other (interest credits, etc.)	<u>5,000</u>	<u>(1,208)</u>
<b>Ending balance</b>	\$ <u>546,061</u>	\$ <u>795,994</u>

For workers' compensation losses incurred after June 30, 1997, including employer's liability losses, the Corporation has a retrospective rated insurance plan with a commercial insurance company. 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, 2021 and 2020, the unemployment reserve was \$1,086,581 and \$1,890,709, respectively, and is reported as a current liability in the accompanying statements of net position.

**14. Commitments**

At June 30, 2021, the Corporation had outstanding contract commitments through June 30, 2022, related to software license fees and software development and maintenance of \$793,047.

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

**Research Corporation of the University of Hawai'i  
State of Hawai'i**  
**SCHEDULE OF CHANGES IN POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE  
BENEFITS LIABILITY AND RELATED RATIOS (UNAUDITED)**  
**Years Ended June 30, 2021, 2020, 2019, and 2018**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total postemployment health care and life insurance benefits liability</b>				
Service cost	\$ 124,671	\$ 110,852	\$ 89,027	\$ 86,413
Interest	74,773	71,285	89,798	87,228
Differences between expected and actual experience	(174,773)	(99,009)	(574,496)	--
Changes of assumptions or other inputs	(236,598)	186,375	(53,351)	81,744
Benefit payments	<u>(25,313)</u>	<u>(29,293)</u>	<u>(32,971)</u>	<u>(29,994)</u>
Net change in total postemployment health care and life insurance benefits liability	(237,240)	240,210	(481,993)	225,391
<b>Total postemployment health care and life insurance benefits liability</b>				
Beginning of year	<u>2,698,904</u>	<u>2,458,694</u>	<u>2,940,687</u>	<u>2,715,296</u>
End of year	\$ <u>2,461,664</u>	\$ <u>2,698,904</u>	\$ <u>2,458,694</u>	\$ <u>2,940,687</u>
Covered-employee payroll	\$ 117,945,000	\$ 112,892,000	\$ 110,401,000	\$ 113,696,000
Total postemployment health care and life insurance benefits liability as a % of covered-employee payroll	2.09%	2.39%	2.23%	2.59%

**Changes of Assumptions or Other Inputs**

Changes in assumptions or other inputs reflect the effects of changes in the discount rate each period.

The following are the discount rates used in each period:

2021	2.18%
2020	2.66%
2019	2.79%
2018	2.98%
2017	3.13%

**Notes:**

- 1) The Corporation funds the postemployment health care and life insurance benefits plan on a pay-as-you-go basis. Accordingly, there are no assets currently accumulated in a trust that may be used to pay benefits at a future date.

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the 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, the financial statements of the Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation"), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 28, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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 financial statements. 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*N&K CPAs, Inc.*

Honolulu, Hawai'i  
October 28, 2021

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
STATE OF HAWAII**

**FINANCIAL SCHEDULE  
WITH INDEPENDENT AUDITOR'S REPORT**

Fiscal Year Ended June 30, 2021



**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII  
STATE OF HAWAII**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying schedule of management fees ("Schedule") of the Research Corporation of the University of Hawai'i, State of Hawai'i ("Corporation"), for the fiscal year ended June 30, 2021, and the related note to the Schedule.

### Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the provisions of the Internal Agreement dated June 28, 1996, including amendments and addenda ("Agreement"), between the Corporation and the University of Hawai'i ("University"); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the management fees of the Corporation for the fiscal year ended June 30, 2021, in accordance with the Agreement referred to above.

### **Basis of Accounting**

We draw attention to Note 1 to the Schedule, which describes the basis of accounting. The Schedule was prepared by the Corporation on the basis of the provisions of the Agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the provisions of the Agreement referred to above. Our opinion is not modified with respect to that matter.

### **Report on the Financial Statements**

We have audited, 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, the financial statements of the Corporation as of and for the fiscal year ended June 30, 2021, and our report thereon dated October 28, 2021, expressed an unmodified opinion on those financial statements.

### **Restriction on Use**

This report is intended solely for the information and use of the board of directors and management of the Corporation, and the board of regents and management of the University, and is not intended to be and should not be used by anyone other than these specified parties.

*N&K CPAs, Inc.*

Honolulu, Hawai'i  
October 28, 2021

**Research Corporation of the University of Hawai'i**  
**State of Hawai'i**  
**SCHEDULE OF MANAGEMENT FEES**  
**Fiscal Year Ended June 30, 2021**

<b>Modified total direct costs, as defined</b>	
University projects	\$ 154,824,078
All projects	206,028,921
Ratio of university projects to all projects	75.1%
Operating expenses	<u>7,213,872</u>
Management fees earned by the Corporation	5,417,618
Add: East West Center rent cost recovery	<u>113,913</u>
Total management fees	5,531,531
Less: Payments received during the year	<u>(6,143,080)</u>
Increase in amount due from the University	(611,549)
<b>Amount due from University</b>	
Beginning of year	<u>1,933,193</u>
End of year	\$ <u><u>1,321,644</u></u>

The accompanying note is an integral part of this schedule.

**Research Corporation of the University of Hawai'i  
State of Hawai'i  
NOTE TO SCHEDULE OF MANAGEMENT FEES  
Fiscal Year Ended June 30, 2021**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of management fees ("Schedule") is prepared based on the terms of the agreement between the Research Corporation of the University of Hawai'i ("Corporation") and the University of Hawai'i ("University") dated June 28, 1996, including amendments and addenda, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Management Fees**

The Corporation is reimbursed for administrative expenses incurred while providing specialized administrative services to projects of the University.

Management fees are based on the Corporation's operating expenses multiplied by the modified total direct costs ("MTDC") for University extramural projects over the MTDC for all projects.

**Modified Total Direct Costs**

MTDC include all direct salaries and wages, fringe benefits, materials and supplies, services, travel, and the first \$25,000 of each subaward (as defined in Section 200.68, Modified Total Direct Cost, of Part 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, of the Code of Federal Regulations). MTDC exclude equipment, capital expenditures, rental costs, tuition remission, scholarships and fellowships, the portion of each subaward in excess of \$25,000, and charges from specialized service facilities.

Project expenditures of University projects, revolving funds, specialized service facilities and recharge center charges, and any other non-University extramurally-sponsored research or training awards are included in the calculation of total MTDC.

MTDC of University extramural projects and all other projects for the fiscal year ended June 30, 2021 are reflected on a cash basis of accounting as follows:

	<u>University Extramural Projects</u>	<u>Other Projects</u>	<u>All Projects</u>
Total expenditures	\$ 206,162,197	\$ 55,132,864	\$ 261,295,061
Exclusions	<u>(51,338,119)</u>	<u>(3,928,021)</u>	<u>(55,266,140)</u>
Modified total direct cost	<u>\$ 154,824,078</u>	<u>\$ 51,204,843</u>	<u>\$ 206,028,921</u>

**East-West Center Rent Cost Recovery**

The Corporation is entitled to a reimbursement from the University for expenses incurred by the Corporation to rent office space at the East-West Center.

**Subsequent Events**

The Corporation has reviewed all events that have occurred from July 1, 2021 through October 28, 2021, the date that the Schedule was available for issuance, for proper accounting and disclosure in the Schedule.



## RCUH BOARD OF DIRECTORS MEETING – DECEMBER 14, 2021 EXECUTIVE DIRECTOR'S REPORT

This report presents programmatic updates and summarizes RCUH's major initiatives since the Board's September 7, 2021 meeting. It begins with updates, followed by a status report of the actions taken toward RCUH's Strategic Plan 2017-2021.

### UPDATES

#### COVID-19 Vaccination Policy for RCUH Employees

On December 3, 2021, RCUH released its COVID-19 policy that will go into effect on January 4, 2022. This policy is an addendum to Policy 3.930 RCUH Safety and Accident Prevention Policy and supersedes all prior RCUH COVID-19 advisories. It requires mandatory COVID-19 vaccinations for all current employees and new hires working in the United States by January 18, 2022, except for those who were requested and granted a religious or medical exemption. RCUH Director of Human Resources Nelson Sakamoto worked closely with UH's Legal Affairs and University General Counsel Office (OGC) and Deputy Attorney General Reese Nakamura to ensure consistency with UH's policy and compliance with necessary federal and state laws.

#### Multi-factor Authentication Efforts

RCUH convened its IT Council on October 18, 2021 and November 3, 2021 to kickoff discussions on implementing multi-factor authentication for RCUH's various systems. This topic was previously discussed in 2019, but was postponed due to the pandemic and budget cuts. RCUH invited UH VPIT/CIO Garret Yoshimi to both meetings to determine whether it would be possible for RCUH employees to be included under UH's existing agreements. The IT Council is currently evaluating user counts for each RCUH system and is in discussions with both UH and potential vendors.

### ACTIONS TAKEN TOWARD GOAL ACHIEVEMENT RCUH STRATEGIC PLAN 2017 – 2021

#### Goal 1. Enhance operations and services to improve quality services.

- **Assistant Facility Security Officer.** RCUH Director of Corporate Services Kaylee Hull has been named RCUH Assistant Facility Security Officer (AFSO), a new role that serves to support research projects that require security clearances. She will be assisting Executive Director Leonard Gouveia, Jr., who will continue to serve as the Facility Security Officer (FSO) for RCUH.
- **My COVID-19 Data App Employee Status Report.** This report provides up-to-date information on the COVID-19 vaccination/testing status of a project's active employees. Principal Investigators and supervisory staff may run this report at any time to review the list and follow up with non-compliant employee.

#### Goal 2. Enhance the ability of core and project staff to provide effective services to research, development, and training projects.

- **Annual Performance Evaluation Training.** In September, two (2) Annual Performance Evaluation training sessions were conducted by RCUH Director of Human Resources Nelson Sakamoto. A

little over a hundred Principal Investigators (PIs) and supervisory/administrative staff attended the hour-long session. Here are comments from a couple of participants:

- *I appreciated the discussion of ways to think about the rankings, what they actually signify, and the point made that a “needs improvement” ranking is not necessarily a negative thing, but can actually help to spark a discussion about something that is not working as well as it could, and to discuss ways that it can be improved.*
  - *Keep up the great work. These trainings are tremendously helpful to advising the PIs at my campus. I've also gotten calls from other units to clarify the process for PIs that did not attend the training.*
- **October Core Staff Meeting.** Alice Inoue, renowned author, MidWeek columnist, life expert, and the founder of Happiness U was the core staff's invited speaker at its October quarterly meeting. Her presentation, “Mastering the Many Facets of Change” resonated with the audience challenged by the pandemic, work and personal issues. Ninety-six percent of those responding to a survey strongly agreed/agreed that the content increased their knowledge and that they could use what was learned. One staff person commented, “This was one of my favorite presentations. The topic was relevant and relatable, and Alice was engaging. Especially with a lot of things going on in our work and personal lives, it was a good reminder that everything happens for you, not to you. I can see myself applying her advice to my everyday life.”

### Goal 3. Improve and expand communications at all levels.

- **Outstanding Employee of the Year Awards.** The RCUH Outstanding Employees of the Year Awards encourage, recognize, and reward RCUH employees who have made demonstrable, significant, and exemplary contributions to their project. This year, thirty-five women and men were nominated in three categories—Researcher/Project Manager, Project Support Staff, and Team. Each nominee received a certificate and small monetary award. In addition, first place winners received \$1,000 and second place winners received \$500, with teams sharing the respective monetary award. Executive Director Gouveia made a surprise Zoom meeting appearance to congratulate each of the first place awardees. We hope to resume production of nominee videos and hold an awards luncheon in 2022.
- **RCUH Wall Calendar.** The 2022 edition features a photo courtesy of the UH Mānoa Department of Physics and Astronomy. ANITA (Antarctic Impulsive Transient Antenna) flies over Antarctica as a stratospheric balloon to detect ultra-high energy neutrinos.

### Goal 4. Expand services to non-UH research, development, and training projects.

- **Direct Projects.** Project Administration team acquired 4 new direct projects. Specific details on the entities and needs are as follows:
  - **Hawaii Academy of Science-NOAA Science Fair 2021-2026.** RCUH has engaged with the Hawaii Academy of Science (HAS) to assist with procurement and administrative duties with the execution of the NOAA/Hawaii State Science & Engineering Fair (HSSEF). The HSSEF project promotes and encourages students from grades 6-12 to use scientific inquiry to examine an issue or problem while developing higher thinking skills. Project budget: \$80,000.
  - **COVID-19 Wastewater Surveillance.** RCUH has engaged with the Department of Health, State Laboratories Division for Human Resource services for the project. The project's purpose is to test for the presence of COVID-19 and other health threats in Hawai'i's

wastewaters. RCUH’s role is to primarily provide Human Resource services to hire and recruit a project lead for the wastewater surveillance project. This position would develop and maintain collaborative efforts with the CDC’s National Wastewater Surveillance System (NWSS). Project budget: \$234,000.

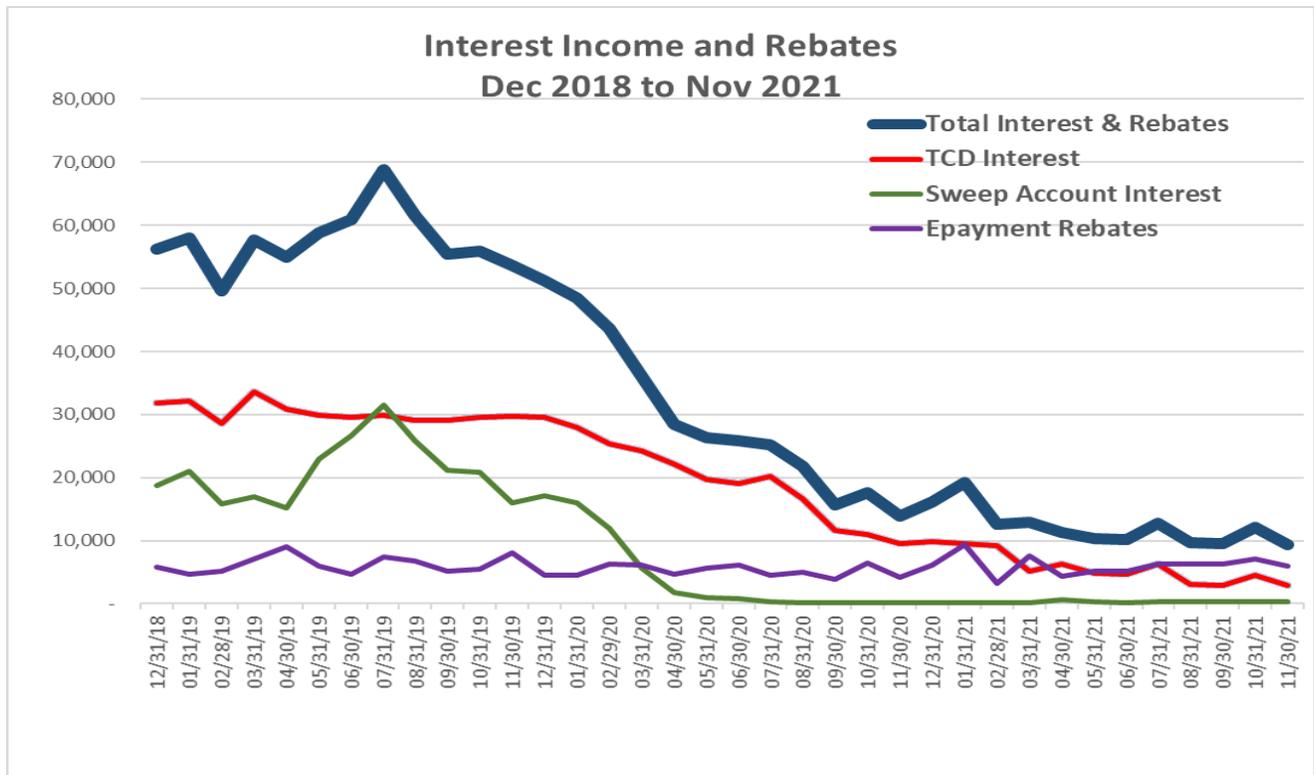
- **Aloha + Challenge Dashboard.** RCUH has engaged with HawaiiLocal200 Hub, a not-for-profit organization, to assist with Human Resource, procurement and administrative services for the Aloha + Challenge Dashboard project. The objective of this project is to design and develop an enhanced impact dashboard to track progress on Hawai’i’s sustainability goals and serve as a model for other island economies who are working on similar goals. Project budget: \$1,000,000
- **Mastering the Photonic Lantern.** RCUH assisted Subaru Telescope in securing a service contract award with the California Institute of Technology’s Mastering the Photonic Lantern project. The service contract calls for Subaru Telescope to provide access and support to Subaru’s telescope and instruments on Maunakea. Project budget: \$60,000

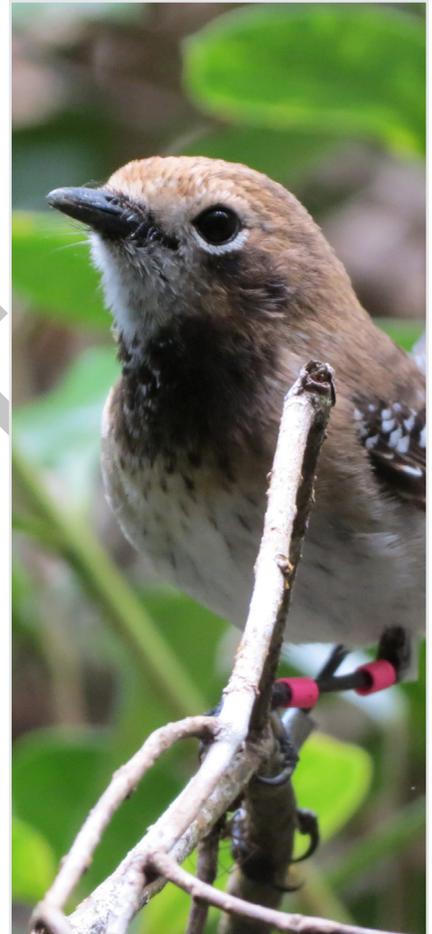
**Goal 5. Serve as convener to highlight issues of importance to research, development, and training in Hawai’i and the Pacific region.**

- **2022 Forum:** The topic for the 2022 RCUH Forum is being discussed at this time, with the event likely scheduled for March or April.

**Goal 6. Secure revenues to ensure financial security and quality services.**

- **Interest Income and Rebates.** Total interest and rebate income for the month of November 2021 was approximately \$9,300. The current yields on 12-month TDCs are currently in the range from 0.10% to 0.25% and the sweep account yields have also been about 0.05%.





# 2022-2026 STRATEGIC PLAN

The 2022-2026 RCUH Strategic Plan was created by the RCUH Leadership Team and adopted by the RCUH Board of Directors on \_\_\_\_\_. It serves as the basis of a living document to be reviewed annually. Although the primary goals will remain relatively constant, additions and revisions may be made to the objectives and benchmarks as conditions change.

GOAL 1: EVALUATE AND IMPLEMENT RECOMMENDATIONS FROM THE RCUH TASK FORCE		2022	2023	2024	2025	2026
OBJECTIVE	BENCHMARKS					
A. Update the UH/RCUH Internal Agreement	1. Evaluate and determine an appropriate fee structure between UH and RCUH 2. Create specific guidelines for UH and RCUH roles, responsibilities, expectations, and obligations 3. Complete negotiations no later than April 30, 2022 with an effective date of June 30, 2023 4. Include a clause that requires a review of the Internal Agreement every five years (or earlier) 5. Evaluate decoupling major infrastructure investments from the UH management fee	<input type="checkbox"/>				
B. Determine the appropriate level of and proper use of RCUH's reserves, line of credit	6. Develop policy regarding appropriate RCUH reserve levels and use, including coverage of UH/RCUH liabilities 7. Provide board report specific to annual reserve usage 8. Evaluate purpose and need for line of credit	<input type="checkbox"/>				
C. Collaborate with UH in an effort to minimize IT costs	9. Collaborate with UH IT on replacement of RCUH's AS 400 system 10. Collaborate with UH IT on solicitation and implementation of MFA system 11. Determine and evaluate areas for possible integration between UH and RCUH systems	<input type="checkbox"/>				
GOAL 2: CLARIFY RCUH'S IDENTITY WITH UH AND THE STATE.		2022	2023	2024	2025	2026
OBJECTIVE	BENCHMARKS					
A. Clearly define RCUH's role and relationship with UH, State of Hawai'i	12. Revisit the RCUH/State of Hawai'i's Master Agreement and determine if an update or clarification is necessary 13. Engage with stakeholders to establish guidelines, expectations for RCUH's scope of work 14. Evaluate and possibly revise RCUH's mission, vision statement	<input type="checkbox"/>				
B. Ensure stakeholders understand RCUH's role and limitations	15. Increase engagement with board members 16. Develop marketing strategy, materials for outreach purposes 17. Educate government agencies, private companies, not-for-profits about RCUH's services and capabilities	<input type="checkbox"/>				

GOAL 3: REFORM RCUH'S INTERNAL OPERATIONS.		2022	2023	2024	2025	2026
OBJECTIVE	BENCHMARKS					
A. Identify and implement efficiencies in RCUH's operations	18. Evaluate internal procedures and streamline for efficiencies	<input type="checkbox"/>				
	19. Perform operational audit/SWOT analysis and consider recommendations for improvements	<input type="checkbox"/>				
	20. Identify and prioritize RCUH services to accommodate budget reduction, if necessary	<input type="checkbox"/>				
	21. Evaluate current roles/positions to consider modification of RCUH's organizational chart	<input type="checkbox"/>				
	22. Develop a formal remote work policy	<input type="checkbox"/>				
	23. Establish a single physical location for core staff	<input type="checkbox"/>				
B. Invest in development of RCUH core staff	24. Professional development plan for core staff developed and implemented as necessary and appropriate for each position	<input type="checkbox"/>				
	25. Develop SOPs for each core staff position	<input type="checkbox"/>				
	26. Utilize and implement feedback from core staff	<input type="checkbox"/>				
	27. Increase retention of core staff	<input type="checkbox"/>				
C. Ensure systems are secure and in compliance with applicable policies, regulations	28. Perform security audit of RCUH practices and consider recommendations for improvements	<input type="checkbox"/>				
	29. Implement MFA for all RCUH systems no later than calendar year 2022	<input type="checkbox"/>				
	30. Develop and implement an action plan for data and systems security	<input type="checkbox"/>				
	31. Conduct random inspections to ensure internal policies are being followed	<input type="checkbox"/>				
D. Reduce the administrative burden for researchers	32. Re-evaluate RCUH's policies and procedures by the end of 2023; modify as appropriate	<input type="checkbox"/>				
	33. Develop digital user guides, manuals for RCUH transactions	<input type="checkbox"/>				
E. Enhance IT systems to reduce manual processes and eliminate paper documents*	34. Re-evaluate and prioritize IT initiatives based on available budget	<input type="checkbox"/>				
	35. Replace AS 400 system	<input type="checkbox"/>				
	36. Develop electronic service order processing for intramural/revolving accounts	<input type="checkbox"/>				
* Additional benchmarks will be added at a later time upon re-evaluation of the 2020 IT Transformation Plan, and dependent upon available funds						

GOAL 4: INCREASE ENGAGEMENT AND OUTREACH TO CLIENTS.		2022	2023	2024	2025	2026
OBJECTIVE	BENCHMARKS					
A. Strengthen relationships with PIs, FAs, and Project Staff	37. Consider focus groups with PIs, FAs, and Project Staff to generate ideas on efficiencies and create consistencies	<input type="checkbox"/>				
	38. Schedule annual meetings on all islands for RCUH Leadership Team and PIs	<input type="checkbox"/>				
	39. Conduct virtual Q&A sessions each quarter on various RCUH-related topics	<input type="checkbox"/>				
	40. Coordinate professional development opportunities for project staff	<input type="checkbox"/>				
B. Improve external communications to projects	41. Develop communication strategy based on use of current platforms	<input type="checkbox"/>				
	42. Respond to inquiries in a timely manner	<input type="checkbox"/>				
	43. Conduct annual forum on research-related topics	<input type="checkbox"/>				
	44. Collaborate with UH on transparency and use of targeted communications (consider adoption or modification for RCUH needs)	<input type="checkbox"/>				

## 2022 ANNUAL PLAN

### In 2022, RCUH plans to focus on the following objectives:

- Update the UH/RCUH Internal Agreement
- Collaborate with UH in an effort to reduce IT costs
- Ensure stakeholders understand RCUH's role and limitations
- Identify and implement efficiencies in RCUH's operations
- Ensure systems are secure and in compliance with applicable policies, regulations
- Strengthen relationships with PIs, FAs, and Project Staff