

**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 HAWAII
STATE OF HAWAII
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
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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 HAWAI'I
STATE OF HAWAI'I
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 HAWAI'I
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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

	2021	2020
Assets and Deferred Outflows of Resources		
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>
Liabilities and Deferred Inflows of Resources		
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	--	--
Net position		
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

	2021	2020
OPERATING REVENUES		
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
OPERATING EXPENSES		
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>
NONOPERATING REVENUES (EXPENSES)		
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)
NET POSITION		
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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
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>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
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>
CASH FLOWS FROM INVESTING ACTIVITIES		
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)
CASH AND CASH EQUIVALENTS		
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>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
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.

Research Corporation of the University of Hawai'i
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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>
2021				
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>
2020				
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:

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

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:

	2021	2020
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.

Salary Increases:	3.00%, including inflation
Discount Rate:	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.
Healthcare Cost Trend Rate:	2021 - 7.50%
	2020 - 7.75%
Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate):	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>
Balance at beginning of fiscal year	\$ 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>
Balance at end of fiscal year	<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.

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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:

	1% Decrease	Current Discount Rate	1% Increase
2021	1.18%	2.18%	3.18%
Total postemployment health care and life insurance benefits liability	\$ 2,872,213	\$ 2,461,664	\$ 2,140,138
	1% Decrease	Current Discount Rate	1% Increase
2020	1.66%	2.66%	3.66%
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:

	1% Decrease	Current Trend Rate	1% Increase
2021	6.50%	7.50%	8.50%
Total postemployment health care and life insurance benefits liability	\$ 2,364,563	\$ 2,461,664	\$ 2,574,546
	1% Decrease	Current Trend Rate	1% Increase
2020	6.75%	7.75%	8.75%
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

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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:

Fiscal Years ending June 30,	Amount
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.

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Project expenditures, less advances and reimbursements from sponsors, are accounted for within project accounts which are reflected on the Corporation's statements of net 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>
2021			
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>
2020			
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>
Beginning balance	\$ 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>
Ending balance	\$ <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>
Total postemployment health care and life insurance benefits liability				
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
Total postemployment health care and life insurance benefits liability				
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