

Audit Committee Meeting

**Wednesday, October 26, 2022
Remote Meeting
7:30 a.m.**



Remote Meeting
AUDIT COMMITTEE
Board of Directors

The Research Corporation of the University of Hawai'i
Date: Wednesday, October 26, 2022 | Time: 7:30 a.m.
In-Person Location: Mānoa Innovation Center, 2nd Floor Boardroom
2800 Woodlawn Drive, Honolulu, HI 96822

A G E N D A

Public Testimony on Agenda Items

Written testimony may be submitted via email to rcuhed@rcuh.com; U.S. mail to 2800 Woodlawn Drive, Suite 200, Honolulu, HI 96822; or facsimile to (808) 988-8319. All written testimony submitted are public documents and will be posted on the board's website and distributed to the board.

Oral testimony may be provided in person, or virtually by clicking the link:

<https://hawaii.zoom.us/j/91453295798?pwd=VGRVT0J0QUxwSTd1RUlXZdSUXY2dz09>

- Webinar ID: 914 5329 5798
- Passcode: 444205

Individuals can also provide oral testimony via phone by calling +1 (213) 338 8477. Oral testimony will be limited to three (3) minutes per testifier.

1. Call to Order
2. Overview of Audit Committee Responsibilities
3. Approval of Minutes of March 1, 2022 Meeting
4. N&K Presentation of Audited Financial Statement for Fiscal Year Ending 6/30/2022
5. Acceptance of Audited Financial Statement for Fiscal Year Ending 6/30/2022
6. Adjourn

c: Office of the Lieutenant Governor

Individuals who require an auxiliary aid/service or other accommodation due to a disability should contact Kaylee Hull at (808) 988-8311 or rcuhed@rcuh.com as soon as possible, preferably by October 24, 2022. If a response is received after October 24, 2022, we will try to obtain the auxiliary aid/service or accommodation, but we cannot guarantee that the request will be fulfilled.

Upon request, this notice is available in alternate formats, such as large print, Braille, or electronic copy.



DRAFT Minutes
AUDIT COMMITTEE
Research Corporation of the University of Hawai'i
Tuesday, March 1, 2022
Virtual Meeting

PRESENT

Audit Committee members: Chair Ken Hayashida, Gene Bal, Michael Maberry (non-voting), Wally Chin (ad hoc member). Excused: Joseph Pickard

RCUH Staff: Leonard Gouveia, Glenn Yee, Maile Brooks, Kaylee Hull

CALL TO ORDER

The meeting was called to order at 8:31 a.m. by Chair Hayashida.

PUBLIC COMMENT PERIOD (IF APPLICABLE)

No written or oral testimony was received.

APPROVAL OF MINUTES

The minutes of the October 28, 2021 meeting were approved as circulated.

N&K MANAGEMENT LETTER FOR 6/30/2021 AUDIT

Mr. Yee highlighted several bullets in the N&K Management letter. He explained that the first bullet was an adjustment of was an adjustment to the accounts payable and receivable balances to and from the University of Hawai'i. The auditors performed a search for unrecorded liabilities to ensure our liabilities at the end of the fiscal year are properly stated. Mr. Yee categorized it as a processing error since RCUH is dependent on the UH projects for information on unrecorded liabilities. Because the process is decentralized, in terms of how the payables function, this will be a recurring comment. Mr. Yee noted that it has been commented in the past. He added that staff has caught the larger unrecorded liabilities, but there may be some that will slip through.

The second bullet point is a comment on RCUH's cash flow statement and was categorized as a technical accounting error. Mr. Yee explained that RCUH has a laddered Certificates of Deposit (CD) program that have CDs essentially maturing monthly, and the issue stems from how these maturing and re-purchase of CDs are recorded in RCUH's cash flow statement. Historically, RCUH has recorded the renewal of CDs with the same bank as a redemption as well as a purchase. However, accounting standards indicate that this method should only be used when the purchase of the CD is with a different bank. While the previous auditor did not flag this as an issue, RCUH staff agreed with the comment and made the change.

The third bullet point is another technical accounting error. Mr. Yee explained that RCUH records sick leave and vacation leave accruals based on an employee's pay. N&K had inquired previously whether the fringe benefits (employer's portion of taxes at 7.6%) should be included in that accrual. Mr. Yee stated that RCUH did not make an adjustment in the Fiscal Year 2020 audit since the entry was not material, however the adjustment was made for the Fiscal Year 2021 audit. However, RCUH had recorded accruals to the wrong account since some of the accruals are related to the prior year and should have been made to the balance sheet (i.e. Net Position account). Adjustments have been made to fix the error.

Lastly, N&K concluded the letter with a recommendation to exercise greater care during the year-end closing process. Mr. Yee acknowledged the comment and shared that RCUH will try to be more careful with its processes. Staff currently use a checklist to close out the year and will incorporate

some of N&K's recommendations to that document. N&K had previously recommended that RCUH incorporates the use of a checklist.

UPDATE ON NEW ACCOUNTING STANDARD FOR LEASES (GASB 87)

Mr. Yee recalled that this topic was briefly touched upon at the last committee meeting with the auditor. He reported that the Government Accounting Standards Board (GASB) released a new pronouncement on how to treat leases. Prior to this change, RCUH had recorded leases as an expense in its financial statements. The new standard calls on RCUH to set up leases as an asset in our books and a liability to the lessor.

In the last meeting, we touched upon it briefly with the auditor there about this GASB 87. GASB is the government accounting standards board. They have put out a new pronouncement in terms of how we treat leases. Prior to this standard, our leases were treated on our financial statements as an expense. GASB has instituted a new policy where leases are to be reflected as an asset as well as a liability to the lessor. This change will be reflected in this year's financial statements for the FY ending 2022. We will be restating prior year's financials for 2021 for this change. We have been in discussions with UH regarding leases on the research projects that RCUH services for the UH. RCUH is in a unique position where RCUH enters into lease agreements for the benefit of UH's research projects, RCUH is working with UH to determine how or if these leases should be reflected on RCUH's financial statements.

N&K CPAS FEE PROPOSAL FOR 6/30/2022 AUDIT

Mr. Yee explained that RCUH annually approves the auditor and fee proposal, but if a proposal is deemed unsatisfactory by the committee, RCUH can initiate a new Request for Proposal. N&K CPAs proposed a 4% increase from last year's fees. The auditor initially proposed a 5.5% increase, but the rate was negotiated down to 4%. Mr. Yee believes this is a reasonable proposal since N&K was willing to accept no increase for FY 2021's audit in an effort to decrease RCUH's costs.

Mr. Chin inquired whether RCUH staff was satisfied with N&K's service level and Ms. Brooks stated she was happy with N&K's services. Mr. Yee added that they were reasonable and understanding in trying to accommodate delays on RCUH's end. Although they have the ability to charge RCUH for delays, they have not done so as of yet. Director Bal cited a few best practices, which included the changing of auditors and changing of managers every five years or so. He stated that this will be the third year RCUH has used N&K as its auditor, after previously working with Accuity for seven years. Chair Hayashida concurred that RCUH should definitely put out an RFP at the five-year mark.

Upon motion made (Bal), seconded (Chin), and duly carried, the auditor and fee proposal were approved by the Audit Committee, to be ratified by the RCUH Board of Directors.

ADJOURNMENT

The meeting adjourned at 8:49 a.m.

Kaylee Hull
Executive Administrator

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

**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, 2022 and 2021

DRAFT



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

999 BISHOP STREET, SUITE 2200 | HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090 | nkcpa.com

RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII

STATE OF HAWAII

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3 - 5
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	6 - 12
FINANCIAL STATEMENTS	
Statements of Net Position	13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows	15 - 16
Notes to Financial Statements	17 - 33
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS	
Schedule of Changes in Postemployment Health Care and Life Insurance Benefits Liability and Related Ratios (Unaudited)	35
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	37 - 38

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the Research Corporation of the University of Hawai'i (Corporation), a component of the University of Hawai'i, as of and for the fiscal years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2022 and 2021, and the changes in 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 - 12 and the schedule of changes in postemployment health care and life insurance benefits liability and related ratios on page 33 be presented to supplement the basic financial statements. Such information is the responsibility of

management and, 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 GAAS, 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 XX, 2022** 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.

Honolulu, Hawai'i
October XX, 2022

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2022 and 2021**

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, 2022. It includes selected comparative information with the fiscal years ended June 30, 2021 and 2020. 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 is 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 improved with a 10% increase from 2021 to 2022. The increase in volume of business correlates to an increase in research awards to the University. The Corporation had experienced a leveling of business activity for the fiscal years 2016 through 2021, following a decline in activity for the fiscal years 2013 through 2015.

Fiscal Year	Project Expenditures	Annual	
		(Decrease) Increase	(Decrease) Increase
2022	\$ 287,977,672	\$ 26,682,611	10%
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%)

For the fiscal year ended June 30, 2022, the Corporation was required to implement Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. As a result of adopting this standard, comparability with reports issued in prior years may be affected. It was management's determination that a restatement of the financial statements for 2022 and 2021 was not necessary due to immateriality.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I
STATE OF HAWAI'I
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Years Ended June 30, 2022 and 2021**

Using the Financial Statements

The financial reports of the Corporation include three statements:

- The statements of net position summarize assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, 2022 and 2021**

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, 2022, 2021 and 2020 are summarized below:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 52,652,187	\$ 43,570,646	\$ 40,880,000
Noncurrent assets	--	--	1,750,000
Capital assets	<u>2,429,469</u>	<u>2,830,822</u>	<u>3,260,152</u>
Total assets	55,081,656	46,401,468	45,890,152
Deferred outflows of resources	<u>86,456</u>	<u>138,003</u>	<u>189,550</u>
Total assets and deferred outflows of resources	\$ <u>55,168,112</u>	\$ <u>46,539,471</u>	\$ <u>46,079,702</u>
Current liabilities	\$ 40,419,330	\$ 31,596,937	\$ 31,291,424
Noncurrent liabilities	<u>4,207,587</u>	<u>4,826,947</u>	<u>4,919,604</u>
Total liabilities	44,626,917	36,423,884	36,211,028
Deferred inflows of resources	<u>968,928</u>	<u>634,864</u>	<u>453,086</u>
Total liabilities and deferred inflows of resources	45,595,845	37,058,748	36,664,114
Net position			
Net investment in capital assets	2,172,035	2,830,822	3,260,152
Unrestricted	<u>7,400,232</u>	<u>6,649,901</u>	<u>6,155,436</u>
Total net position	<u>9,572,267</u>	<u>9,480,723</u>	<u>9,415,588</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>55,168,112</u>	\$ <u>46,539,471</u>	\$ <u>46,079,702</u>

Overall, the Corporation's financial condition at June 30, 2022 remains stable.

Assets

Current assets consist primarily of cash and cash equivalents, money market mutual funds, time certificates of deposit and receivables. Current assets increased by 21% from 2021 to 2022 mainly due to an increase in receivables from the University for project cost reimbursements, and relates to the increase in accounts payable for vendor payments. Current assets increased by 7% from 2020 to 2021 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, 2022 and 2021**

Capital asset acquisitions for 2022 and 2021 totaled \$495,684 and \$443,979, respectively. Significant acquisitions were made in 2021 to invest in the Corporation's information technology infrastructure by developing and enhancing software applications for human resources and financial services. Depreciation and amortization expense for 2022 and 2021 was \$897,037 and \$873,309, respectively.

Liabilities

Current liabilities consist primarily of accounts payable and accrued salaries. Current liabilities increased by 28% from 2021 to 2022 and increased by 1% from 2020 to 2021 as a result of the timing of payments to vendors.

Noncurrent liabilities decreased by 13% from 2021 to 2022 and decreased by 2% from 2020 to 2021. Long-term debt additions for 2022 totaled \$354,909. Significant additions were made in 2022 for the recognition of lease liabilities related to the implementation of GASB Statement No. 87, Leases. Other 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

Net investment in capital assets at June 30, 2022 and 2021 totaled \$2,172,035 and \$2,830,822, respectively.

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, 2022 and 2021**

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, 2022, 2021 and 2020 are summarized as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues			
University of Hawai'i	\$ 6,705,099	\$ 6,665,561	\$ 7,760,462
Other sponsoring agencies	<u>732,743</u>	<u>552,855</u>	<u>593,243</u>
Total operating revenues	7,437,842	7,218,416	8,353,705
Operating expenses			
Personnel costs	3,778,162	4,098,339	4,673,097
Data processing services	1,171,655	1,139,123	1,609,753
Depreciation and amortization	897,037	873,309	764,318
Insurance	574,374	477,322	436,680
Professional and technical support	261,613	151,610	196,445
Office and equipment rental	179,901	291,077	288,606
Other expenses	506,720	297,194	578,994
Project development	<u>--</u>	<u>--</u>	<u>500,000</u>
Total operating expenses	<u>7,369,462</u>	<u>7,327,974</u>	<u>9,047,893</u>
Operating income (loss)	68,380	(109,558)	(694,188)
Nonoperating revenues			
Intergovernmental (Federal awards)			
Revenue	349,424	307,889	191,730
Expense	(349,424)	(307,889)	(191,730)
Interest income	167,550	199,670	555,366
Unrealized loss	<u>(144,386)</u>	<u>(24,977)</u>	<u>--</u>
Increase (decrease) in net position	91,544	65,135	(138,822)
Net position			
Beginning of year	<u>9,480,723</u>	<u>9,415,588</u>	<u>9,554,410</u>
End of year	\$ <u><u>9,572,267</u></u>	\$ <u><u>9,480,723</u></u>	\$ <u><u>9,415,588</u></u>

In fiscal year 2022, management fees earned from the University increased by 1% in comparison to fiscal year 2021. Under the terms of the Internal Agreement, the management fee for extramurally sponsored accounts is based on a percentage of administrative operating expenses. 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 3.3% of modified total direct costs for fiscal year 2022. Operating revenues earned from other sponsoring agencies increased as a result of the increase in volume of business for direct projects. The blended indirect cost rate for other sponsoring agencies was 3.1% for fiscal year 2022.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Years Ended June 30, 2022 and 2021**

In fiscal year 2021, management fees earned from the University decreased by 14% in comparison to fiscal year 2020. 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.

Operating expenses in fiscal year 2022 increased by 1% in comparison to fiscal year 2021. The slight increase was the result of the Corporation's overall efforts to maintain administrative operating expenses at a conservative level as the economy recovered from a downturn due to the COVID-19 pandemic.

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 as a response to the economic downturn. The decrease in administrative operating expenses was primarily attributed to a decrease in personnel costs, data processing costs, and project development costs.

For fiscal year 2022, the Corporation's net position (excess of assets over liabilities) increased by \$91,544 as a result of the year's activities. For fiscal year 2021, the Corporation's net position increased by \$65,135 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, 2022, 2021 and 2020 are summarized as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating activities			
Cash received from operations	\$ 7,857,216	\$ 8,235,545	\$ 7,605,984
Cash payments for operations	(6,302,378)	(6,558,201)	(8,192,458)
Project expenditures and reimbursements, net	<u>(3,697,056)</u>	<u>9,781,624</u>	<u>(7,919,874)</u>
Net cash provided by (used in) operating activities	(2,142,218)	11,458,968	(8,506,348)
Capital and related financing activities	<u>(238,250)</u>	<u>(443,979)</u>	<u>(807,883)</u>
Investing activities	<u>1,860,202</u>	<u>(4,565,164)</u>	<u>(3,367,382)</u>
Increase (decrease) in cash	(520,266)	6,449,825	(12,681,613)
Cash			
Beginning of year	<u>21,749,405</u>	<u>15,299,580</u>	<u>27,981,193</u>
End of year	\$ <u><u>21,229,139</u></u>	\$ <u><u>21,749,405</u></u>	\$ <u><u>15,299,580</u></u>

RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Years Ended June 30, 2022 and 2021

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 and related financing activities in 2022, 2021 and 2020 was due to fixed asset acquisitions which included the development and enhancement of software applications. The change in investing activities in 2022, 2021 and 2020 was mainly due to the redemption and purchase of time certificates of deposit.

Looking Forward

With the economy showing signs of improvement following the COVID-19 pandemic, management projects the volume of business to increase during fiscal year 2023. The University received approximately \$505,000,000 in extramural research and training awards during fiscal year 2022, which was a record high and an increase of 4% over fiscal year 2021. In 2021, the University received approximately \$486,000,000 in extramural research and training awards, an increase of 8% over fiscal year 2020.

With the intent to resume normalized operations, the Corporation budgeted revenues for fiscal year 2023 to reflect a marginal increase of 2% over fiscal year 2022. The budget for administrative operating expenses for fiscal year 2023 was approved with a 1% increase above the fiscal year 2022 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, 2022 and 2021

	2022	2021
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 18,692,136	\$ 18,594,540
Time certificates of deposit	12,946,000	15,726,329
Investments	3,931,537	2,988,246
Receivables		
University of Hawai'i, net	14,328,153	2,918,276
Allowance for doubtful accounts	(5,000)	(5,000)
Total receivables	14,323,153	2,913,276
Prepaid expenses	222,358	193,390
Restricted cash	2,537,003	3,154,865
Total current assets	52,652,187	43,570,646
Noncurrent assets		
Capital assets, net	2,429,469	2,830,822
Total noncurrent assets	2,429,469	2,830,822
Total assets	55,081,656	46,401,468
Deferred outflows of resources		
Deferred outflows for postemployment health care and life insurance benefits	86,456	138,003
Total deferred outflows of resources	86,456	138,003
Total assets and deferred outflows of resources	\$ 55,168,112	\$ 46,539,471
Liabilities and Deferred Inflows of Resources		
Current liabilities		
Accounts payable	\$ 18,606,021	\$ 8,832,450
Accrued salaries and other	16,083,442	16,815,443
Advances from other sponsoring agencies	4,441,023	4,074,402
Workers' compensation and unemployment claims reserve	922,265	1,632,642
Current portion of lease liability	118,579	--
Current portion of accrued supplemental retirement benefits	248,000	242,000
Total current liabilities	40,419,330	31,596,937
Noncurrent liabilities		
Lease liability	138,855	--
Accrued supplemental retirement benefits	2,165,513	2,365,283
Postemployment health care and life insurance benefits	1,903,219	2,461,664
Total noncurrent liabilities	4,207,587	4,826,947
Total liabilities	44,626,917	36,423,884
Deferred inflows of resources		
Deferred inflows for postemployment health care and life insurance benefits	968,928	634,864
Total deferred inflows of resources	968,928	634,864
Total liabilities and deferred inflows of resources	45,595,845	37,058,748
Commitments and contingencies		
	--	--
Net Position		
Net investment in capital assets	2,172,035	2,830,822
Unrestricted	7,400,232	6,649,901
Total net position	9,572,267	9,480,723
Total liabilities, deferred inflows of resources, and net position	\$ 55,168,112	\$ 46,539,471

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, 2022 and 2021

	2022	2021
Operating Revenues		
University of Hawai'i	\$ 6,705,099	\$ 6,665,561
Other sponsoring agencies	732,743	552,855
Total operating revenues	7,437,842	7,218,416
Operating Expenses		
Personnel costs	3,778,162	4,098,339
Data processing services	1,171,655	1,139,123
Depreciation and amortization	897,037	873,309
Insurance	574,374	477,322
Other expenses	299,901	119,751
Professional and technical support	261,613	151,610
Office and equipment rental	179,901	291,077
Office supplies and services	81,941	78,546
Professional services	47,120	47,120
Training material development	45,213	15,007
Tuition support	32,545	36,770
Total operating expenses	7,369,462	7,327,974
Operating income (loss)	68,380	(109,558)
Nonoperating Revenues (Expenses)		
Intergovernmental (Federal awards)		
Revenue	349,424	307,889
Expense	(349,424)	(307,889)
Interest income		
Cash, cash equivalents, money market mutual fund time certificates of deposit, and investments	167,550	199,670
Decrease in fair value of investments	(144,386)	(24,977)
Total nonoperating revenues	23,164	174,693
Increase in net position	91,544	65,135
Net Position		
Beginning of year	9,480,723	9,415,588
End of year	\$ 9,572,267	\$ 9,480,723

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, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Receipts for		
University of Hawai'i management fee	\$ 6,976,919	\$ 7,277,110
Other sponsoring agencies indirect cost recoveries	732,743	552,855
Refund for workers' compensation insurance policy premium	147,554	405,580
Payments to vendors	(2,542,478)	(2,422,447)
Payments for employee compensation	(3,759,900)	(4,135,754)
Project expenditures	(270,089,837)	(246,070,825)
Project cost reimbursements	<u>266,392,781</u>	<u>255,852,449</u>
Net cash provided by (used in) operating activities	<u>(2,142,218)</u>	<u>11,458,968</u>
Cash Flows from Capital Related and Financing Activities		
Purchase of capital assets	(136,875)	(443,979)
Principal payments on lease liability	<u>(101,375)</u>	<u>--</u>
Net cash used in capital and related financing activities	<u>(238,250)</u>	<u>(443,979)</u>
Cash Flows from Investing Activities		
Purchase of time certificates of deposits	(10,046,000)	(9,900,000)
Redemption of time certificate of deposits	12,826,329	8,150,000
Purchase of investments	(1,077,902)	(3,000,000)
Interest income received on cash deposits and investments	<u>157,775</u>	<u>184,836</u>
Net cash provided by (used in) investing activities	<u>1,860,202</u>	<u>(4,565,164)</u>
Increase (decrease) in cash and cash equivalents	(520,266)	6,449,825
Cash and Cash Equivalents		
Beginning of year	<u>21,749,405</u>	<u>15,299,580</u>
End of year	\$ <u>21,229,139</u>	\$ <u>21,749,405</u>
Cash and cash equivalents presented in the accompanying statements of net position		
Cash and cash equivalents	\$ 18,692,136	\$ 18,594,540
Restricted cash	<u>2,537,003</u>	<u>3,154,865</u>
	\$ <u>21,229,139</u>	\$ <u>21,749,405</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 (Continued)
Fiscal Years Ended June 30, 2022 and 2021

**Reconciliation of Operating Loss to Net Cash
Provided by (Used in) Operating Activities**

Operating income (loss)	\$	68,380	\$	(109,558)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation and amortization		897,037		873,309
Change in assets, liabilities, deferred outflows of resources, and deferred inflows of resources				
Receivables		(11,409,877)		10,280,310
Prepaid expenses		(28,968)		(31,274)
Accounts payable and accrued wages		9,041,570		605,625
Advances from other sponsoring agencies		366,621		739,949
Workers' compensation and unemployment claims reserve		(710,377)		(1,054,061)
Accrued supplemental retirement benefits		(193,770)		158,583
Postemployment health care and life insurance benefits		(558,445)		(237,240)
Deferred outflows for postemployment health care and life insurance benefits		51,547		51,547
Deferred inflows for postemployment health care and life insurance benefits		334,064		181,778
Net cash provided by (used in) operating activities	\$	<u>(2,142,218)</u>	\$	<u>11,458,968</u>

Noncash investing, capital and financing activities

Acquisition of capital assets financed with lease liabilities	\$	358,809	\$	--
---	----	---------	----	----

The accompanying notes are an integral part of these statements.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 ("sponsoring agencies"). 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 sponsoring agencies.

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.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

New Accounting Pronouncements

For 2022, the Corporation adopted GASB Statement No. 87, *Leases*. The Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. Changes adopted to conform to the provisions of this Statement should be applied retroactively by reporting the cumulative effect as a restatement of beginning net position. However, the beginning net position as of July 1, 2021 was not restated due to immateriality.

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, 2022.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Fair Value	\$ 24,338,752	\$ 25,063,477
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.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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.

The Corporation is committed under various lease agreements for office equipment and buildings (office space). The lease agreements provide that the Corporation also pay taxes, maintenance, and certain other operating expenses applicable to the leased equipment and office space. A lease asset is recognized if the present value of the future minimum lease payments for equipment and office space is in excess of \$5,000 and \$25,000, respectively, and the lease term exceeds one year.

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 4.90 to 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 4.90 to 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, 2022 and 2021 totaled \$6,858,447 and \$7,564,915, 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, 2022 and 2021, totaled \$327,873 and \$621,404, 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 Sponsoring Agencies in the accompanying statements of net position.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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.

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, 2022 or 2021.

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.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

3. Investments

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2022 and 2021:

	2022		2021	
	Fair Value	Cost	Fair Value	Cost
U.S. Treasury	\$ 3,106,652	\$ 3,242,324	\$ 2,115,183	\$ 2,134,675
U.S. Government agencies	683,003	716,694	847,840	853,325
Other investments	141,882	141,882	25,223	25,223
	<u>\$ 3,931,537</u>	<u>\$ 4,100,900</u>	<u>\$ 2,988,246</u>	<u>\$ 3,013,223</u>

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, 2022 and 2021 was (\$144,386) and (\$24,977), respectively.

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, 2022 was as follows:

	2022	Investment Maturities (in Years)		
	Fair Value	Less than 1	1 to 5	More than 5
U.S. Treasury	\$ 3,106,652	\$ 1,304,100	\$ 1,802,552	\$ --
U.S. Government agencies	683,003	237,810	445,193	--
Other investments	141,882	141,882	--	--
	<u>\$ 3,931,537</u>	<u>\$ 1,683,792</u>	<u>\$ 2,247,745</u>	<u>\$ --</u>

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 sponsoring agencies. 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 University or other sponsoring agencies. 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, 2022 and 2021:

	2022	2021
Extramurally sponsored accounts	\$ 34,783,288	\$ 23,497,419
Internally funded accounts	(7,926,334)	(6,996,639)
Revolving accounts	(11,629,170)	(11,433,381)
Ship operations revolving accounts	(5,143,173)	(4,611,708)
Miscellaneous agency accounts	3,778,718	1,725,941
Management fee	1,049,824	1,321,644
Advance	(585,000)	(585,000)
	<u>\$ 14,328,153</u>	<u>\$ 2,918,276</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$4,441,023 and \$4,074,402 at June 30, 2022 and 2021, respectively. Cash relating to a portion of the advances of 2,537,003 and 3,154,865 at June 30, 2022 and 2021, respectively, is restricted by the other sponsoring agencies.

5. Capital Assets

Capital assets activity for the fiscal years ended June 30, 2022 and 2021 were as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
2022				
Capital assets being depreciated				
Office equipment	\$ 657,002	\$ --	\$ (130,576)	\$ 526,426
Computer software	<u>9,038,688</u>	<u>136,875</u>	<u>--</u>	<u>9,175,563</u>
Total capital assets being depreciated	<u>9,695,690</u>	<u>136,875</u>	<u>(130,576)</u>	<u>9,701,989</u>
Less: Accumulated depreciation				
Office equipment	477,643	46,634	(130,576)	393,701
Computer software	<u>6,387,225</u>	<u>733,855</u>	<u>--</u>	<u>7,121,080</u>
Total accumulated depreciation	<u>6,864,868</u>	<u>780,489</u>	<u>(130,576)</u>	<u>7,514,781</u>
	<u>2,830,822</u>	<u>(643,614)</u>	<u>--</u>	<u>2,187,208</u>
Lease assets				
Office equipment	--	38,025	--	38,025
Office space	--	<u>320,784</u>	--	<u>320,784</u>
Total lease assets	--	<u>358,809</u>	--	<u>358,809</u>
Less: Accumulated amortization				
Office equipment	--	9,620	--	9,620
Office space	--	<u>106,928</u>	--	<u>106,928</u>
Total accumulated amortization	--	<u>116,548</u>	--	<u>116,548</u>
Total lease assets	--	<u>242,261</u>	--	<u>242,261</u>
Total capital assets, net	<u>\$ 2,830,822</u>	<u>\$ (401,353)</u>	<u>\$ --</u>	<u>\$ 2,429,469</u>

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

2021

Capital assets being depreciated

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>
Total capital assets being depreciated	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>
Total accumulated depreciation	<u>5,991,559</u>	<u>873,309</u>	<u>--</u>	<u>6,864,868</u>
Total capital assets, net	<u>\$ 3,260,152</u>	<u>\$ (429,330)</u>	<u>\$ --</u>	<u>\$ 2,830,822</u>

The following is a summary of changes in the lease liability for the fiscal year ended June 30, 2022:

	<u>2022</u>
Beginning balance	\$ --
Additions	358,809
Principal payments	<u>(101,375)</u>
Ending balance	257,434
Less: Current portion of lease liability	<u>(118,579)</u>
Noncurrent portion lease liability	<u>\$ 138,855</u>

At June 30, 2022, future minimum lease payments required under the lease agreements are as follows:

Fiscal years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Future Minimum Payments</u>
2023	\$ 118,579	\$ 5,165	\$ 123,744
2024	124,982	2,029	127,011
2025	5,831	224	6,055
2026	5,957	98	6,055
2027	<u>2,085</u>	<u>17</u>	<u>2,102</u>
	<u>\$ 257,434</u>	<u>\$ 7,533</u>	<u>\$ 264,967</u>

The Corporation occupies office space under month-to-month leases. The lease agreement provides that the Corporation also pay taxes, maintenance and certain other operating expenses applicable to the leased premises. Total office rental expense for the fiscal years ended June 30, 2022 and 2021 was \$176,508 and \$271,971, respectively.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 January 31, 2023. 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 at June 30, 2022 and 2021 was 3.80% and 2.60%, respectively. At June 30, 2022 and 2021, 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 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, 2022 and 2021, the amount of the designation was increased by \$4,933 and \$1,611, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted accumulated surplus at June 30, 2022 and 2021 was comprised of the following:

	2022	2021
Designated		
Working capital	\$ 6,318,970	\$ 5,573,572
Project contingent liabilities	1,081,262	1,076,329
	\$ 7,400,232	\$ 6,649,901

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Extramurally sponsored accounts	\$ 5,486,221	\$ 5,531,531
Internally funded accounts	412,528	406,716
Revolving accounts	<u>806,350</u>	<u>727,314</u>
	<u>\$ 6,705,099</u>	<u>\$ 6,665,561</u>

Direct agreements with other sponsoring agencies 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, 2022 and 2021 were \$262,744 and \$273,758, respectively.

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, 2022 and 2021, the Corporation's accrued supplemental retirement benefits totaled \$2,413,513 and \$2,607,283 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, 2022 and 2021 were \$215,738 and \$269,087, respectively.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

The following is a summary of changes in accrued supplemental retirement benefits for the fiscal years ended June 30, 2022 and 2021:

	2022	2021
Beginning balance	\$ 2,607,283	\$ 2,448,700
Additions	300,570	647,768
Benefits paid	(215,738)	(269,087)
Adjustments	(278,602)	(220,098)
Ending balance	2,413,513	2,607,283
Less: Current portion of accrued supplemental retirement benefits	(248,000)	(242,000)
Noncurrent portion of accrued supplemental retirement benefits	\$ 2,165,513	\$ 2,365,283

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*.

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, 2022 and 2021, the following employees were covered by the benefit terms:

	2022	2021
Retirees and surviving spouses currently receiving benefits	90	91
Active employees	2,098	2,097
Total	2,188	2,188

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

Total Postemployment Health Care and Life Insurance Benefits Liability

The Corporation's total postemployment health care and life insurance benefit liability at June 30, 2022 and 2021 of \$1,903,219 and \$2,461,664, respectively, was measured as of June 30, 2022 and 2021, 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:	2022 – 4.09%, based on the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2022.
	2021 - 2.18%, based on the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2021.
Healthcare Cost Trend Rate:	2022 - 7.25%
	2021 - 7.50%
Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate):	4.50%
Year that the Rate Reaches the Ultimate Trend Rate:	2034
Mortality:	2022 - PUBT-2010 Amount-weighted Teachers Mortality Tables, scaled back to 2010, and projected on a fully generational basis using mortality scale MP-2021.
	2021 - PUBT-2010 Amount-weighted Teachers Mortality Tables, scaled back to 2010, and projected on a fully generational basis using mortality scale MP-2020.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance at beginning of fiscal year	\$ 2,461,664	\$ 2,698,904
Increase (decrease) in postemployment health care and life insurance benefits attributed to		
Service cost	118,593	124,671
Interest cost	55,988	74,773
Differences between expected and actual experience	(199,883)	(174,773)
Changes in actuarial assumptions	(509,047)	(236,598)
Benefits paid to participants	(24,096)	(25,313)
Balance at end of fiscal year	<u>\$ 1,903,219</u>	<u>\$ 2,461,664</u>

The changes in actuarial assumptions for the fiscal year ended June 30, 2022 are primarily due to an update of election and spousal coverage assumptions, combined with an increase in the discount rate from 2.18% to 4.09% and a change in per capita claims costs and premiums. The changes in actuarial assumptions for the fiscal year ended June 30, 2021 are primarily due to the impact of COVID-19 claims, combined with a decrease in the discount rate from 2.66% to 2.18% and a change in per capita claims costs and premiums.

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, 2022 and 2021:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
2022	3.09%	4.09%	5.09%
Total postemployment health care and life insurance benefits liability	\$ 2,167,306	\$ 1,903,219	\$ 1,690,307
		Current Discount Rate	
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

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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, 2022 and 2021:

	1% Decrease	Current Trend Rate	1% Increase
2022	6.25%	7.25%	8.25%
Total postemployment health care and life insurance benefits liability	\$ 1,822,498	\$ 1,903,219	\$ 1,996,182
	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

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, expenses, and changes in net position. Accordingly, for the fiscal years ended June 30, 2022 and 2021, the Corporation recognized postemployment health care and life insurance benefit expense of \$0. In addition, the net receivable balance from the University and other sponsoring agencies presented in the accompanying statements of net position includes an amount for the postemployment health care and life insurance benefit expense.

At June 30, 2022 and 2021, the Corporation reported deferred outflows of resources and deferred inflows of resources related to postemployment health care and life insurance benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2022		
Changes in assumptions	\$ 86,456	\$ 556,571
Experience gains or losses	--	412,357
Total deferred outflows and inflows of resources	<u>\$ 86,456</u>	<u>\$ 968,928</u>
2021		
Changes in assumptions	\$ 138,003	\$ 210,120
Experience gains or losses	--	424,744
Total deferred outflows and inflows of resources	<u>\$ 138,003</u>	<u>\$ 634,864</u>

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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
2023	\$ (317,256)
2024	(211,154)
2025	(226,224)
2026	(127,838)
	\$ (882,472)

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.

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, 2022 and 2021 were as follows:

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

	<u>University Projects</u>	<u>Direct Projects</u>	<u>Total</u>
2022			
Salaries and wages	\$ 108,847,634	\$ 7,672,963	\$ 116,520,597
Equipment	15,403,102	120,331	15,523,433
Other	<u>143,907,676</u>	<u>12,025,966</u>	<u>155,933,642</u>
	<u>\$ 268,158,412</u>	<u>\$ 19,819,260</u>	<u>\$ 287,977,672</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>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net position were approximately \$68,684,000 and \$52,881,000 at June 30, 2022 and 2021, respectively.

12. Risk Management

Torts

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

Property and General Liability Insurance

The Corporation is covered under the statewide insurance program of the State of Hawai'i. Under this program, the Corporation has property damage insurance for all risk losses including 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.

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, 2022 and 2021, the workers' compensation reserve amounted to \$484,611 and \$546,061, 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.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

The following is a summary of changes in the workers' compensation reserve for the fiscal years ended June 30, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 546,061	\$ 795,994
Payments on claims	(59,560)	(59,452)
Claim adjustment	(54,992)	(195,481)
Other (interest credits, etc.)	<u>53,102</u>	<u>5,000</u>
Ending balance	<u>\$ 484,611</u>	<u>\$ 546,061</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, 2022 and 2021, the unemployment reserve was \$437,654 and \$1,086,581, respectively, and is reported as a current liability in the accompanying statements of net position.

13. Commitments

At June 30, 2022, the Corporation had outstanding contract commitments through June 30, 2023, related to software license fees and software development and maintenance of \$999,531.

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

DRAFT

**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, 2022, 2021, 2020, 2019 and 2018

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total postemployment health care and life insurance benefits liability					
Service cost	\$ 118,593	\$ 124,671	\$ 110,852	\$ 89,027	\$ 86,413
Interest	55,988	74,773	71,285	89,798	87,228
Differences between expected and actual experience	(199,883)	(174,773)	(99,009)	(574,496)	--
Changes of assumptions or other inputs	(509,047)	(236,598)	186,375	(53,351)	81,744
Benefit payments	<u>(24,096)</u>	<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	(558,445)	(237,240)	240,210	(481,993)	225,391
Total postemployment health care and life insurance benefits liability					
Beginning of year	<u>2,461,664</u>	<u>2,698,904</u>	<u>2,458,694</u>	<u>2,940,687</u>	<u>2,715,296</u>
End of year	<u>\$ 1,903,219</u>	<u>\$ 2,461,664</u>	<u>\$ 2,698,904</u>	<u>\$ 2,458,694</u>	<u>\$ 2,940,687</u>
Covered-employee payroll	\$ 119,460,000	\$ 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	1.59%	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:

2022	4.09%
2021	2.18%
2020	2.66%
2019	2.79%
2018	2.98%

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**

DRAFT

**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 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 (*Government Auditing Standards*), the financial statements of the Research Corporation of the University of Hawai'i (Corporation), as of and for the fiscal year ended June 30, 2022, 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 XX, 2022.

Report on 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 opinions 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 or significant deficiencies may exist that were not identified.

Report on 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.

Honolulu, Hawai'i
October XX, 2022

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

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

Fiscal Year Ended June 30, 2022

DRAFT



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII
STATE OF HAWAII

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3 - 4
FINANCIAL SCHEDULE	
Schedule of Management Fees	5
Note to Schedule of Management Fees	6

DRAFT

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022, and the related notes.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Information section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Internal Agreement dated June 28, 1996, including amendments and addenda ("Agreement"), between the Corporation and the University of Hawai'i ("University"), 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. As a result, the Schedule may not be suitable for another purpose. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Information

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the provisions of the Agreement. Management is also responsible for 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 Responsibilities for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Schedule.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on the Financial Statements

We have audited, in accordance with GAAS 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, 2022, and our report thereon dated October XX, 2022, 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.

Honolulu, Hawai'i
October XX, 2022

**Research Corporation of the University of Hawai'i
State of Hawai'i
SCHEDULE OF MANAGEMENT FEES
Fiscal Year Ended June 30, 2022**

Modified total direct costs, as defined		
University projects		\$ 167,754,674
All projects		226,808,796
Ratio of university projects to all projects		74.0%
Operating expenses		<u>7,243,238</u>
Management fees earned by the Corporation		5,359,997
Add: East West Center rent cost recovery		<u>126,224</u>
Total management fees		5,486,221
Less: Payments received during the year		<u>(5,758,041)</u>
Decrease in amount due from the University		(271,820)
Amount due from University		
Beginning of year		<u>1,321,644</u>
End of year		<u>\$ 1,049,824</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, 2022 are reflected on a cash basis of accounting as follows:

	University Extramural Projects	Other Projects	All Projects
Total expenditures	\$ 220,558,687	\$ 67,418,985	\$ 287,977,672
Exclusions	<u>(52,804,013)</u>	<u>(8,364,863)</u>	<u>(61,168,876)</u>
Modified total direct cost	<u>\$ 167,754,674</u>	<u>\$ 59,054,122</u>	<u>\$ 226,808,796</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, 2022 through October XX, 2022, the date that the Schedule was available for issuance, for proper accounting and disclosure in the Schedule.