

Audit Committee Meeting

Thursday, October 26, 2023
10:00 a.m.



Remote Meeting
AUDIT COMMITTEE

Research Corporation of the University of Hawai'i

Date: Thursday, October 26, 2023 | Time: 10:00 a.m.

Livestream URL: <http://hawaii.edu/itunesu/zoom/?s=rcuh>

In-Person Location: East-West Center Burns Hall 4th Floor, Makai Wing, Room 4012
1601 East-West Road, Honolulu, HI 96848

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 1601 East-West Road, Burns Hall 4th Floor, Makai Wing, Honolulu, HI 96848; or facsimile to (808) 956-0502. 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 virtually by clicking the link:

<https://hawaii.zoom.us/j/95589549508?pwd=QU9SYnNqcUR4Q1FWTHVqTXRqaVLUtO9>

- Webinar ID: 955 8954 9508
- Passcode: 381489

Individuals can also provide oral testimony via phone by calling +1 (669) 219-2599. 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 7, 2023 Meeting
4. N&K Presentation of Audited Financial Statement for Fiscal Year Ending 6/30/2023
5. Acceptance of Audited Financial Statement for Fiscal Year Ending 6/30/2023
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) 956-0503 or rcuhed@rcuh.com as soon as possible, preferably by October 23, 2023. If a response is received after October 23, 2023, 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 7, 2023

In-Person Location: East-West Center, Burns Hall 4th Floor, 4005/4009
1601 East-West Road, Honolulu, HI 96848

PRESENT

Audit Committee members: Chair Ken Hayashida, Diane Paloma, Gene Bal.

Board members: Kelli Goodin

Excused: Wally Chin (ad hoc member)

Attorney General's Office: Reese Nakamura

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

CALL TO ORDER

The meeting was called to order at 9:10 a.m. by Chair Hayashida. Ms. Hull indicated that no written or oral testimony was received.

APPROVAL OF MINUTES OF THE OCTOBER 26, 2022 MEETING

The minutes of the October 26, 2022 meeting were approved as circulated.

REVIEW OF N&K MANAGEMENT LETTER FOR FY 2022 AUDIT

Mr. Yee provided a review of the management letter for the Fiscal Year 2022 Audit from N&K CPAs. He stated that this is standard practice that highlights minor findings encountered during the audit and that many of these findings were covered in October's Audit Committee meeting. RCUH did not have any comments on the findings in the summary, but provided a response to the auditors.

APPROVAL OF N&K CPAS FEE PROPOSAL FOR FISCAL YEAR 2023 AUDIT

Mr. Yee presented N&K's proposal for the Fiscal Year 2023 Audit. The proposed fee of \$49,500 represents a 5.8% increase from last year. He shared that N&K CPAs did not receive a rate increase during their second year with RCUH and that current rates industrywide are increasing due to staff shortages. Mr. Yee added that the auditor decreased their proposal \$500 from their initial offer and recommended that the committee approve the current proposal. Chair Hayashida also recognized that there is wage inflation on the insurance side. Director Paloma asked for the number of years N&K has been auditing RCUH and Mr. Yee responded that they are in their fourth year. With the proposed 5.8% increase, it averages to an approximate 3% increase per year.

Upon motion made (Paloma), seconded (Bal) and duly carried, the Audit Committee voted to accept N&K CPAs fee proposal for the Fiscal Year 2023 Audit. The committee will bring this motion to the full board for ratification.

ADJOURNMENT

Chair Hayashida commended Mr. Yee and Ms. Brooks on receiving a clean audit and getting the proposal approved. The meeting adjourned at 9:15 a.m.



Kaylee Hull
Executive Administrator

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

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

**FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITOR'S REPORTS**

Fiscal Years Ended June 30, 2023 and 2022



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RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII

STATE OF HAWAII

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RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2023 and 2022

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, 2023. It includes selected comparative information with the fiscal years ended June 30, 2022 and 2021. 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

In 2023, the Corporation's volume of business (project expenditures) continued on an upward trend. There was a 16% increase in volume of business from 2022 to 2023, which followed 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 years 2016 through 2021, which followed a decline in activity for the years 2014 through 2015.

Fiscal Year	Project Expenditures	Annual	
		Amount (Decrease) Increase	Percentage (Decrease) Increase
2023	\$ 333,898,802	\$ 45,921,130	16%
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%)

For the fiscal year ended June 30, 2023, the Corporation was required to implement Governmental Accounting Standards Board ("GASB") Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement requires the recognition of a subscription asset and a corresponding subscription liability for a subscription-based information technology

RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I
STATE OF HAWAI'I
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2023 and 2022

arrangement. As a result of adopting this standard, comparability with reports issued in prior years is affected. It was management's determination that a restatement of the financial statements for 2023 and 2022 was not necessary due to immateriality.

For the fiscal year ended June 30, 2022, the Corporation was required to implement 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 is affected. It was management's determination that a restatement of the financial statements for 2022 and 2021 was not necessary due to immateriality.

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 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, 2023 and 2022

Condensed Statements of Net Position

The Corporation's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2023, 2022 and 2021 are summarized below:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 50,412,810	\$ 52,652,187	\$ 43,570,646
Capital assets	<u>3,431,018</u>	<u>2,429,469</u>	<u>2,830,822</u>
Total assets	53,843,828	55,081,656	46,401,468
Deferred outflows of resources	<u>81,799</u>	<u>86,456</u>	<u>138,003</u>
Total assets and deferred outflows of resources	\$ <u>53,925,627</u>	\$ <u>55,168,112</u>	\$ <u>46,539,471</u>
Current liabilities	\$ 37,954,343	\$ 40,419,330	\$ 31,596,937
Noncurrent liabilities	<u>4,219,642</u>	<u>4,207,587</u>	<u>4,826,947</u>
Total liabilities	42,173,985	44,626,917	36,423,884
Deferred inflows of resources	<u>782,871</u>	<u>968,928</u>	<u>634,864</u>
Total liabilities and deferred inflows of resources	42,956,856	45,595,845	37,058,748
Net position			
Net investment in capital assets	3,144,620	2,172,035	2,830,822
Unrestricted	<u>7,824,151</u>	<u>7,400,232</u>	<u>6,649,901</u>
Total net position	<u>10,968,771</u>	<u>9,572,267</u>	<u>9,480,723</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>53,925,627</u>	\$ <u>55,168,112</u>	\$ <u>46,539,471</u>

Overall, the Corporation's financial condition at June 30, 2023 remains stable.

Assets

Current assets consist primarily of cash and cash equivalents, money market mutual funds, time certificates of deposit, investments, and receivables. Current assets decreased by 4% from 2022 to 2023 mainly due to the timing of receipts from the University for cost reimbursable and advance funded projects. 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.

Capital asset acquisitions for 2023 and 2022 totaled \$1,848,068 and \$495,684, respectively. Significant acquisitions were made in 2023 to invest in the Corporation's information technology infrastructure by developing and enhancing software applications for human resources and financial services. Depreciation expense for 2023 and 2022 was \$840,329 and \$897,037, respectively.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I
STATE OF HAWAI'I
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Years Ended June 30, 2023 and 2022**

Liabilities

Current liabilities consist primarily of accounts payable and accrued salaries. Current liabilities decreased by 6% from 2022 to 2023, and increased by 28% from 2021 to 2022 as a result of the timing of payments to vendors.

Noncurrent liabilities remained level from 2023 to 2022, and decreased by 13% from 2021 to 2022. Long-term debt additions for 2023 and 2022 totaled \$189,627 and \$354,900, respectively. 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, 2023 and 2022 totaled \$3,144,620 and \$2,172,035, 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 HAWAI'I
STATE OF HAWAI'I
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Years Ended June 30, 2023 and 2022**

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, 2023, 2022 and 2021 are summarized as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues			
University of Hawai'i	\$ 7,338,439	\$ 6,705,099	\$ 6,665,561
Other sponsoring agencies	<u>555,513</u>	<u>732,743</u>	<u>552,855</u>
Total operating revenues	7,893,952	7,437,842	7,218,416
Operating expenses			
Personnel costs	4,048,929	3,778,162	4,098,339
Data processing services	1,477,290	1,171,655	1,139,123
Depreciation and amortization	840,329	897,037	873,309
Insurance	586,066	574,374	477,322
Professional and technical support	215,117	261,613	151,610
Office and equipment rental	113,925	179,901	291,077
Other expenses	<u>403,076</u>	<u>506,720</u>	<u>297,194</u>
Total operating expenses	<u>7,684,732</u>	<u>7,369,462</u>	<u>7,327,974</u>
Operating income (loss)	209,220	68,380	(109,558)
Nonoperating revenues			
Intergovernmental (Federal awards)			
Revenue	102,251	349,424	307,889
Expense	(102,251)	(349,424)	(307,889)
Interest income	1,186,970	167,550	199,670
Unrealized loss	<u>314</u>	<u>(144,386)</u>	<u>(24,977)</u>
Increase in net position	1,396,504	91,544	65,135
Net position			
Beginning of year	<u>9,572,267</u>	<u>9,480,723</u>	<u>9,415,588</u>
End of year	\$ <u>10,968,771</u>	\$ <u>9,572,267</u>	\$ <u>9,480,723</u>

In fiscal year 2023, management fees earned from the University increased by 9% in comparison to fiscal year 2022. 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 3.0% of modified total direct costs for fiscal year 2023. 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 2023.

Research Corporation of the University of Hawai'i
State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Years Ended June 30, 2023 and 2022

In fiscal year 2022, management fees earned from the University slightly increased by 1% in comparison to fiscal year 2021. 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.

Operating expenses in fiscal year 2023 increased by 4% in comparison to fiscal year 2022. The increase in administrative operating expenses was due to an increase in personnel costs and data processing services.

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.

For fiscal year 2023, the Corporation's net position (excess of assets over liabilities) increased by \$1,396,504 as a result of the year's activities, which was mainly driven by non-operating revenues from interest income of \$1,186,970. For fiscal year 2022, the Corporation's net position increased by \$91,544 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, 2023, 2022 and 2021 are summarized as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating activities			
Cash received from operations	\$ 7,763,869	\$ 7,857,216	\$ 8,235,545
Cash payments for operations	(6,121,013)	(6,302,378)	(6,558,201)
Project expenditures and reimbursements, net	<u>3,057,987</u>	<u>(3,697,056)</u>	<u>9,781,624</u>
Net cash provided by (used in)			
operating activities	4,700,843	(2,142,218)	11,458,968
Capital and related financing activities	(1,819,104)	(238,250)	(443,979)
Investing activities	<u>11,858,920</u>	<u>1,860,202</u>	<u>(4,565,164)</u>
Increase (decrease) in cash	14,740,659	(520,266)	6,449,825
Cash			
Beginning of year	<u>21,229,139</u>	<u>21,749,405</u>	<u>15,299,580</u>
End of year	\$ <u>35,969,798</u>	\$ <u>21,229,139</u>	\$ <u>21,749,405</u>

**Research Corporation of the University of Hawai'i
State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Years Ended June 30, 2023 and 2022**

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 2023, 2022 and 2021 was due to fixed asset acquisitions, which included the development and enhancement of software applications. The change in investing activities in 2023, 2022, and 2021 was mainly due to the redemption and purchase of time certificates of deposit.

Looking Forward

The University received approximately \$515,900,000 in extramural research and training awards during fiscal year 2023, which was a record high and an increase of 2% over fiscal year 2022. In 2022, the University received approximately \$505,000,000 in extramural research and training awards, an increase of 4% over fiscal year 2021 and the previous record high for the University. As these awards are service ordered to the Corporation in accordance with the Internal Agreement, management projects the volume of business to increase during fiscal year 2024 and onward.

For the past two years, the Corporation has maintained administrative operating expenses within budget while servicing a high volume of business. The budget for administrative operating expenses for fiscal year 2024 was approved at a comparable amount to the fiscal year 2023 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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 33,708,864	\$ 18,692,136
Time certificates of deposit	4,000,000	12,946,000
Investments	2,205,901	3,931,537
Receivables		
University of Hawai'i	8,031,161	14,328,153
Allowance for doubtful accounts	(5,000)	(5,000)
Total receivables	<u>8,026,161</u>	<u>14,323,153</u>
Prepaid expenses	210,950	222,358
Restricted cash	<u>2,260,934</u>	<u>2,537,003</u>
Total current assets	50,412,810	52,652,187
Noncurrent assets		
Capital assets, net	<u>3,431,018</u>	<u>2,429,469</u>
Total noncurrent assets	<u>3,431,018</u>	<u>2,429,469</u>
Total assets	<u>53,843,828</u>	<u>55,081,656</u>
Deferred outflows of resources		
Deferred outflows for postemployment health care and life insurance benefits	<u>81,799</u>	<u>86,456</u>
Total deferred outflows of resources	<u>81,799</u>	<u>86,456</u>
Total assets and deferred outflows of resources	\$ <u><u>53,925,627</u></u>	\$ <u><u>55,168,112</u></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 NET POSITION (Continued)
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Liabilities and Deferred Inflows of Resources		
Current liabilities		
Accounts payable	\$ 15,491,959	\$ 18,606,021
Accrued salaries and other	17,276,931	16,083,442
Advances from other sponsoring agencies	4,032,557	4,441,023
Workers' compensation and unemployment claims reserve	710,237	922,265
Current portion of lease liability	131,681	118,579
Current portion of subscription liability	49,978	--
Current portion of accrued supplemental retirement benefits	261,000	248,000
Total current liabilities	<u>37,954,343</u>	<u>40,419,330</u>
Noncurrent liabilities		
Lease liability	13,873	138,855
Subscription liability	90,866	--
Accrued supplemental retirement benefits	2,246,169	2,165,513
Postemployment health care and life insurance benefits	1,868,734	1,903,219
Total noncurrent liabilities	<u>4,219,642</u>	<u>4,207,587</u>
Total liabilities	<u>42,173,985</u>	<u>44,626,917</u>
Deferred inflows of resources		
Deferred inflows for postemployment health care and life insurance benefits	782,871	968,928
Total deferred inflows of resources	<u>782,871</u>	<u>968,928</u>
Total liabilities and deferred inflows of resources	<u>42,956,856</u>	<u>45,595,845</u>
Commitments and contingencies	--	--
Net Position		
Net investment in capital assets	3,144,620	2,172,035
Unrestricted	7,824,151	7,400,232
Total net position	<u>10,968,771</u>	<u>9,572,267</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 53,925,627</u>	<u>\$ 55,168,112</u>

The accompanying notes are an integral part of these statements.

Research Corporation of the University of Hawai'i
State of Hawai'i
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
University of Hawai'i	\$ 7,338,439	\$ 6,705,099
Other sponsoring agencies	<u>555,513</u>	<u>732,743</u>
Total operating revenues	7,893,952	7,437,842
Operating Expenses		
Personnel costs	4,048,929	3,778,162
Data processing services	1,477,290	1,171,655
Depreciation and amortization	840,329	897,037
Insurance	586,066	574,374
Other expenses	226,355	299,901
Professional and technical support	215,117	261,613
Office and equipment rental	113,925	179,901
Office supplies and services	82,338	81,941
Professional services	49,005	47,120
Tuition support	40,478	32,545
Training material development	<u>4,900</u>	<u>45,213</u>
Total operating expenses	<u>7,684,732</u>	<u>7,369,462</u>
Operating income	<u>209,220</u>	<u>68,380</u>
Nonoperating Revenues (Expenses)		
Intergovernmental (Federal awards)		
Revenue	102,251	349,424
Expense	(102,251)	(349,424)
Interest income		
Cash, cash equivalents, money market mutual fund		
time certificates of deposit, and investments	1,186,970	167,550
Increase (decrease) in fair value of investments	<u>314</u>	<u>(144,386)</u>
Total nonoperating revenues	<u>1,187,284</u>	<u>23,164</u>
Increase in net position	1,396,504	91,544
Net Position		
Beginning of year	<u>9,572,267</u>	<u>9,480,723</u>
End of year	\$ <u><u>10,968,771</u></u>	\$ <u><u>9,572,267</u></u>

The accompanying notes are an integral part of these statements.

Research Corporation of the University of Hawai'i
State of Hawai'i
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Receipts for		
University of Hawai'i management fee	\$ 6,948,142	\$ 6,976,919
Other sponsoring agencies indirect cost recoveries	555,513	732,743
Refund for workers' compensation insurance policy premium	260,214	147,554
Payments to vendors	(2,083,451)	(2,542,478)
Payments for employee compensation	(4,037,562)	(3,759,900)
Project expenditures	(315,222,539)	(270,089,837)
Project cost reimbursements	<u>318,280,526</u>	<u>266,392,781</u>
Net cash provided by (used in) operating activities	<u>4,700,843</u>	<u>(2,142,218)</u>
Cash Flows from Capital Related and Financing Activities		
Purchase of capital assets	(1,657,894)	(136,875)
Principal payments on lease liability	<u>(161,210)</u>	<u>(101,375)</u>
Net cash used in capital and related financing activities	<u>(1,819,104)</u>	<u>(238,250)</u>
Cash Flows from Investing Activities		
Purchase of time certificates of deposits	(4,250,000)	(10,046,000)
Redemption of time certificate of deposits	13,196,000	12,826,329
Purchase of investments	--	(1,077,902)
Redemption of investments	1,777,039	--
Interest income received on cash deposits and investments	<u>1,135,881</u>	<u>157,775</u>
Net cash provided by investing activities	<u>11,858,920</u>	<u>1,860,202</u>
Increase (decrease) in cash and cash equivalents	14,740,659	(520,266)
Cash and Cash Equivalents		
Beginning of year	<u>21,229,139</u>	<u>21,749,405</u>
End of year	\$ <u><u>35,969,798</u></u>	\$ <u><u>21,229,139</u></u>
Cash and cash equivalents presented in the accompanying statements of net position		
Cash and cash equivalents	\$ 33,708,864	\$ 18,692,136
Restricted cash	<u>2,260,934</u>	<u>2,537,003</u>
	\$ <u><u>35,969,798</u></u>	\$ <u><u>21,229,139</u></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, 2023 and 2022

Reconciliation of Operating Income (Loss) to Net Cash

Provided by (Used in) Operating Activities	2023	2022
Operating income	\$ 209,220	\$ 68,380
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	840,329	897,037
Loss on disposal of capital assets	6,190	--
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Receivables	6,296,992	(11,409,877)
Prepaid expenses	11,408	(28,968)
Deferred outflows for postemployment health care and life insurance benefits	4,657	51,547
Accounts payable and accrued wages	(1,920,573)	9,041,570
Advances from other sponsoring agencies	(408,466)	366,621
Workers' compensation and unemployment claims reserve	(212,028)	(710,377)
Accrued supplemental retirement benefits	93,656	(193,770)
Postemployment health care and life insurance benefits	(34,485)	(558,445)
Deferred inflows for postemployment health care and life insurance benefits	(186,057)	334,064
Net cash provided by (used in) operating activities	<u>\$ 4,700,843</u>	<u>\$ (2,142,218)</u>
Noncash investing, capital, and financing activities		
Acquisition of capital assets financed with lease liabilities	\$ 6,699	\$ 358,809
Acquisition of capital assets financed with subscription liabilities	\$ 183,475	\$ --

The accompanying notes are an integral part of these statements.

Research Corporation of the University of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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 accordance 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
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NOTES TO FINANCIAL STATEMENTS
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New Accounting Pronouncements

For 2023, the Corporation adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement requires the recognition of a subscription asset and a corresponding subscription liability for a subscription-based information technology arrangement. 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, 2022 was not restated due to immateriality.

For 2022, the Corporation adopted GASB Statement No. 87, *Leases*. This Statement requires the 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. 101, *Compensated Absences*. The primary objective of this Statement is to better meet the needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. 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.

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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, 2023.

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

	2023	2022
Fair Value	\$ 37,195,604	\$ 24,338,752
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 Statements 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. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- **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.

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Capital Assets

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

Depreciation expense is recorded in the financial statements 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.

The Corporation is also committed under various agreements for subscription-based information technology arrangements. A subscription asset is recognized if the present value of future minimum payments for the subscription is \$25,000 and the agreement term exceeds one year. The subscription asset is amortized over the life of the associated agreement.

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 4.85 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 4.85 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.

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NOTES TO FINANCIAL STATEMENTS
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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, 2023 and 2022 totaled \$7,143,165 and \$6,858,447, 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, 2023 and 2022, totaled \$739,024 and \$327,873, 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.

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, 2023 or 2022.

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 accordance 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.

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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.

3. Investments

The following schedule summarizes the fair value and cost of the Corporation's investments at June 30, 2023 and 2022:

	2023		2022	
	Fair Value	Cost	Fair Value	Cost
U.S. Treasury	\$ 1,765,351	\$ 1,904,944	\$ 3,106,652	\$ 3,242,324
U.S. Government agencies	440,550	470,006	683,003	716,694
Other investments	--	--	141,882	141,882
	<u>\$ 2,205,901</u>	<u>\$ 2,374,950</u>	<u>\$ 3,931,537</u>	<u>\$ 4,100,900</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 increase in fair value of investments (unrealized gain) was \$314 for the fiscal year ended June 30, 2023, and the decrease in fair value of investments (unrealized loss) for the fiscal year ended June 30, 2022 was (\$144,386).

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.

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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, 2023 was as follows:

	2023	Investment Maturities (in Years)		
	Fair Value	Less than 1	1 to 5	More than 5
U.S. Treasury	\$ 1,765,351	\$ 431,508	\$ 1,333,843	\$ --
U.S. Government agencies	440,550	162,777	277,773	--
	<u>\$ 2,205,901</u>	<u>\$ 594,285</u>	<u>\$ 1,611,616</u>	<u>\$ --</u>

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, 2023 and 2022:

	2023	2022
Extramurally sponsored accounts	\$ 25,342,757	\$ 34,783,288
Internally funded accounts	(5,403,668)	(7,926,334)
Revolving accounts	(11,651,136)	(11,629,170)
Ship operations revolving accounts	(3,351,963)	(5,143,173)
Miscellaneous agency accounts	2,240,050	3,778,718
Management fee	1,440,121	1,049,824
Advance	<u>(585,000)</u>	<u>(585,000)</u>
	<u>\$ 8,031,161</u>	<u>\$ 14,328,153</u>

Advances under direct agreements with other sponsoring agencies in excess of project expenditures totaled \$4,032,557 and \$4,441,023 at June 30, 2023 and 2022, respectively. Cash relating to a portion of the advances of \$2,260,934 and \$2,537,003 at June 30, 2023 and 2022, respectively, is restricted by the other sponsoring agencies.

Research Corporation of the University of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
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5. Capital Assets

Capital assets activity for the fiscal years ended June 30, 2023 and 2022 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
2023				
Capital assets being depreciated				
Office furniture and equipment	\$ 526,426	\$ 217,242	\$ (42,080)	\$ 701,588
Computer software	<u>9,175,563</u>	<u>1,440,652</u>	<u>(397,097)</u>	<u>10,219,118</u>
Total capital assets being depreciated	<u>9,701,989</u>	<u>1,657,894</u>	<u>(439,177)</u>	<u>10,920,706</u>
Less: Accumulated depreciation				
Office equipment	393,701	60,680	(35,890)	418,491
Computer software	<u>7,121,080</u>	<u>622,485</u>	<u>(397,097)</u>	<u>7,346,468</u>
Total accumulated depreciation	<u>7,514,781</u>	<u>683,165</u>	<u>(432,987)</u>	<u>7,764,959</u>
Capital assets being depreciated, net	<u>2,187,208</u>	<u>974,729</u>	<u>(6,190)</u>	<u>3,155,747</u>
Lease assets				
Office furniture and equipment	38,025	--	--	38,025
Office space	<u>320,784</u>	<u>6,699</u>	<u>--</u>	<u>327,483</u>
Total lease assets	<u>358,809</u>	<u>6,699</u>	<u>--</u>	<u>365,508</u>
Less: Accumulated amortization				
Office equipment	9,620	7,605	--	17,225
Office space	<u>106,928</u>	<u>106,928</u>	<u>--</u>	<u>213,856</u>
Total accumulated amortization	<u>116,548</u>	<u>114,533</u>	<u>--</u>	<u>231,081</u>
Total lease assets	<u>242,261</u>	<u>(107,834)</u>	<u>--</u>	<u>134,427</u>
Subscription assets				
Software subscription	--	183,475	--	183,475
Total subscription assets	<u>--</u>	<u>183,475</u>	<u>--</u>	<u>183,475</u>
Less: Accumulated amortization				
Software subscription	--	42,631	--	42,631
Total accumulated amortization	<u>--</u>	<u>42,631</u>	<u>--</u>	<u>42,631</u>
Subscription assets, net	<u>--</u>	<u>140,844</u>	<u>--</u>	<u>140,844</u>
Total capital assets, net	<u>\$ 2,429,469</u>	<u>\$ 1,007,739</u>	<u>\$ (6,190)</u>	<u>\$ 3,431,018</u>

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

6. Long-term Liabilities

The following is a summary of changes in the lease liability for the fiscal years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 257,434	\$ --
Additions	6,699	358,809
Principal payments	(118,579)	(101,375)
Ending balance	145,554	257,434
Less: Current portion of lease liability	(131,681)	(118,579)
Noncurrent portion lease liability	\$ 13,873	\$ 138,855

At June 30, 2023, future minimum lease payments required under the lease agreements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Future Minimum Payments</u>
Fiscal years ending June 30,			
2024	\$ 131,681	\$ 2,271	\$ 133,952
2025	5,831	224	6,055
2026	5,957	98	6,055
2027	2,085	17	2,102
	\$ 145,554	\$ 2,610	\$ 148,164

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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, 2023 and 2022 was \$112,124 and \$176,508, respectively.

The following is a summary of changes in the subscription liability for the fiscal year ended June 30, 2023 and 2022:

	<u>2023</u>
Beginning balance	\$ --
Additions	182,928
Principal payments	<u>(42,084)</u>
Ending balance	140,844
Less: Current portion of lease liability	<u>(49,978)</u>
Noncurrent portion lease liability	<u>\$ 90,866</u>

At June 30, 2023, future minimum lease payments required under the subscription agreements are as follows:

Fiscal years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Future Minimum Payments</u>
2024	\$ 49,979	\$ --	\$ 49,979
2025	43,981	5,997	49,978
2026	<u>46,884</u>	<u>3,094</u>	<u>49,978</u>
	<u>\$ 140,844</u>	<u>\$ 9,091</u>	<u>\$ 149,935</u>

At June 30, 2023, the Corporation had contract commitments related to software subscriptions through June 30, 2024 of \$322,558.

7. 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, 2024. 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, 2023 and 2022 was 6.60% and 2.80%, respectively. At June 30, 2023 and 2022, there were no borrowings outstanding under this line.

8. 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.

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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, 2023 and 2022, the amount of the designation was increased by \$30,936 and \$4,933, respectively. A separate interest-bearing account is maintained for this reserve.

Unrestricted accumulated surplus at June 30, 2023 and 2022 was comprised of the following:

	<u>2023</u>	<u>2022</u>
Designated		
Working capital	\$ 6,711,952	\$ 6,318,970
Project contingent liabilities	<u>1,112,198</u>	<u>1,081,262</u>
	<u>\$ 7,824,150</u>	<u>\$ 7,400,232</u>

9. 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>2023</u>	<u>2022</u>
Extramurally sponsored accounts	\$ 5,969,541	\$ 5,486,221
Internally funded accounts	419,655	412,528
Revolving accounts	<u>949,243</u>	<u>806,350</u>
	<u>\$ 7,338,439</u>	<u>\$ 6,705,099</u>

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

10. 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, 2023 and 2022 were \$266,328 and \$262,744, respectively.

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June 30, 2023 and 2022

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, 2023 and 2022, the Corporation's accrued supplemental retirement benefits totaled \$2,507,169 and \$2,413,513 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, 2023 and 2022 were \$236,534 and \$215,738, respectively.

The following is a summary of changes in accrued supplemental retirement benefits for the fiscal years ended June 30, 2023 and 2022:

	2023	2022
Beginning balance	\$ 2,413,513	\$ 2,607,283
Additions	244,557	300,570
Benefits paid	(236,534)	(215,738)
Adjustments	<u>85,633</u>	<u>(278,602)</u>
Ending balance	2,507,169	2,413,513
Less: Current portion of accrued		
supplemental retirement benefits	<u>(261,000)</u>	<u>(248,000)</u>
Noncurrent portion of accrued		
supplemental retirement benefits	\$ <u>2,246,169</u>	\$ <u>2,165,513</u>

11. 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*.

Research Corporation of the University of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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, 2023 and 2022, the following employees were covered by the benefit terms:

	<u>2023</u>	<u>2022</u>
Retirees and surviving spouses currently receiving benefits	86	90
Active employees	<u>2,299</u>	<u>2,098</u>
Total	<u>2,385</u>	<u>2,188</u>

Total Postemployment Health Care and Life Insurance Benefits Liability

The Corporation's total postemployment health care and life insurance benefit liability at June 30, 2023 and 2022 of \$1,868,734 and \$1,903,219, respectively, was measured as of June 30, 2023 and 2022, 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:	2023 – 4.13%, based on the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2023.
	2022 - 4.09%, based on the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2022.
Healthcare Cost Trend Rate:	2023 - 7.00%
	2022 - 7.25%
Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate):	4.50%

Research Corporation of the University of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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

2034

Mortality:

2023 - PUBT-2010 Amount-weighted Teachers Mortality Tables, scaled back to 2010, and projected on a fully generational basis using mortality scale MP-2021.

2022 - PUBT-2010 Amount-weighted Teachers Mortality Tables, scaled back to 2010, and projected on a fully generational basis using mortality scale MP-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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 1,903,219	\$ 2,461,664
Increase (decrease) in postemployment health care and life insurance benefits attributed to		
Service cost	78,824	118,593
Interest cost	80,605	55,988
Differences between expected and actual experience	(230,209)	(199,883)
Changes in actuarial assumptions	59,071	(509,047)
Benefits paid to participants	(22,776)	(24,096)
Ending balance	\$ <u>1,868,734</u>	\$ <u>1,903,219</u>

The changes in actuarial assumptions for the fiscal year ended June 30, 2023 are primarily due to a change in per capita claims costs and premiums based on updated premium and census information. The changes in actuarial assumptions for the fiscal year ended June 30, 2022 are primarily due to an increase in the discount rate from 2.18% to 4.09%.

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, 2023 and 2022:

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NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

	1% Decrease	Current Discount Rate	1% Increase
2023	3.13%	4.13%	5.13%
Total postemployment health care and life insurance benefits liability	\$ 2,132,251	\$ 1,868,734	\$ 1,655,798
	1% Decrease	Current Discount Rate	1% Increase
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

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, 2023 and 2022:

	1% Decrease	Current Trend Rate	1% Increase
2023	6.00%	7.00%	8.00%
Total postemployment health care and life insurance benefits liability	\$ 1,780,901	\$ 1,868,734	\$ 1,970,182
	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

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, 2023 and 2022, 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, 2023 and 2022, 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:

Research Corporation of the University of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
2023		
Changes in assumptions	\$ 81,799	\$ 394,490
Experience gains or losses	--	388,381
Total deferred outflows and inflows of resources	\$ <u>81,799</u>	\$ <u>782,871</u>
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>

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
2024	\$ (246,440)
2025	(261,510)
2026	(163,124)
2027	(29,998)
	\$ <u>(701,072)</u>

12. 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 accounts and specialized service facilities. Revolving accounts are self-sustaining, income-generating projects that are established for the purpose of supporting a specialized service facility, a recharge center, or other sales and service activities.

Direct Projects

Direct projects are projects assigned to and accepted by the Corporation from organizations other than the University, including federal and state agencies, international organizations, and other not-for-profit organizations. These projects normally remain under the general and technical supervision of personnel employed by the sponsors and the Corporation's responsibilities are limited to providing administrative services.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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, 2023 and 2022 were as follows:

	University Projects	Direct Projects	Total
2023			
Salaries and wages	\$ 118,452,986	\$ 8,893,529	\$ 127,346,515
Equipment	17,317,972	106,680	17,424,652
Other	<u>184,475,439</u>	<u>4,652,196</u>	<u>189,127,635</u>
	<u>\$ 320,246,397</u>	<u>\$ 13,652,405</u>	<u>\$ 333,898,802</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>

Project commitments for outstanding project purchase orders that are not reflected in the accompanying statements of net position were approximately \$75,152,000 and \$68,684,000 at June 30, 2023 and 2022, respectively.

13. Risk Management

Torts

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

Property and General Liability Insurance

The Corporation is covered under the statewide insurance program of the State of Hawai'i. Under this program, the Corporation has property damage insurance for all risk losses including windstorm losses, losses from earthquake, flood, boiler and machinery, and terrorism.

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

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.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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, 2023 and 2022, the workers' compensation reserve amounted to \$472,245 and \$484,611, respectively, and is reported as a current liability in the accompanying statements of net position. This reserve represents the Corporation's best estimate of workers' compensation liabilities based on available information.

The following is a summary of changes in the workers' compensation reserve for the fiscal years ended June 30, 2023 and 2022.

	2023	2022
Beginning balance	\$ 484,611	\$ 546,061
Payments on claims	(111,406)	(59,560)
Claim adjustment	71,392	(54,992)
Other (interest credits, etc.)	27,648	53,102
Ending balance	<u>\$ 472,245</u>	<u>\$ 484,611</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 \$237,992 and \$437,654, respectively, and is reported as a current liability in the accompanying statements of net position.

14. Commitments

At June 30, 2023, the Corporation had outstanding contract commitments related to software development and maintenance through June 30, 2024 of \$2,288,272.

15. Subsequent Events

At July 1, 2023, a majority of the University's revolving accounts and specialized service facilities held by the Corporation were transferred to the University. The Corporation will continue to provide administrative support services to the revolving accounts in accordance with the terms of the Internal Agreement. However, the cash balances held by the Corporation for the advance funding of the revolving accounts were transferred from the Corporation to the University after July 1, 2023.

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

Research Corporation of the University of Hawai'i
State of Hawai'i
SCHEDULE OF CHANGES IN POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE
BENEFITS LIABILITY AND RELATED RATIOS (UNAUDITED)
Fiscal Years Ended June 30, 2023, 2022, 2021, 2020, 2019 and 2018

	2023	2022	2021	2020	2019	2018
Total postemployment health care and life insurance benefits liability						
Service cost	\$ 78,824	\$ 118,593	\$ 124,671	\$ 110,852	\$ 89,027	\$ 86,413
Interest	80,605	55,988	74,773	71,285	89,798	87,228
Differences between expected and actual experience	(230,209)	(199,883)	(174,773)	(99,009)	(574,496)	--
Changes of assumptions or other inputs	59,071	(509,047)	(236,598)	186,375	(53,351)	81,744
Benefit payments	<u>(22,776)</u>	<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	(34,485)	(558,445)	(237,240)	240,210	(481,993)	225,391
Total postemployment health care and life insurance benefits liability						
Beginning 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>	<u>2,715,296</u>
End of year	<u>\$ 1,868,734</u>	<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	\$ 130,560,000	\$ 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	1.43%	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:

2023	4.13%
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**

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

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

Fiscal Year Ended June 30, 2023



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

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

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Research Corporation of the University of Hawai'i
State of Hawai'i
SCHEDULE OF MANAGEMENT FEES
Fiscal Year Ended June 30, 2023

Modified total direct costs, as defined

University projects	\$ 198,136,664
All projects	256,175,689
Ratio of university projects to all projects	77.3%
Operating expenses	<u>7,555,901</u>
Management fees earned by the Corporation	5,840,712
Add: East West Center rent cost recovery	<u>128,829</u>
Total management fees	5,969,541
Less: Payments received during the year	<u>(5,579,244)</u>
Decrease in amount due from the University	390,297
Amount due from University	
Beginning of year	<u>1,049,824</u>
End of year	\$ <u><u>1,440,121</u></u>

The accompanying note is an integral part of this schedule.

Research Corporation of the University of Hawai'i
State of Hawai'i
NOTE TO SCHEDULE OF MANAGEMENT FEES
Fiscal Year Ended June 30, 2023

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, 2023 are reflected on a cash basis of accounting as follows:

	University Extramural Projects	Other Projects	All Projects
Total expenditures	\$ 266,558,062	\$ 67,340,740	\$ 333,898,802
Exclusions	<u>(68,421,398)</u>	<u>(9,301,715)</u>	<u>(77,723,113)</u>
Modified total direct cost	\$ <u>198,136,664</u>	\$ <u>58,039,025</u>	\$ <u>256,175,689</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, 2023 through **October XX, 2023**, the date that the Schedule was available for issuance, for proper accounting and disclosure in the Schedule.