NEW ISSUE - BOOK ENTRY ONLY

RATINGS:

Fitch:	**AA**
Moody's:	**Aa2**
Standard & Poor's:	**A+**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Series 2012A Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. In the further opinion of Bond Counsel, interest on the Series 2012A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012A Bonds. See "TAX MATTERS" in this Official Statement.

$8,575,000
BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI'I,
University Revenue Bonds,
Series 2012A (R)

Dated: Date of Delivery **Due: October 1, as shown on the inside cover**

This Official Statement relates to the issuance and sale by the Board of Regents of the University of Hawai'i (the "*Board*") of its University Revenue Bonds, Series 2012A (R) (the "*Series 2012A Bonds*"). The Series 2012A Bonds are being issued in the aggregate principal amount of $8,575,000 to provide for the prepayment in full and redemption price of the outstanding Board of Regents of the University of Hawai'i, University Revenue Bonds, Refunding Series 2001B (the "*Refunded Bonds*"), as more fully described herein.

The Series 2012A Bonds are authorized to be issued under a resolution of the Board adopted on November 16, 2001, as amended and supplemented by certain resolutions including a supplemental resolution of the Board adopted January 19, 2012 (collectively, the "*Resolution*"). The Series 2012A Bonds, together with certain outstanding parity bonds and additional parity bonds that may be issued in the future, are payable from and secured by certain amounts pledged under the Resolution. See "SECURITY FOR THE BONDS."

The Series 2012A Bonds are issuable only as fully registered bonds, without coupons, in the denomination of $5,000 or integral multiples of $5,000 and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("*DTC*"). DTC will act as securities depository for the Series 2012A Bonds. Purchases of beneficial ownership interests in the Series 2012A Bonds will be made in book-entry form only. Beneficial owners of the Series 2012A Bonds will not receive physical delivery of certificates evidencing their ownership interest in the Series 2012A Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2012A Bonds. So long as DTC or its nominee is the registered owner of the Series 2012A Bonds, payments of the principal of and interest on the Series 2012A Bonds will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC Participants. See "THE SERIES 2012A BONDS."

The Series 2012A Bonds will bear interest from the date thereof, payable on April 1 and October 1 of each year, commencing April 1, 2012, at the rates per annum, and will mature on October 1 of the years and in the principal amounts, as set forth on the inside cover. The Series 2012A Bonds are not subject to redemption prior to their respective stated maturities.

Neither the State of Hawai'i (the "*State*") nor any department or political subdivision thereof, including the Board, is obligated to pay the Series 2012A Bonds from any source other than the moneys pledged under the Resolution. The Series 2012A Bonds are not a general or moral obligation or an indebtedness of the State within the meaning of any limitation of law or a charge upon the general fund of the State, nor is the full faith and credit of the State or any political subdivision thereof pledged to the payment of the principal of or interest on the Series 2012A Bonds. No holder of any Series 2012A Bond shall ever have the right to compel any exercise of the taxing power of the State or any political subdivision thereof for the payment of principal of or interest on the Series 2012A Bonds.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2012A Bonds are offered when, as and if issued by the Board and received by the Underwriter, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Alston Hunt Floyd & Ing. It is expected that the Series 2012A Bonds will be available for delivery in New York, New York, on or about February 22, 2012.

BofA Merrill Lynch

February 9, 2012

MATURITY SCHEDULE

$8,575,000
Board of Regents of the University of Hawaiʻi,
University Revenue Bonds,
Series 2012A (R)

Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)	Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)
2012	$1,275,000	2.00%	0.280%	FU5	2015	$1,410,000	5.00%	0.830%	FX9
2013	1,300,000	3.00	0.420	FV3	2016	1,470,000	4.00	0.960	FY7
2014	1,345,000	4.00	0.620	FW1	2017	1,535,000	5.00	1.190	FZ4
					2018	240,000	2.00	1.540	GA8

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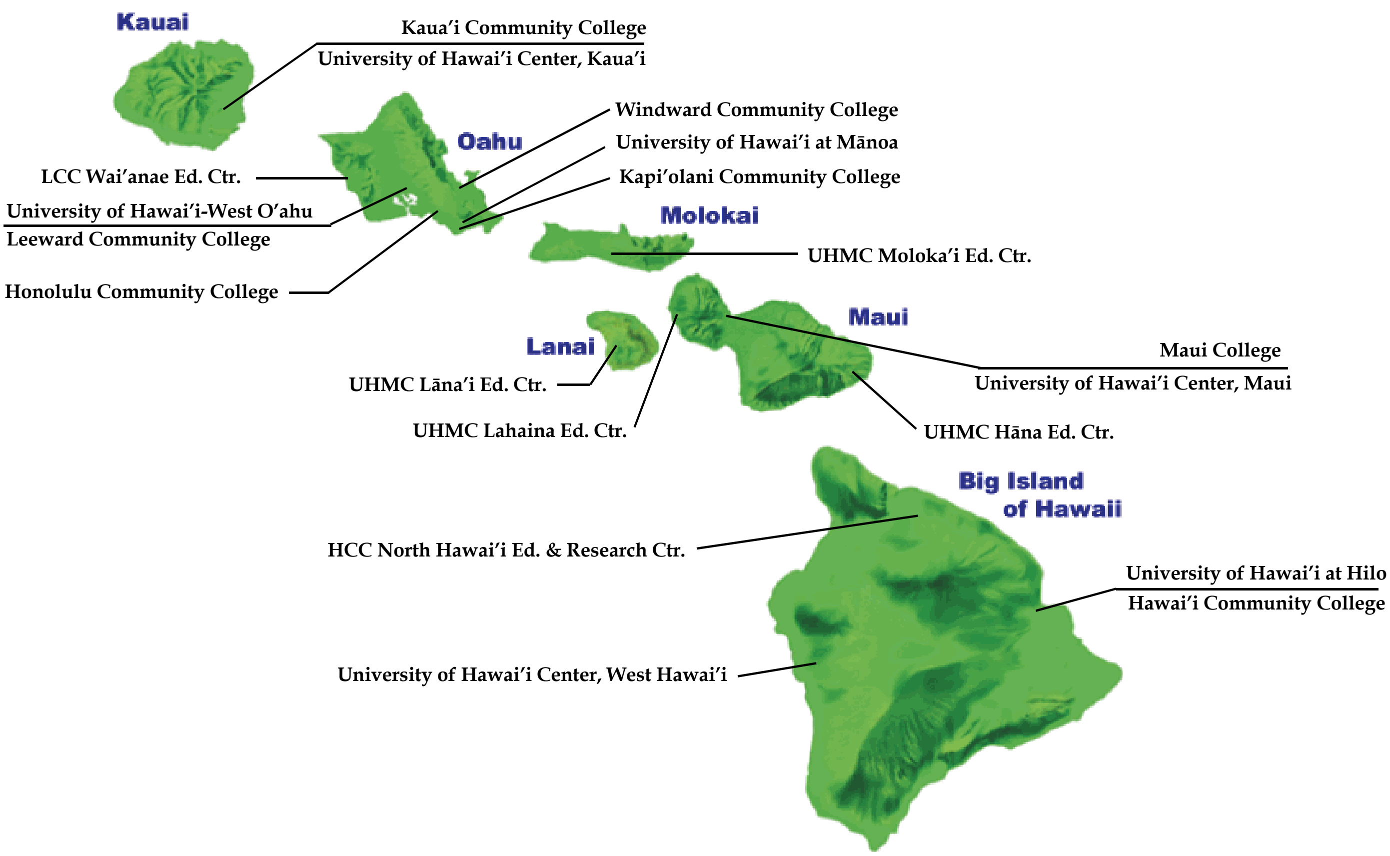
† Copyright 2012, American Bankers Association. CUSIP data herein are provided by the CUSIP Service Bureau, which is managed on behalf of the American Bankers Association by Standard & Poor's, a division of the McGraw Hill Companies, Inc. The issuer is not responsible for the selection of CUSIP numbers and makes no representation as to their correctness on the Series 2012A Bonds or as set forth in this Official Statement.

THE UNIVERSITY OF HAWAI'I SYSTEM



No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, and if given or made such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there by any sale of the Series 2012A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the Board and by other sources which were believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board since the date hereof.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statement made in this Official Statement involving an estimate or matter of opinion, whether or not expressly so stated, is intended merely as an estimate or opinion and not as a representation of fact.

Neither the Series 2012A Bonds nor the Resolution has been registered or qualified with the Securities and Exchange Commission. The registration or qualification of the Series 2012A Bonds and the Resolution in accordance with applicable provisions of securities laws of the states in which the Series 2012A Bonds have been registered or qualified, and the exemption from registration and qualification in other states, shall not be regarded as a recommendation thereof.

In making an investment decision, investors must rely on their own examination of the Board and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

The Underwriter has provided the following paragraphs for inclusion in this Official Statement.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Series 2012A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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BOARD OF REGENTS OF THE UNIVERSITY OF HAWAIʻI,
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INTRODUCTION

This Official Statement, including the cover page and the appendices, is provided to furnish information regarding the $8,575,000 University Revenue Bonds, Series 2012A (R) (the "*Series 2012A Bonds*"), being issued by the Board of Regents of the University of Hawaiʻi (the "*Board*"). See "THE UNIVERSITY OF HAWAIʻI."

The Series 2012A Bonds are issued by the Board pursuant to Chapter 304A, Hawaiʻi Revised Statutes, as amended (the "*Act*"), a resolution of the Board adopted November 16, 2001 (the "*Original Resolution*"), as amended, including a Supplemental Resolution of the Board adopted January 19, 2012 (the "*Supplemental Resolution*"). Act 75, Session Laws of Hawaiʻi 2006, among other things, re-codified the legislation pursuant to which the Original Resolution was adopted. However, the re-codification did not substantively affect the provision of the original law. The terms and provisions of the Series 2012A Bonds and certain other matters related to the Series 2012A Bonds are set forth in the Certificate of Determination executed by the Designated Financial Officer, which is incorporated into and made a part of the Supplemental Resolution. The Original Resolution, as supplemented and amended, including as supplemented by the Supplemental Resolution, is referred to herein as the "*Resolution.*" The Series 2012A Bonds and any other series of Bonds outstanding under the Resolution are herein called the "*Bonds.*"

The University of Hawaiʻi

The University of Hawaiʻi (the "*University*") is the sole public higher education system in Hawaiʻi. The University is a multi-institutional system comprised of three University campuses, seven community college campuses, and nine educational centers distributed across six islands throughout the State. The affairs of the University are under the general management and control of the Board, consisting of fifteen members appointed by the governor of the State for staggered five-year terms and confirmed by the Senate.

For additional information on the University, see "THE UNIVERSITY OF HAWAIʻI" and APPENDIX A – "THE UNIVERSITY OF HAWAIʻI" herein.

The Series 2012A Bonds; Purpose and Security

The Resolution authorizes the issuance of one or more series of Bonds in order to accomplish any purpose of the University. The Series 2012A Bonds are being issued to provide for the prepayment in full and redemption price of the outstanding Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Refunding Series 2001B (the "*Refunded Bonds*"), as set forth in the Resolution. See "PLAN OF REFUNDING" herein. Pursuant to the Resolution, in addition to the Refunded Bonds, the University previously issued its University Revenue Bonds, Series 2001A (the "*Series 2001A Bonds*"), Series 2006A (the "*Series 2006A Bonds*"), Series 2009A (the "*Series 2009A Bonds*") and the Series 2010A-1, 2010A-2, 2010B-1 and 2010B-2 Bonds (collectively, the "*Series 2010 Bonds*"). None of the 2001A Bonds is currently outstanding. As of February 1, 2012, there is currently outstanding an aggregate of $487,900,000 principal amount of Bonds under the Resolution. Immediately following the issuance of the Series 2012A Bonds, a portion of the proceeds thereof are to be applied to the prepayment in full and redemption price of the $8,955,000 remaining outstanding principal amount of the Refunded Bonds on February 22, 2012, as set forth in the Resolution.

All Bonds issued under the Resolution, including the Series 2012A Bonds, are limited obligations of the Board payable from and secured solely by the amounts pledged under the Resolution, which are the "Revenues" of the Network, less Current Expenses of the Network (see "THE UNIVERSITY OF HAWAIʻI – The University Network"). "Revenues" generally include all income derived by the University from its ownership or operation and management of the Network, or which the Board is entitled to receive as a result of such ownership, operation and management, or as a result of the financing thereof. Such Revenues will include moneys resulting from the rates, rents, fees and charges imposed by the Board for the use or enjoyment of or the services furnished by such facilities, and Legislative Appropriations (as defined in the Resolution), allocated in accordance with the Resolution. The Series 2010A-1 Bonds and Series 2010A-2 Bonds are additionally secured by amounts on deposit in the Hawai‘i Cancer Research Special Fund. No other Bonds have a claim on such amounts. See "SECURITY FOR THE BONDS – Pledge of Revenues" and "– Additional Security for Certain Outstanding Series of Bonds" and "THE UNIVERSITY OF HAWAI‘I – System Revenues" and "– The University Special and Revolving Funds."

Limited Obligations

The Bonds, including the Series 2012A Bonds, are limited obligations of the Board payable from and secured solely by a lien on and security interest in the moneys pledged therefor under the Resolution. See "SECURITY FOR THE BONDS." Neither the State nor any department or political subdivision thereof, including the Board, is obligated to pay the Series 2012A Bonds from any source other than the moneys pledged under the Resolution. The Series 2012A Bonds are not a general or moral obligation or an indebtedness of the State within the meaning of any limitation of law or a charge upon the general fund of the State, nor is the full faith and credit of the State or any political subdivision thereof pledged to the payment of the principal of or interest on the Series 2012A Bonds. No holder of any Series 2012A Bond shall ever have the right to compel any exercise of the taxing power of the State or any political subdivision thereof for the payment of principal of or interest on the Series 2012A Bonds.

Additional Information

This introduction is not a summary of this Official Statement. It is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2012A Bonds to potential investors is made only by means of the entire Official Statement.

Certain capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings given to such terms in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION." The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of its terms and conditions. All statements herein are qualified in their entirety by reference to each document. Copies of the Resolution and other documents and information are available upon request and upon payment to the Board of a charge for copying, mailing and handling, directed to the Vice President for Budget and Finance/Chief Financial Officer.

Professionals

Merrill Lynch, Pierce, Fenner & Smith Incorporated is underwriting the Series 2012A Bonds (the "*Underwriter*"). Orrick, Herrington & Sutcliffe LLP is Bond Counsel to the Board. Alston Hunt Floyd & Ing, Honolulu, Hawai‘i, is serving as counsel to the Underwriter. Accuity LLP has audited the finances of the University appearing in APPENDIX C, but has not reviewed this Official Statement and has no responsibility for this Official Statement.

PLAN OF REFUNDING

The Series 2012A Bonds are being issued to provide for the prepayment in full and redemption price of the $8,955,000 remaining outstanding principal amount of the Board of Regents of the University of Hawai‘i, University Revenue Bonds, Refunding Series 2001B (the "*Refunded Bonds*").

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds are estimated as follows:

SOURCES OF FUNDS	
Principal Amount of Series 2012A Bonds	$8,575,000.00
Original Issue Premium	917,221.60
Total Sources	$9,492,221.60
USES OF FUNDS	
Redemption price of Refunding Series 2001B Bonds	$9,138,804.27
Costs of issuance/refunding, including underwriting discount	353,417.33
Total Uses	$9,492,221.60

Pursuant to the Resolution, proceeds of the Series 2012A Bonds together with other moneys will be deposited with The Bank of New York Mellon Trust Company, N.A., as Escrow Agent pursuant to an Escrow Agreement to be dated as of the issue date of the Series 2012A Bonds, and applied immediately to the payment in full of the redemption price of the Refunded Bonds on February 22, 2012, the redemption date. The following table sets forth the series, maturity dates, principal amounts outstanding, interest rates and redemption price of the Refunded Bonds.

REFUNDED BONDS

Series	Maturity Date	Amount Outstanding	Interest Rate	Redemption Date	Redemption Price
Series 2001B	10/1/2012	$1,260,000	5.250%	2/22/2012	100%
Series 2001B	10/1/2013	1,325,000	5.250	2/22/2012	100
Series 2001B	10/1/2014	1,390,000	5.250	2/22/2012	100
Series 2001B	10/1/2015	1,470,000	5.250	2/22/2012	100
Series 2001B	10/1/2016	1,545,000	5.250	2/22/2012	100
Series 2001B	10/1/2017	1,625,000	5.250	2/22/2012	100
Series 2001B	10/1/2018	340,000	5.000	2/22/2012	100

THE SERIES 2012A BONDS

General Terms of the Series 2012A Bonds

The Series 2012A Bonds will mature in the amounts and on the dates, and bear interest at the rates, set forth on the inside cover of this Official Statement. Interest on each Series 2012A Bond will be payable on April 1 and October 1 of each year, commencing April 1, 2012. The Series 2012A Bonds are issuable in fully registered form in the denomination of $5,000 or any integral multiple of $5,000. Interest on the Series 2012A Bonds will be calculated on the basis of a 360-day year and twelve 30-day months.

The Series 2012A Bonds as initially issued will be available only in book-entry form. The Depository Trust Company, New York, New York ("*DTC*") will act as securities depository for the Series 2012A Bonds, and the ownership of one fully registered Series 2012A Bond for each maturity, in the principal amount of such maturity, of the Series 2012A Bonds will be registered in the name of Cede & Co., as nominee of DTC as the sole registered owner of the Series 2012A Bonds, and, except under the caption "TAX MATTERS," references herein to holders (the registered owners) shall be to DTC and not the beneficial owners. For a description of DTC and its book-entry-only system, see "Book-Entry Only System" below. The Director of Finance of the State will serve as the paying agent Series 2012A Bonds (in such capacity, the "*Paying Agent*"). Interest on the Series 2012A Bonds will be paid by check or draft payable to the registered owner and mailed by first class mail, postage prepaid, to the address of such holder shown on the registry books kept pursuant to the provisions of the Resolution. The principal and redemption price, if any, of any Series 2012A Bond will be payable at the office of the Paying Agent.

No Redemption of Bonds Prior to Final Maturity

The Series 2012A Bonds are not subject to redemption prior to their respective final stated maturities.

Transfer or Exchange of the Bonds

Any Series 2012A Bond may, in accordance with its terms, be transferred upon the registry books required to be kept pursuant to the provisions of the Resolution, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Series 2012A Bond to the Paying Agent for cancellation, accompanied by delivery of a written instrument of transfer duly executed and in form satisfactory to the Paying Agent.

Whenever any Series 2012A Bond is surrendered for transfer, the Board shall deliver, or cause to be delivered, at the principal office of the Paying Agent (or cause to be sent by registered mail to the holder thereof at its request, risk and expense), in exchange for the fully registered Series 2012A Bond surrendered, a new duly executed Series 2012A Bond, as appropriate, of the same series, interest rate and maturity for a like aggregate principal sum as the Series 2012A Bond surrendered.

Any Series 2012A Bond may be surrendered for exchange for a new fully registered Series 2012A Bond, as appropriate of a like aggregate principal amount, series, interest rate and maturity and in authorized principal sums aggregating the principal sum or sums of the Series 2012A Bond or Bonds delivered in exchange.

The Paying Agent may charge a sum not exceeding the actual cost of each new fully registered Series 2012A Bond and may require the payment by the holder of the Series 2012A Bond requesting such transfer of any tax or other governmental charges required to be paid with respect to such transfer. The Paying Agent shall require the payment of such tax or governmental charges from the holder requesting an exchange.

Book-Entry-Only System

The information contained in this portion of this Official Statement has been obtained from sources that the Board believes to be reliable, but the Board makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Depository Trust Company ("*DTC*"), New York, NY, will act as securities depository for the Series 2012A Bonds. The Series 2012A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2012A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of Series 2012A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2012A Bonds, except in the event that use of the book-entry system for the Series 2012A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2012A Bonds with DTC and their registration in the name of Cede & Co., or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2012A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2012A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2012A Bonds may wish to ascertain that the nominee holding the Series 2012A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012A Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument ("MMI") Program Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2012A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Series 2012A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Board, or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Series 2012A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2012A Bonds at any time by giving reasonable notice to the Board. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the Series 2012A Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2012A Bonds will be printed and delivered.

SECURITY FOR THE BONDS

Pledge of Revenues

The Bonds, including the Series 2012A Bonds, are limited obligations of the Board payable from and secured solely by the amounts pledged under the Resolution. Under the Resolution, the Board has pledged Revenues of the Network for the punctual payment of the principal, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Resolution, and such pledge constitutes a lien on the Revenues, subject to the application of the Revenues to the payment of the Current Expenses (as defined in the Resolution) of the University System as provided in the Resolution. Such Revenues are deposited, when received, in the University System Revenue – Undertakings Fund for credit to the University Network Revenue Account.

The term "*Revenues*" generally includes all income derived by the University from its ownership or operation and management of the Network, or which the Board is entitled to receive as a result of such ownership, operation and management, or as a result of the financing thereof. Such Revenues will include moneys resulting from the rates, rents, fees and charges imposed by the Board for the use or enjoyment of or the services furnished by such facilities, and Legislative Appropriations allocated in accordance with the Resolution. As indicated, Revenues include Legislative Appropriations, however, the availability of Legislative Appropriations is subject and subordinate to the pledge of Legislative Appropriations to the payment of certain separately secured bonds of the University. See APPENDIX A – "THE UNIVERSITY OF HAWAI'I – Outstanding Indebtedness" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

The term "*Revenues*" excludes moneys received as proceeds from the sale of Bonds, except to the extent such proceeds are credited to the University Bond Account in the University System Revenue – Undertakings Fund or a subaccount therein, or the moneys derived from any University Project or University Purpose which is not included in the Network under the Resolution, or the moneys derived from any other network or university system that may be established separate and apart from the Network established under the Resolution, or gifts the terms of which preclude their being used for the payment of the cost of construction, cost of maintenance, or both, of the Network or for the payment of the principal of or interest on the Bonds, or, unless permitted by law, general appropriations or taxes.

The Series 2012A Bonds and all other Bonds are and will be equally and ratably secured by such lien and pledge, without priority by reason of series, number, date, maturity of Bonds, date of sale, issuance and execution, or delivery thereof, except as described below under "Additional Security for Certain Outstanding Series of Bonds."

Neither the State nor any department or political subdivision thereof, including the Board, is obligated to pay the Series 2012A Bonds from any source other than the Revenues pledged under the Resolution. The Series 2012A Bonds are not a general or moral obligation or an indebtedness of the State within the meaning of any limitation of law or a charge upon the general fund of the State, nor is the full faith and credit of the State or any political subdivision thereof pledged to the payment of the principal or interest on the Series 2012A Bonds. No holder of any Series 2012A Bond shall ever have the right to compel any exercise of the taxing power of the State or any political subdivision thereof for the payment of principal of or interest on the Series 2012A Bonds.

Additional Security for Certain Outstanding Series of Bonds

The Board of Regents of the University of Hawai‘i, University Revenue Bonds, Series 2010A-1 Bonds and Series 2010A-2 Bonds (collectively, the "*Series 2010A Bonds*"), originally issued on October 7, 2010, and of which $136,000,000 aggregate principal amount is outstanding as of February 1, 2012, are additionally secured by amounts on deposit in the Hawai‘i Cancer Research Special Fund established within the State treasury pursuant to Section 304A-2168, Hawai‘i Revised Statutes. The Hawai‘i Cancer Research Special Fund is funded primarily from collections of an excise tax imposed on each cigarette sold, used, or possessed by a wholesaler or dealer in the State pursuant to Section 245-3, Hawai‘i Revised Statutes. Currently, 2.0 cents per cigarette from these collections is deposited to the credit of the fund, and the cash balance in the fund as of June 30, 2011 and 2010 was $30,953,599 and $50,448,366, respectively. So long as any Series 2010A Bonds remain outstanding, such Legislative Appropriation shall be allocated to the University's Cancer Research Center, shall continue to constitute Revenues, and shall be used solely for payment of debt service on the Series 2010A Bonds and current expenses and capital expenditures of the Cancer Research Center. **Such amounts only secure the Series 2010A Bonds and are not available for the repayment of any other Bonds, including the Series 2012A Bonds.**

Outstanding and Additional Parity Bonds

Pursuant to the Resolution, the University has previously issued the Series 2001A Bonds, Series 2001B Bonds, Series 2006A Bonds, the Series 2009A Bonds and the Series 2010 Bonds. The Series 2001A Bonds are no longer outstanding. As of February 1, 2012, there is currently outstanding an aggregate of $487,900,000 principal amount of Bonds under the Resolution. The Resolution authorizes the issuance of Additional Bonds secured equally and ratably with the Series 2012A Bonds (except for the Series 2010A Bonds, which are secured by the additional pledge of amounts on deposit in the Hawai‘i Cancer Research Special Fund as described above), subject to satisfaction of the requirements of the Resolution. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – THE RESOLUTION – Authorization and Issuance of Additional Bonds" herein. The Board may issue up to approximately $180 million of Additional Bonds, depending upon the outcome of certain legislation and other authorizations, before the end of calendar year 2012. If issued, such Additional Bonds are expected to be on a parity with the outstanding Bonds issued under the Resolution, including the Series 2012A Bonds.

Separate Resolution Financing

Pursuant to a separate resolution of the Board adopted May 17, 2002, as amended and supplemented (the "*University Bonds Resolution*"), the Board has financed university projects not constituting a part of the Network, which have a prior and paramount claim on certain Legislative Appropriation pledged to the Bonds. As of February 1, 2012, there is $135,390,000 principal amount of bonds outstanding under the University Bonds Resolution. Bonds issued in 2002 and 2006 under the University Bonds Resolution (the "*University Bonds*") are equally and ratably secured by moneys credited to the University Revenue-Undertaking Fund appropriated by the Legislature of the State for the purpose of the payment of the principal of and interest on the University Bonds and a pledge of moneys from time to time on deposit in any special fund or revolving fund of the University derived from its ownership or operation of the University, and the funds and accounts established thereunder, but not moneys deposited in the University Revenue-Undertaking Fund derived from the Network. Such special and revolving fund moneys constitute "Legislative Appropriations" as defined in the Resolution that authorized the Bonds, including the 2012A Bonds.

Pursuant to the University Bonds Resolution, the University Bonds are additionally payable from and secured by a lien on a portion of the moneys in the Hawai‘i Tobacco Settlement Special Fund. The State Legislature previously enacted legislation to allocate and appropriate each year, for the purpose of paying debt service on the University Bonds, in addition to other allocations, a portion of the moneys in the Hawaii Tobacco Settlement Special Fund funded by receipts from the Master Settlement Agreement dated November 23, 1998. The State Legislature has not previously appropriated less than the amount necessary to pay principal and interest coming due on such bonds during the related fiscal year. The Board does not currently expect to issue any additional bonds under the University Bonds Resolution, except for bonds that may be issued for the purpose of refunding existing University Bonds. See APPENDIX A – "THE UNIVERSITY OF HAWAI‘I – Separate Resolution Financing: University Bonds."

Limitations on Subordinated Indebtedness

The Resolution authorizes the Board to issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which are payable from and secured by a lien and charge on the Revenues subordinate to the payment from and lien and charge on the Revenues for payment of the principal of and interest on the Bonds and payments from the Revenues required by the Resolution (i) to pay Current Expenses of the University System and (ii) to be deposited in the University Network Bond Account and the University Network Repair and Replacement Account.

Nothing in the Resolution prevents the State from requiring that reimbursement be made to the general fund of the State from the Revenues for the payment from the general fund of the State of the principal of or interest on any obligations or evidences of indebtedness issued to pay costs of construction of University Projects included or to be included in the University System, subordinate to the payment from the Revenues of the principal of and interest on the Bonds and subordinate to the payment from the Revenues of the payments therefrom required by the Resolution to be used to make the payments described in clauses (i) and (ii) above, or from securing any such reimbursement by a lien and charge on the Revenues of the payments therefrom required by the Resolution to be used to make the payments described in clauses (i) and (ii) above. As of June 30, 2011, $1,032,314 principal amount of such reimbursable obligations were outstanding.

Selected Covenants of the Board

In the Resolution, the Board makes the covenants and agreements described in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION." In particular, the Board has agreed with the Bondholders, among other things, as follows:

Maintenance of the Network. The Board has agreed to operate and maintain the Network and to manage the Network in the most efficient manner consistent with sound economy and public advantage and consistent with the protection of Bondholders. The Board also has agreed to maintain, preserve, keep and operate, or cause to be maintained, preserved, kept and operated, the University Projects, University Purposes, and other properties and facilities constituting the Network (including all additions, improvements and betterments thereto and expansions thereof and every part and parcel thereof) in good repair, working order and operating condition in conformity with standards customarily followed with respect to programs of like size and character, and to that end will from time to time make all necessary repairs and alterations thereof and renewals and replacements thereof.

Rates, Rents, Fees and Charges, and Legislation Appropriations. With respect to University Projects or University Purposes included in the Network capable of producing revenue sufficient to make all such University Projects or University Purposes self-sustaining, the Board has agreed to impose and collect rates, rents, fees and charges for the use or enjoyment and services of the facilities of the University Projects or University Purposes and has agreed to revise such rates, rents, fees and charges from time to time whenever necessary, so that portion of the Network will be and always remain self-sustaining. With respect to University Projects or University Purposes included in the Network not capable of producing any revenue or revenue sufficient to make such University Projects or University Purposes self-sustaining, the Board has agreed to allocate Legislative Appropriations so that portion of the Network (with such Legislative Appropriations) shall be and always remain self-sustaining. See "SECURITY FOR THE BONDS – Pledge of Revenues" herein.

Against Encumbrances. The Board has agreed not to cause to be created or given, or permit to be created or given, any mortgage, lien, pledge, charge or other encumbrance upon any real or personal property comprising the Network or any part thereof, or upon the Revenues and the moneys in the University Revenue-Undertakings Fund credited to any account created by the Resolution, other than the liens, pledges, charges and encumbrances specifically created or permitted by the Resolution.

The Board has further agreed not to permit the creation of or issue any bonds (other than existing and future series of Bonds pursuant to the Resolution), notes, warrants, or other obligations or evidences of indebtedness or create any additional indebtedness payable from the Revenues prior to or on a parity with the payment of principal of or interest on the Bonds or secured by a lien thereon. See "SECURITY FOR THE BONDS—Outstanding and Additional Parity Bonds" herein.

Against Sale or Other Disposition. The Board has agreed not to sell, lease or otherwise dispose of all or substantially all of the properties constituting the Network without simultaneously depositing cash or Governmental Securities in an amount sufficient so that no Bonds are any longer deemed outstanding under the Resolution; provided, however, that (i) the Board may exchange Network property for property of comparable value, (ii) the Board may grant leases, licenses, easements and other agreements pertaining to Network property in the normal and customary course of business, according to the Board's policy regarding rates, rentals, fees and charges of the Network, properties constituting the Network, and the revenues from such leasing shall be part of the Revenues and such properties shall remain part of the Network, but any such leasing shall not be inconsistent with the provisions of the Resolution and shall not impair or diminish the security of and payment for the Bonds, (iii) the Board may execute agreements pertaining to the acquisition of properties that are or will become a part of the Network in connection with the operation of the Network and in the normal and customary course of business thereof, and may subject such properties to a lien pending payment therefor, provided that the aggregate of the payments under all such agreements in a Fiscal Year shall not exceed three percent (3%) of the annual budget of the Board for such Fiscal Year adopted pursuant to the Resolution, and all payments under any such agreements shall constitute Current Expenses to the extent such agreements comply with this paragraph, and (iv) the Board may sell, lease or otherwise dispose of any portion of the properties and facilities (real or personal) comprising a part of the University System which are surplus. Surplus properties or facilities are those the disposal of which will not impede or prevent the use of the Network or its facilities and which the Board has determined have become unserviceable, unsafe or no longer required or which have been replaced by other property of substantially equal revenue producing capability and of substantially equal utility. Any moneys received by the Board as the proceeds of any such sale, lease or any other disposition of said surplus properties shall become Revenues. In the event any Network properties shall be taken by the exercise of the power of eminent domain, the amount of the award received by the Board as a result of such taking shall be applied to any University Purposes, including to the redemption or purchase of Bonds and to acquire or construct revenue-producing properties to constitute a part of the Network.

THE UNIVERSITY OF HAWAIʻI

The University of Hawaiʻi (the "*University*") is a multi-institutional system comprised of three University campuses, seven community college campuses and nine educational centers distributed across six islands throughout the State. The affairs of the University are under the general management and control of the Board, consisting of fifteen members appointed by the governor of the State for staggered five-year terms and confirmed by the Senate. For a detailed description of the Board, the University and certain statistical information, See APPENDIX A – "THE UNIVERSITY OF HAWAIʻI."

The University Network

Act 141, originally enacted on May 16, 1947, established the University Project Fund and authorized the University (with the approval of the governor) to issue revenue bonds to finance the construction and maintenance of University housing units, athletic units and other projects. The measure was intended to enable the University to enlarge its facilities sufficiently to meet the needs of its extended educational program and increased student enrollment and to maintain its standing as one of the major institutions of learning in the Pacific area. The Act was enacted for the purpose of creating a system which would make it possible for several projects to be funded by a single issue of bonds and give the Board the means to establish a financial base for subsequent projects of the University.

The Network (as defined below) includes each University Project (as defined below) the cost of construction of which is paid in whole or in part from the proceeds of Bonds or from the Revenues, whether such University Project is located on the Mānoa Campus of the University or on any other area of any of the educational institutions under the control of or governed by the Board.

Pursuant to the Act and the Resolution, the Board formally created a Network comprised of various University Projects defined in the Resolution as (1) projects designated as a "university project" under the Act ("*University Projects*") and (2) any other action, undertaking or improvement, whether or not capable of producing revenue, constructed, maintained, or both, by the Board, to further the purposes of the University and for the use and services for which fees are imposed or charges made or Legislative Appropriations or other moneys shall have been dedicated and committed ("*University Purposes*," and together with University Projects, the "*Network*").

Subject to State law, the Resolution permits the Board to designate University Purposes as part of a "Network," whether or not such purposes generate revenue, so long as the Board allocates moneys appropriated or allocated by the State Legislature to the Board, the University, the University System or the Network and permitted under law to be expended for Current Expenses of the Board, the University, the University System or the Network, or for Aggregate Debt Service or Debt Service or a combination thereof, and allocated by the Board as Revenues for purposes of the Resolution pursuant to a Supplemental Resolution as "Legislative Appropriations" to the payment of Bonds issued to finance such facilities. See "SECURITY FOR THE BONDS – Pledge of Revenues" herein.

The University System and any University Purposes which at the election of the Board have been included as part of the Network pursuant to a Supplemental Resolution constitute the Network so long as the inclusion of the University Purposes in the Network is not in violation of law or in violation of the terms of any grant, gift, bequest or devise. University Purposes are defined in the Resolution as any action, undertaking or improvement by the Board reasonably related to the development and promotion of the University as an institution of higher learning or an action or undertaking related thereto.

University System Revenues

As indicated herein under "SECURITY FOR THE BONDS," Revenues include, among other things, the rates, rents, fees and charges imposed by the Board for the use or enjoyment of or the services furnished by certain facilities. Such facilities constitute the University System (the "*University System*") which is a part of the Network. See "THE UNIVERSITY OF HAWAIʻI – The University Network" herein. Such rates, rents, fees and charges are derived essentially from the imposition of room rentals, bookstore sales, parking revenues, and the like. The Legislative Appropriations from special and revolving funds are supplemental and in addition to the Revenues derived from such rates, rents, fees and charges. See "THE UNIVERSITY OF HAWAIʻI – The University Special and Revolving Funds" herein. The unrestricted current fund revenues and expenses of the University System for the fiscal years ended June 30, 2007 through 2011 are shown in the following table:

Table 1
UNIVERSITY SYSTEM
UNRESTRICTED CURRENT FUND REVENUES AND EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30,
(in thousands of dollars)

	2007	**2008**	**2009**	**2010**	**2011**
Revenues	$62,544	$66,891	$71,514	$74,165	$87,347
Expenses	52,385	60,070	58,261	55,033	60,165
Excess Revenues over Expenses	$10,159	$ 6,821	$13,253	$19,132	$27,182

Source: University of Hawaiʻi.

The University Special and Revolving Funds

As indicated herein under "SECURITY FOR THE BONDS," Revenues include, among other things, Legislative Appropriations, if any, allocated in accordance with the Resolution, subject and subordinate to the pledge of Legislative Appropriations to the payment of certain separately secured bonds of the University. See APPENDIX A – "THE UNIVERSITY OF HAWAIʻI – Outstanding Indebtedness" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION." Legislative Appropriations are made from special and revolving funds of the University.

A special fund, which for accounting purposes is actually composed of several separate accounts, is generally dedicated or set aside by law for a specified object or purpose, but excludes revolving funds and trust funds. Special funds are designed to be self-sustaining through revenues earmarked from specified sources. The distinguishing characteristic of a special fund is that accounts in a special fund have legislative or other limitations imposed on their use. The types of moneys credited to an account in a special fund are user taxes, receipts and revenues from public undertakings, improvements or systems.

A revolving fund is one from which is paid the cost of goods and services rendered or furnished to or by an entity, such as the University, and which is replenished through charges made for the goods or services or through transfers from other accounts or funds. A revolving fund is often established with an appropriation of seed money from the State. Activities financed by revolving funds at the University include intercollegiate athletics, student activities, facilities usage, and services provided to facilitate instructional, research, and public service missions at the University. The activities are replenished through fees and charges for admission to events, rental, and services provided to users or the general public.

The total amounts derived from special and revolving funds for the fiscal years ended June 30, 2007 through 2011 are shown in the following table:

Table 2
SUMMARY OF SPECIAL AND REVOLVING FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,
(in thousands of dollars)

	2007	**2008**	**2009**	**2010**	**2011**
Current Year's Revenues	$244,358	$299,323	$299,657	$357,890	$382,500
Prior Year's Accumulated Fund Balance	48,986	79,193	143,487	172,329	220,942
Total	$293,344	$378,516	$443,144	$530,219	$603,442

Source: University of Hawai'i.

The Board recently approved a five-year schedule of University-wide tuition increases. See APPENDIX A – "THE UNIVERSITY OF HAWAI'I – Student Enrollment – Student Tuition, Housing Costs and Financial Aid" for a description of tuition, fees and room and board charges at each campus.

DEBT SERVICE REQUIREMENTS

Set forth below are the debt service requirements for the Bonds and certain other obligations payable from the Revenues of the Network. Debt Service requirements for the Bonds in each year ending October 1 include principal and interest payments on October 1 of such fiscal year and interest payments on April 1 of such fiscal year. See APPENDIX A – "THE UNIVERSITY OF HAWAI'I – Outstanding Indebtedness" hereto for a discussion of the University's other outstanding obligations.

Year Ending Oct. 1	Outstanding Bonds Debt Service[(1)]	GO Bonds Debt Service	Series 2012A Bonds Principal	Series 2012A Bonds Interest	Series 2012A Bonds Total Debt Service	Total Bonds Debt Service
2012	$29,064,243	$163,209	$1,275,000	$200,233	$1,475,233	$30,702,684
2013	29,085,055	170,507	1,300,000	303,650	1,603,650	30,859,212
2014	29,137,155	178,163	1,345,000	264,650	1,609,650	30,924,968
2015	30,214,605	186,347	1,410,000	210,850	1,620,850	32,021,802
2016	30,207,805	195,132	1,470,000	140,350	1,610,350	32,013,287
2017	30,218,280	19,755	1,535,000	81,550	1,616,550	31,854,585
2018	30,267,280		240,000	4,800	244,800	30,512,080
2019	30,282,330					30,282,330
2020	30,259,855					30,259,855
2021	30,273,125					30,273,125
2022	30,299,640					30,299,640
2023	30,309,699					30,309,699
2024	30,324,432					30,324,432
2025	30,341,051					30,341,051
2026	29,352,512					29,352,512
2027	29,234,450					29,234,450
2028	29,245,602					29,245,602
2029	29,261,657					29,261,657
2030	29,274,516					29,274,516
2031	29,341,389					29,341,389
2032	29,366,323					29,366,323
2033	29,384,646					29,384,646
2034	29,404,660					29,404,660
2035	29,449,373					29,449,373
2036	29,481,426					29,481,426
2037	23,044,401					23,044,401
2038	23,068,953					23,068,953
2039	16,880,562					16,880,562
2040	16,892,537					16,892,537
Total	**$822,967,562**	**$913,113**	**$8,575,000**	**$1,206,083**	**$9,781,083**	**$833,661,758**

(1) *Corresponds to debt service on the outstanding Series 2006A Bonds, the Series 2009A Bonds and the Series 2010 Bonds. Debt service on Taxable 2010 Build America Bonds is net of federal interest subsidy.*

LEGALITY OF BONDS FOR INVESTMENT

The State and any of its political subdivisions, or any political or public corporations, including the employees' retirement system of the State, or any instrumentality of the State, or any insurance company or building and loan association, or any savings bank or trust company, or any bank or other financial institution operating under the laws of the State or any personal representative, guardian, trustee or other fiduciary in the State may legally invest any moneys or funds belonging to them or within their control and available for investment under other provisions of law, in bonds issued by the Board under the Act.

FINANCIAL STATEMENTS

The financial statements of the University as of and for the fiscal year ended June 30, 2011 have been audited by Accuity LLP, independent auditors, and are attached as APPENDIX C to this Official Statement. See APPENDIX A – "THE UNIVERSITY OF HAWAI'I – Financial Information" and APPENDIX C – "AUDITED FINANCIAL STATEMENTS."

PENDING LITIGATION

The University has been named as a defendant or co-defendant in numerous lawsuits and claims arising in the normal course of operations. Counsel is presently unable to express an opinion as to the probable outcome of any of these lawsuits and claims, and accordingly, no provision for losses has been made for such matters. Any losses arising from such lawsuits and claims are expected to be paid from moneys in certain special or revolving funds of the University or from legislative appropriations obtained for such purpose and are not expected to have a material adverse effect on the University's financial position or the Revenues.

There is no pending litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series 2012A Bonds or in any other manner affecting the validity of such Bonds or the proceedings or authority pursuant to which they are to be sold and issued.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("*Bond Counsel*"), bond counsel to the Board, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "*Code*"), and the Series 2012A Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Series 2012A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the Series 2012A Bonds is less than the amount to be paid at maturity of such Series 2012A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2012A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2012A Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Series 2012A Bonds is the first price at which a substantial amount of such maturity of the Series 2012A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2012A Bonds accrues daily over the term to maturity of such Series 2012A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2012A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2012A Bonds. Beneficial owners of the Series 2012A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012A Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2012A Bonds is sold to the public.

Series 2012A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date, if applicable) ("*Premium Bonds*") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2012A Bonds. The Board has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2012A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2012A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2012A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2012A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes and that the Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012A Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2012A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012A Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012A Bonds. Prospective purchasers of the Series 2012A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2012A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("*IRS*") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Board, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Board has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2012A Bonds ends with the issuance of the Series 2012A Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Board and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Board legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2012A Bonds, and may cause the Board or the beneficial owners to incur significant expense.

LEGALITY

The validity of the Series 2012A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, Alston Hunt Floyd & Ing.

RATINGS

Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services have assigned their municipal bond ratings of "AA," "Aa2" and "A+," respectively, to the Series 2012A Bonds. Such ratings reflect only the respective views of such rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that any of such ratings will be retained for any given period of time or that the same will not be revised downward, suspended or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. The Board undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Series 2012A Bonds.

CONTINUING DISCLOSURE

The Board will undertake to provide certain annual financial information and notices of the occurrence of certain events, if material, pursuant to a Continuing Disclosure Undertaking, a form of which is attached as APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." The Board is in compliance with all of its existing continuing disclosure obligations.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to purchase the Series 2012A Bonds at a price equal to the par amount of $8,575,000.00, plus original issue premium of $917,221.60, less an underwriting discount of $162,323.31, resulting in a purchase price of $9,329,898.29. The Contract of Purchase provides that the Underwriter will purchase all the Series 2012A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Contract of Purchase, including the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Series 2012A Bonds to certain dealers (including dealers depositing the Series 2012A Bonds into unit investment trusts certain of which may be sponsored or managed by the Underwriter) and others at prices lower than the public offering prices stated on the cover page hereof.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representations are made that any of the estimates will be realized.

The description of the Resolution and other documents referred to herein are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to such documents for full and complete statements of such provisions.

The execution and delivery of this Official Statement has been duly authorized by the Board.

BOARD OF REGENTS OF THE UNIVERSITY OF HAWAIʻI

By: /s/ Eric K. Martinson
Eric K. Martinson, Chair

APPENDIX A

THE UNIVERSITY OF HAWAI‘I

General

The University of Hawai’i (the “*University*”) is Hawai’i’s sole state public university system and is governed by a single Board of Regents. It is comprised of ten campuses, including three University campuses, seven community college campuses, three University Centers, multiple learning centers, and extension, research, and service programs distributed across six islands throughout the State. In addition to the flagship campus of the University at Mānoa, the University System also includes the 4,139-student (as of Fall 2011) campus at Hilo on the island of Hawai’i and the smaller campus in West O’ahu on the island of O’ahu. The community college system in the University System consists of seven community colleges. There are four community college campuses on the island of O’ahu and one community college campus on each of the islands of Maui, Kaua’i, and Hawai’i, making college classes accessible and affordable and easing the transition from high school to college for many students. Nine educational centers are located in the more remote areas of the State, and support the rural communities via interactive television classrooms.

The mission of the University System is to provide quality college and university education and training; create knowledge through research and scholarship; provide service through extension, technical assistance, and training; contribute to the cultural heritage of the community, and respond to State needs. The campuses, organized under the Board, differentially emphasize instruction, research, and service. The University System’s special distinction is found in its Hawaiian, Asian, and Pacific orientation and international leadership role. Common values bind the University System together: aloha; academic freedom and vigor; institutional integrity and service; quality and opportunity; diversity, fairness, equity; collaboration and respect; and accountability and fiscal integrity.

The University traces its roots to 1907, when the Hawai‘i Territorial Legislature established the College of Agriculture and Mechanic Arts in Honolulu. The University began classes in September 1908, with 10 students and 13 faculty members. In 1912, the founding campus was renamed the College of Hawai‘i and moved to its present location in O‘ahu’s Mānoa Valley. Six years later, the University petitioned the legislature for university status, and the campus became the University of Hawai‘i in 1920.

Campuses and Academic Programs

The University System provides students with one doctoral-research campus, two comprehensive baccalaureate campuses, and seven community college campuses located on the four major islands. Students of the University System can earn a variety of degrees including certificates in more than 100 fields of study, 117 associate degrees in liberal arts and career and technical education, bachelor’s degrees in 139 programs, master’s degrees in 91 programs, and doctoral degrees in 53 programs, including MD, JD, PharmD, and DArch degrees. In addition, the University maintains a co-operative extension program. The three University Centers extend access to baccalaureate or higher degrees and certificates in communities beyond the physical location of campuses. There are a total of 627 curricula offered in the University System.

Mānoa Campus

The oldest campus and the flagship of the University System is at Mānoa on the island of O’ahu. The University was established at Mānoa in 1907 as a land-grant college of agriculture and mechanic arts. With the addition of a College of Arts and Sciences in 1920, the college became the University. In 1972, the campus became known as the University of Hawai’i at Mānoa to distinguish it from the other units of the growing University System. The campus at Mānoa remains by far the largest and most comprehensive unit in the University System, comprising 10 schools and colleges, offering 92 baccalaureate degrees and 141 graduate and professional degrees, including M.D., J.D., and DArch degrees. Regular credit enrollment for the fall 2011 semester was 20,429, of which 14,693 were full-time students and 5,736 were part-time students, with 14,402 students enrolled as undergraduates and 5,736 as graduates. A total of 4,675 degrees were awarded during fiscal year 2010-2011, of which 1,643 were graduate degrees and 3,032 were bachelor’s degrees. The University at Mānoa is situated on approximately 320 acres on the island of O'ahu, seven miles east of the central business district of the City and County of Honolulu. The estimated daytime student population of the University at Mānoa campus is approximately 18,500. At the beginning of the 2011-2012 academic year, the University at Mānoa had 2,308 faculty (6,153 faculty and staff).

The University at Mānoa is a research university of international standing. It has a Carnegie classification of "Research University/Very High" research activity (RU/VH), the top classification for doctoral-research universities, and the closest to the old "Carnegie Research I University" classification no longer in use. Students have special opportunities for Hawaiian, Asian, and Pacific educational experiences and involvement in research activities, learning community service, and co-curricular activities. The University is one of 32 universities or consortia in the United States designated as a land, sea and space grant college. As a major research university, the University at Mānoa has the capability of serving not only the State but the nation and the international community as well. The University at Mānoa has widely recognized strengths in tropical agriculture, tropical medicine, oceanography, astronomy, electrical engineering, volcanology, evolutionary biology, comparative philosophy, comparative religion, Hawaiian studies, Asian studies, Pacific Islands studies, and Asian and Pacific region public health. The University at Mānoa offers instruction in more languages than most American institutions. Languages taught include Arabic, Cambodian, Chamorro, Chinese, Filipino, French, German, Greek, Hawaiian, Hindi, Illokano, Indonesian, Italian, Japanese, Korean, Latin, Maori, Portuguese, Russian, Samoan, Sanskrit, Spanish, Tahitian, Thai, Tongan, and Vietnamese. Other languages are taught on an as-needed basis, including Burmese, Classical Tibetan, Dutch, Khmer, Manchu, Pali, Prakrit, Tagalog, and Welsh. In addition to the University faculty expertise in benthic and pelagic oceanography, the Hawai'i Institute of Marine Biology leads global research in coral reefs and zooxanthellae.

A number of specialized schools and colleges are located at the University at Mānoa, including Law, Medicine, Agriculture, Business Administration, Hawaiian Knowledge, Pacific and Asian Studies, and Ocean and Earth Sciences and Technology. The University at Mānoa also sponsors an NCAA Division I intercollegiate sports program.

Hilo Campus

The campus of the University of Hawai'i at Hilo was established in 1970 as a four-year, residential liberal arts undergraduate campus in the University System, with baccalaureate and associate degrees in arts and sciences. The major emphasis is on undergraduate education. The campus of the University at Hilo also has a College of Agriculture, Forestry, and Natural Resource Management, a College of Business, a College of Hawaiian Language and a College of Pharmacy.

Students may select majors in the natural sciences, humanities, social sciences, agriculture and Hawaiian language, as well as professional programs such as business, education, nursing, and pharmacy. At the beginning of the 2011-2012 academic year, the campus had 269 faculty (621 faculty and staff). Regular credit enrollment for the fall 2011 semester was 4,139, of which 3,282 were full-time and 857 were part-time, with 3,529 students enrolled as undergraduates and 610 as graduates. A total of 731 degrees were awarded during fiscal year 2010-2011, of which 122 were graduate degrees and 609 were bachelor's degrees. With an average of 22 students per class, faculty and students interact closely in the learning environment.

The University at Hilo also sponsors an NCAA Division II intercollegiate sports program.

West O'ahu Campus

The University of Hawai'i–West O'ahu is the most recent addition to the University System. It opened its doors in January 1976 as West O'ahu College and is currently located on the Leeward Community College campus in Pearl City on the island of O'ahu. The name of the institution was changed to the University of Hawai'i–West O'ahu by the Board in 1989. Formerly an upper division campus, the University of Hawai'i–West O'ahu became a four-year campus and admitted its first class of freshmen in the fall semester of 2007.

The campus at West O'ahu was established to support the region's substantial growth. University of Hawai'i–West O'ahu permits students to pursue their educational and professional goals through a curriculum that places major emphasis on workforce development with selected professional programs (such as elementary education, accounting and health care administration) as well as the humanities and social sciences. Courses are scheduled to accommodate student schedules, including evening, weekend and online courses.

At the beginning of the 2011-2012 academic year, the campus had 56 faculty (137 faculty and staff). Regular credit enrollment for the fall 2011 semester was 1,662, of which 500 were full-time and 1,162 were part-time, with 1,662 as undergraduates. During fiscal year 2010-2011, 255 degrees were awarded, all of which were bachelor's degrees.

On August 16, 2010, the University started construction of a state-of-the-art baccalaureate campus in the City of Kapolei on the island of Oʻahu. The first phase of the campus will be built on 41 acres and consists of a classroom building, laboratory building, administration building, library/resource center, campus center and maintenance building. It is expected to serve nearly 2,000 students for Fall 2012 classes. The architectural design of the new campus will incorporate the latest trends in environmental sustainability and strives to achieve a Leadership in Energy and Environmental Design (LEED) certification by following strict standards established by the U.S. Green Building Council. The construction of the entire campus and adjacent business and retail community is being developed in phases over the next decade. When completed, the University of Hawaiʻi–West Oʻahu is expected to accommodate 7,600 students and 1,000 faculty and staff.

The Community Colleges and Outreach Programs

The community college system in the University System consists of seven campuses. In the fall semester of 2011, the community college system served 34,100 credit students, which is more than half of the enrollment of the entire University System. The community college subsystem is comprehensive, offering liberal arts and sciences courses leading to the Associate of Arts degree (for students preparing to transfer to baccalaureate institutions). The community colleges also offer courses in career and technical training leading to an Associate in Science (transferable to applicable baccalaureate programs), an Associate in Applied Science, or an Associate in Technical Studies degree. These courses may also lead to either a Certificate of Achievement or Certificate of Completion. Developmental instruction for students needing to improve their basic skills and a variety of non-credit courses and activities are also available.

Table A-1
COMMUNITY COLLEGES
2011-2012 Academic Year

College	Island	FTE Enrollment*	Faculty*	Faculty/Staff*	Degrees Awarded**
Hawaiʻi	Big Island	2,430	111	332	405
Honolulu	Oʻahu	2,636	161	390	559
Kapiʻolani	Oʻahu	4,955	256	583	851
Kauaʻi	Kauaʻi	834	74	188	208
Leeward	Oʻahu	4,521	199	438	657
Maui	Maui	2,601	124	401	482
Windward	Oʻahu	1,456	74	203	165
Total:		19,433	999	2,535	3,327

* *As of the fall semester of 2011.*
** *In fiscal year 2010-2011.*
Source: University of Hawaiʻi Institutional Research Office.

In addition to the community college subsystem, the University System provides continuing adult education programs through several outreach centers located in Waiʻanae, Oʻahu; Hāna, Maui; Lānaʻi; Molokaʻi and West Hawaiʻi.

Accreditation and Membership

The University is accredited by the Accrediting Commission for Senior Colleges and Universities and the Accrediting Commission for Community and Junior Colleges ("ACCJC") of the Western Association of Schools and Colleges. All campuses meet or exceed their accreditation requirements. The most recent reaffirmation of accreditations at the University at Mānoa and Hilo campuses were for 10 years each, and for seven years at the West O'ahu campus. Each community college is separately accredited and the most recent reaffirmation of accreditation for each campus was for six years, the maximum allowed by ACCJC policy. Professional programs in curriculum are individually accredited by appropriate agencies. Students may transfer credits to other U.S. or foreign universities on the same basis as course credits are transferred by other accredited U.S. universities.

Research and Sponsored Programs

The University of Hawai'i at Mānoa is the University's flagship research campus and in fiscal year 2009 was ranked in the top 50 by the National Science Foundation out of all public universities in the United States in research expenditures. The University has research partnerships with local, mainland and international universities, research institutions and business organizations. The University has also been designated as the fifth Naval University Affiliated Research Center, which is expected to generate at least $10 million in additional funding per year beginning in 2012. The University also secures research funding from various other sources, including the State, the National Science Foundation, National Institutes of Health, Department of Defense, Department of Agriculture, National Aeronautics and Space Administration, Department of Energy and the Environmental Protection Agency. In 2006, the University was also awarded one of eight Regional Biocontainment Laboratory grants from the National Institutes of Health, valued at $32.5 million.

Administrative Organization

The University System is governed by the Board, the members of which are appointed by the Governor and confirmed by the State Senate. At least part of the membership of the Board represents geographic subdivisions of the State. The Board has the power, as provided by law, to formulate policy and to exercise control over the University through its executive officer, the President of the University, who is appointed by the Board. The Board has exclusive jurisdiction over the internal structure, management and operation of the University.

The President of the University System also serves as the Chief Executive Officer of the Board. Chief executive officers for the various campuses are Chancellors.

Members of the Board of Regents

The affairs of the University System are under the general management and control of the Board, consisting of fifteen members nominated by the Regents Candidate Advisory Council, appointed by the governor of the State and confirmed by the Senate. Regents serve staggered five-year terms. The current Regents of the University are:

Name	Term Expires (June 30)
Eric K. Martinson, Chair	2014
Carl A. Carlson, Jr., Vice Chair	2012
James H.Q. Lee, Vice Chair	2014
Artemio C. Baxa	2013
Michael A. Dahilig	2013
Ramón S. de la Peña	2012
Chuck Y. Gee	2015
Dennis I. Hirota	2012
John C. Holzman	2014
Coralie Chun Matayoshi	2016
Barry T. Mizuno	2012
Saedene Ota	2015
Teena M. Rasmussen	2012
Jan Naoe Sullivan	2016
Matthew Williams	2012

Administration

Administrative personnel of the University System include the following individuals:

M.R.C. Greenwood*, *President, University of Hawai'i System. M.R.C. Greenwood became the 14th president of the University of Hawai'i, and the first woman to serve as the University's chief executive officer, in August 2009. From 2004-2009, Greenwood served as provost and senior vice president–academic affairs for the University of California system, the system's second highest position, where she led task forces on long range planning and graduate and professional education, supported a new science and math initiative and worked to rebalance the university's academic portfolio and make admissions procedures more transparent.

From 1996–2004, Greenwood was chancellor of University of California Santa Cruz. She led the campus through a period of great growth, opening the University of California system's first new residential college in 30 years, expanding academic programs by 52%, hiring 250 new faculty members, more than doubling extramural research support and constructing nearly a million assignable square feet in academic buildings. Major accomplishments included launching the campus's first professional school, securing National Science Foundation and private support for the Center for Adaptive Optics, establishing a University of California Silicon Valley Center, and developing the nation's first NASA University Affiliated Research Center.

A national leader on science and technology policy and an expert on higher education policy issues, Greenwood served as associate director and consultant to the White House Office of Science and Technology Policy and chairs the National Academies Policy and Global Affairs Division. As a member of state and national committees and councils, she has tackled issues from writing in America's schools and biomedical careers for women to national security and ethics of the information society.

She is past-president and fellow of the American Association for the Advancement of Science, fellow of the American Academies of Arts and Sciences, member of the Institute of Medicine/National Academy of Sciences and former member of the National Science Board.

An expert on obesity and diabetes, Greenwood most recently served as director of the Foods for Health Initiative, chair of the Graduate Group in Nutritional Biology and distinguished professor of nutrition and internal medicine at UC Davis. She has published extensively, received numerous scientific awards and been president of the Obesity Society and the American Society of Clinical Nutrition, chair of the Food and Nutrition Board of the Institute of Medicine and fellow of the American Society for Nutrition.

Greenwood graduated summa cum laude from Vassar College and received her PhD from The Rockefeller University.

Linda K. Johnsrud, Executive Vice President for Academic Affairs/Provost, University of Hawai'i System. As the Chief Academic Officer since March 1, 2005, Linda Johnsrud collaborates with lead campus academic officers to set forth the overall academic vision, goals and strategic plan for the University of Hawai'i System. She also advises the president on matters relating to systemwide planning, policy development and analysis, and oversees institutional research, academic personnel and P-20 initiatives.

Johnsrud was named Interim Associate Vice President for Planning and Policy in 2003 and was appointed Interim Vice President in 2005. She has also served as Interim Vice Chancellor for Academic Affairs at the University of Hawai'i at Mānoa and as Acting Chancellor for the University of Hawai'i–West O'ahu.

She is a professor of higher education in the Department of Educational Administration, College of Education at the University of Hawai'i at Mānoa. A past director of the University of Hawai'i Professional Assembly and a 1998-99 fellow of the American Council on Education, she has also served as Associate Dean for Academic Affairs for the College of Education and chaired the Mānoa faculty senate.

In 2010, she was named Chair of the Western Association of Schools and Colleges' Accrediting Commission for Senior Colleges and Universities (WASC) where she has served as one of 25 commissioners since 2007. She was selected in 2009 as a member of the Western Academic Leadership Executive Council of the Western Interstate Consortium for Higher Education (WICHE). In 2006-07, she was elected president of the Association for the Study of Higher Education (ASHE). From 2000-02, she served on the executive council and as vice president of the Postsecondary Division of the American Educational Research Association (AERA).

In 2009, Johnsrud was selected as the Businesswoman of the Year by Pacific Business News (PBN) for her leadership and service to the State of Hawai'i.

Johnsrud holds a BS in English education from the University of Wisconsin in Madison, MS in college student personnel administration from Western Illinois University and PhD in higher education with cognate in sociology from The Ohio State University.

John F. Morton, Vice President for Community Colleges. As Vice President for Community Colleges, John Morton is responsible for executive leadership, policy decision-making, resource allocation and development of support services for the University of Hawai'i's seven community colleges. Morton previously served as Chancellor at Kapi'olani Community College for 20 years where he directed the development of a new campus on Diamond Head and a rapidly increasing student population. He began his career with the University at Leeward Community College as a faculty member in chemistry and political science, and served as Dean of Instruction, Coordinator for Advanced Institutional Development Program, and Director for Special Programs and Community Services. In 2002, he became project coordinator, overseeing the planning, development, and implementation of the first unified Student Information System for the University of Hawai'i System and continues to oversee this project.

Morton serves on the boards of Community Colleges for International Development and RC 2020 (Renewal and Change), the Hawai'i Health Information Corporation, Assets School, Pacific Asian Affairs Council and the Chamber of Commerce.

Morton holds a BS in chemistry and MA in political science from the University of Illinois and a PhD in communication and information sciences from the University of Hawai'i at Mānoa.

Virginia Hinshaw, Chancellor, University of Hawai'i at Mānoa. Virginia Hinshaw assumed leadership of the University System's oldest and largest campus on July 2, 2007. In August 2011, Hinshaw announced that she would resign as chancellor effective July 2012. A search is underway for her replacement.

Previously, Hinshaw was Provost and Executive Vice Chancellor of the University of California, Davis, where she was responsible for a $2.3 billion budget, campus operations and strategic planning, as well as the UC

Davis Health System. Prior to joining UC Davis in 2001, Hinshaw served as Dean of the Graduate School and Vice Chancellor for Research at the University of Wisconsin–Madison. At Mānoa, Hinshaw is a full professor in the John A. Burns School of Medicine. Hinshaw holds a bachelor's degree in laboratory technology and a master's and doctoral degrees in microbiology from Auburn University.

Donald O. Straney, Chancellor, University of Hawai'i at Hilo. Donald Straney became chancellor of the University of Hawai'i at Hilo on July 1, 2010. Prior to joining the University, Straney served as dean of science at California State Polytechnic University, Pomona, where he was also professor of biological sciences. He joined Cal Poly Pomona in 2002 after spending 23 years at Michigan State University, where he served as chair of the Department of Zoology from 1986 to 1995 and as assistant to the provost for faculty development from 1995 to 2002.

Straney is on the National Advisory Board of the National Science Foundation-supported Center for the Integration of Teaching, Research and Learning at the University of Wisconsin. He has been a principal investigator for three large grants at Cal Poly Pomona: a Howard Hughes Medical Institute grant to enhance undergraduate instruction in biology, an NSF ADVANCE grant to support the professional development of science and engineering faculty, and a U.S. Department of Education Teacher Quality Enhancement grant to prepare the next generation of teachers. He also led Cal Poly's efforts to establish a twinning program in biotechnology, computer science, business and mechanical engineering with Technology Park Malaysia College, a new institution in Kuala Lumpur, and with Al Akhwayn University in Morocco.

Within the California State University system, Straney served on the board of directors of both the Desert Studies Center and the Ocean Studies Institute as well as on the strategic planning council of the California State University Program for Education and Research in Biotechnology.

An evolutionary biologist by training, Straney has studied patterns of change in a variety of organisms, most recently focusing on ants. He received a PhD in zoology from the University of California, Berkeley, and both his MS and BS are from Michigan State University in zoology

Gene I. Awakuni, Chancellor, University of Hawai'i–West O'ahu. Gene Awakuni joined University of Hawai'i as Chief Executive of the West O'ahu campus in March 2005. He previously served as Vice Provost for Student Affairs at Stanford University, where he had joint oversight for a division of 650 staff members, and managed eight major departments at Columbia University, including dining, health, business and financial services; university bookstores; residence halls; the registrar's office and student information systems.

He also served as Vice President for Student Affairs and University Advancement at Cal Poly Pomona, Assistant Vice Chancellor for Student Academic Services at University of California, Santa Barbara and Director of the Counseling and Psychological Services Center at University of California, Irvine.

Awakuni earned his doctorate in counseling and consulting psychology at Harvard University. He received a master's in clinical social work and a bachelor's in political science from the University of Hawai'i at Mānoa.

A counseling psychologist, Awakuni has taught courses relating to the interaction of psychology and ethnicity and recently co-authored a book entitled Resistance to Multiculturalism: Issues and Interventions. He served as president of the national association Asian Pacific Americans in Higher Education. While at UC Irvine, he won a teaching award called My Last Lecture.

Darolyn Hatsuko Lendio, Vice President for Legal Affairs and University General Counsel. As University General Counsel and Vice President for Legal Affairs, Darolyn Hatsuko Lendio serves as chief legal advisor to the Board and administration. She joined the System in September 2006, bringing a strong background in civil and commercial litigation, insurance and contract issues and government, municipal and land use law.

A founding partner and 15-year member of Honolulu law firm McCorriston Miller Mukai MacKinnon, she also spent two years as corporation counsel to the City and County of Honolulu, earning the 1996 Outstanding City Administrator award from the American Society of Public Administration, Hawai'i Chapter.

Lendio was admitted to the Hawai‘i bar in 1984 while serving as extern to Hawai‘i Supreme Court Associate Justice Yoshimi Hayashi and joined Goodsill Anderson Quinn & Stifel. She received an AV rating from Martindale-Hubbell in 1999 and was named to the Best Lawyers in America in 2005.

A member of the Judicial Council, Lendio has been active in numerous professional and civic organizations, including the Hawai‘i Filipino Lawyers, Honolulu Board of Water Supply, Honolulu Charter Commission and Honolulu Police Commission.

Lendio graduated magna cum laude with a bachelor’s degree in journalism/political science from the University of Southern California and holds a Juris Doctor from University of California, Berkeley’s Boalt Hall School of Law.

Howard Todo, Vice President for Budget and Finance/Chief Financial Officer. Howard Todo joined the University System in October 2005, bringing a strong background in both private industry and public service. As Vice President for Budget and Finance and Chief Financial Officer, he provides oversight for systemwide budgeting and management of accounting, asset management, bond system operations, disbursing, procurement and real property.

Todo previously was Vice President–Finance and Chief Financial Officer at Island Air, operated his own consulting firm and served as acting Chief Financial Officer for the Board of Water Supply, where he oversaw implementation of a computerized financial management system and re-engineered financial processes. His extensive experience with accounting firm Ernst & Young included serving as partner-in-charge of the audit of the State of Hawai‘i’s Comprehensive Financial Report and serving a client list that included the Research Corporation of the University of Hawai‘i; East-West Center, and the State’s Highways Division, Department of Hawaiian Home Lands, Judiciary Branch and Department of Accounting and General Services.

A certified public accountant, Todo has chaired the State’s Board of Public Accountancy and served as President of the Hawai‘i Society of Certified Public Accountants and as a member of the National Council of the American Institute of Certified Public Accountants.

A graduate of the University of Hawai‘i at Mānoa and 1995 inductee into the College of Business Administration’s Hall of Honor, Todo served on the boards of the University of Hawai‘i Alumni Association and College of Business Alumni and Friends.

David Lassner, Vice President for Information Technology/Chief Information Officer. As the University of Hawai‘i’s first VP for Information Technology and Chief Information Officer, David Lassner is responsible for supporting academic and administrative computing, distributed learning technologies, and voice, data and video telecommunication. He directs Information Technology Services, which provides technology support to the Mānoa campus and addresses statewide needs of the University System.

Since joining the University of Hawai‘i in 1977, Lassner has held both technical and management positions in instructional technology, computing, networking and distance education. He is a member of Mānoa’s cooperating graduate faculty and has taught online and in person in the Department of Information and Computer Science, College of Business, School of Communication and College of Education. Lassner has also served on the faculty of management institutes for IT leaders nationally and internationally.

Lassner plays an active leadership role in a number of local, national and international organizations. He currently serves on the board of directors of the Kuali Foundation and EDUCAUSE. Lassner is a past-chair of the Pacific Telecommunications Council and WICHE’s Cooperative for Educational Telecommunications, and has also served on the board of Internet2 and coordinated a variety of education projects for the Internet Society internationally. Locally, he has served on the boards of Hawai‘i Public Television and the Hawai‘i High Technology Development Corporation and he chaired the Hawai‘i Broadband Task Force. Lassner has been recognized with WCET’s 2000 Richard Jonsen Award for service, with Internet2’s 2010 Richard Rose Award, and as a Distinguished Alumni of the University of Hawai‘i.

Lassner serves as principal investigator (PI) for the ten-year contract to manage the Maui High Performance Computing Center, co–PI for the Pacific Disaster Center, and was PI for the Hawai‘i Education and Research Network, an NSF demonstration project to apply networking technologies in K–12 and higher education. He has written several book chapters and speaks frequently to local, national and international audiences.

Lassner holds an AB summa cum laude and Phi Beta Kappa in economics and an MS in computer science from the University of Illinois at Urbana–Champaign, and a PhD in communication and information sciences from the University of Hawai‘i at Mānoa.

James R. Gaines, Vice President for Research. As Vice President for Research, James R. Gaines is the chief research policy advisor to the president, responsible for developing and coordinating systemwide research policies and procedures and management of research-related administrative support services.

Gaines joined the University of Hawai‘i at Mānoa in 1987 as a professor of physics and chaired the Physics and Astronomy Department from 1995-2003. He spent two years as Vice President and Head of Materials Science for KMS Fusion Inc. in Ann Arbor, Michigan (1989-91). He previously served on the faculty of Ohio State University, where he was director of the Materials Research Laboratory.

Gaines taught and conducted research at Centre de Recherches Nucleaires (France), Linkoping University (Sweden), University of Pennsylvania, MIT, Harvard and Lawrence Livermore Laboratory. He has done consulting work at Livermore and Brookhaven National Laboratory. An expert in condensed matter physics, Gaines has published more than 120 refereed articles and three editions of the study guide that accompanies a major textbook on introductory physics.

A fellow of the American Physical Society since 1990, Gaines received the Alfred P. Sloan Foundation Research Award and was the Spark Matsunaga Fellow for Research in Renewable Energy. He was one of the founders and later served on the Board of Directors for Lake Shore Cryogenics and the scientific advisory board for Superconductive Components, Inc.

Gaines holds a PhD degree in physics from Washington University, where he was elected to the Phi Beta Kappa honorary society, and a BA from Berea College.

Brian Minaai, Associate Vice President for Capital Improvements. As Associate Vice President for Capital Improvements, Brian Minaai is responsible for planning, development, implementation and integration of multi-million dollar capital improvement projects and long-range physical development plans systemwide. He also oversees development of associated funding requirements and implementation of public-private partnership projects and coordinates facilities and physical asset management for the ten University campuses.

Before joining the University on March 1, 2008, Minaai was Senior Development Director for Marriott Vacation Club in Kapolei. He previously served as director and deputy director of the State of Hawai‘i Department of Transportation and chief clerk and budget chief of the state senate’s Ways and Means Committee. His private sector experience includes positions in Hawai‘i real estate development firms Kobayashi Group, LLC, as senior project manager, and Haseko (Hawai‘i) Inc., as vice president.

Minaai holds a bachelor’s and master’s of arts in economics and a master’s in business administration from the University of Hawai‘i at Mānoa.

Rockne Freitas, Vice President for Student Affairs and University/Community Relations. Rockne Freitas assumed the newly created position of Vice President for Student Affairs and University/Community Relations for the University System in July 2010. Merging two vacant vice president positions at the system level—Vice President for Student Affairs and Vice President for External Affairs and University Relations—the post provides leadership in systemwide student affairs policies and procedures and student life activities, as well as University and government relations and communication efforts. Freitas also works on key special projects systemwide, including the completion of the community college in Palamanui and assisting with the progress of the new West O’ahu campus.

As chancellor of Hawai'i Community College for the previous six years, Freitas served as the chief executive of the main campus in Hilo and its University of Hawai'i Center in West Hawai'i. He previously served as Vice President and Executive Director of the Ke Ali'i Pauahi Foundation and has held leadership positions at Kamehameha Schools and GRG Enterprises. Freitas also held posts as Vice President for University Relations for the University System and Associate Athletic Director for University of Hawaiʻi at Mānoa.

A former National Football League player and coach, Freitas was inducted into the Hawai'i Sports Hall of Fame and the Oregon State University Sports Hall of Fame. He also served as a trustee for the Office of Hawaiian Affairs.

Freitas holds a PhD and MEd in education from the University of Hawaiʻi at Mānoa and BS in animal science from Oregon State University. His doctoral research focused on developmental systems and guidelines for drug prevention, education, monitoring and counseling for intercollegiate athletics.

Lynne Waters, Associate Vice President for External Affairs and University Relations. Lynne Waters joined the University System in 2011 with responsibility for strategic communications planning, community relations, creative services and marketing and brand management as they relate to advancing the university's mission, goals and major initiatives.

She arrived in Honolulu in 1981 to co-anchor the nightly news for KITV Channel 4. As a reporter on the Hawaiian affairs beat, she was part of the first TV crew to accompany the Protect Kahoolawe ʻOhana to the island after it was placed on the National Register of Historic Places. She also hosted the long-running live PBS Hawaiʻi public affairs program Dialog and covered the Hawaiʻi State Legislature for both stations.

As owner of Lynne Waters Communications since 1985, she produced and wrote PBS Hawaiʻi's three-hour "Year of the Hawaiian" mini-documentary series, which aired nationwide in 1987. She created, produced and wrote other local TV programs including "Hawaiʻi On Screen," "Kids and Gangs," "Family" and many others. Her business provided media, communication, public relations, image branding and marketing and video production services to corporate, business and industry clients including the Hawaiʻi International Film Festival, ʻAha Punana Leo Hawaiian Language Medium Education Program, the state Department of Education, Hina Mauka Substance Abuse Treatment Facility and the Pacific Resource Partnership.

Always active in her community, Waters is a member of the Judicial Conduct Commission and Honolulu Police Community Foundation Board of Directors. She has hosted the televised "Children's Miracle Network" benefitting Kapiʻolani Medical Center for Women and Children for two decades.

A Texas native, she holds a BA in broadcast journalism from Baylor University and is a graduate of the Pacific Century Fellows program.

Lui K. Hokoana, Associate Vice President for Student Affairs. Lui Hokoana was appointed Associate Vice President for Student Affairs in May 2011 and is responsible for providing systemwide leadership in planning, organizing, directing, evaluating and coordinating the University of Hawaiʻi System's student affairs. This includes initiating, developing and coordinating student affairs programs, policies and procedures related to systemwide activities.

Hokoana also oversees the Hawaiʻi Commission for National and Community Service and the National Corporation of Community Services, as well as three statewide programs—WICHE, Leveraging Educational Assistance Program and the State Approving Agency for Veterans' Benefits—which impact Hawaiʻi students who wish to pursue their education in Hawaiʻi and beyond.

He joined the University of Hawaiʻi in 1991 as a counselor at Maui Community College, where he developed and implemented the Liko Aʻe Native Hawaiian Scholarship Program that provides scholarships to students throughout the country. In 2006 he was named Vice Chancellor of Student Affairs at Windward Community College. Under his leadership, the Achieving the Dream initiative resulted in unprecedented growth in enrollment and financial aid access for students, and he helped secure $12.3 million in Title III funds for the college.

Active in community affairs, Hokoana has served as a board member of Papa Ola Lokahi, Hui No Ke Ola Pono and the Association of Hawaiian Civic Clubs. He is one of the founders and served as president of the Native Hawaiian Education Association, now the largest Hawaiian education association with a membership of 600 educators. In 1999 he received the Ke Kukui Malamalama Excellence in Hawaiian Education award from the Office of Hawaiian Affairs.

Hokoana holds a BA in political science from the University of Hawaiʻi at Hilo, MA in communications from the University of Hawaiʻi at Mānoa and an EdD in education from the University of Southern California.

Keith Amemiya, Executive Administrator and Secretary of the Board of Regents. As Executive Administrator and Secretary of the Board of Regents since March 2010, Keith Amemiya is responsible for and has the authority to manage and oversee the daily operations of the Office of the Board of Regents, including planning, coordinating, directing, and providing staff support services to the Board. More specifically, Amemiya serves as the liaison between the Board and the University administration, and advises and assists the Board in fulfilling its governance responsibilities.

Prior to joining the University, Amemiya served as the Executive Director of the Hawaiʻi High School Athletic Association for nearly 12 years (August 1998-March 2010), and practiced law at two different Honolulu law firms from 1991-1998.

Amemiya serves on numerous boards and commissions, including the Honolulu Sports Commission, the Aloha Council of the Boy Scouts of America, the Sheraton Hawaiʻi Bowl Executive Committee, and the Pro Bowl Ohana Host Committee.

Amemiya received a Bachelor of Business Administration (Finance) degree from the University of Hawaiʻi at Mānoa and holds a Juris Doctor degree from the William S. Richardson School of Law at the University of Hawaiʻi at Mānoa.

Student Enrollment

Enrollments

All campuses in the University System have experienced increased application and total enrollment rates over the last two academic years. The following table sets forth the University System's enrollment, by campus, for the fall semester of each of the past five academic years:

Table A-2
FTE ENROLLMENT BY CAMPUS
Academic Years 2007-2008 to 2011-2012

Academic Year	Total University System	UH Mānoa	UH Hilo	UH West O‘ahu	Community Colleges
2007-2008					
Undergraduate	30,056	11,865	2,756	522	14,913
Graduate	4,447	4,170	277	0	0
Total:	34,503	16,035	3,033	522	14,913
2008-2009					
Undergraduate	31,563	11,799	2,829	640	16,297
Graduate	4,702	4,286	416	0	0
Total:	36,267	16,085	3,245	640	16,297
2009-2010					
Undergraduate	34,135	11,972	2,941	730	18,492
Graduate	4,993	4,457	536	0	0
Total:	39,128	16,429	3,476	731	18,492
2010-2011					
Undergraduate	35,460	11,934	2,944	823	19,759
Graduate	5,073	4,397	676	0	0
Total:	40,533	16,331	3,620	823	19,759
2011-2012					
Undergraduate	35,646	12,360	2,944	910	19,432
Graduate	4,812	4,126	686	0	0
Total:	40,458	16,486	3,630	910	19,432

Source: University of Hawai‘i Institutional Research Office.

Applications and New Enrollments

The following table lists the applications and new enrollments of undergraduates, by campus, for the fall semester for the past five years:

Table A-3
MĀNOA CAMPUS
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2007-2008	10,616	7,749	73.0	1,843	2,065	3,908
2008-2009	11,456	8,103	70.7	1,866	1,961	3,827
2009-2010	12,155	8,615	70.9	1,922	2,063	3,985
2010-2011	11,589	8,570	73.9	1,863	1,970	3,833
2011-2012	11,513	9,136	79.4	2,010	2,107	4,117

Source: University of Hawai'i Institutional Research Office.

Table A-4
HILO CAMPUS
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2007-2008	3,308	2,131	64.4	512	529	1,041
2008-2009	3,681	2,290	62.2	552	497	1,049
2009-2010	3,889	2,327	59.8	471	607	1,078
2010-2011	3,236	2,481	76.7	403	607	1,010
2011-2012	3,225	2,484	77.0	471	646	1,117

Source: University of Hawai'i Institutional Research Office.

Table A-5
WEST O'AHU CAMPUS
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2007-2008	627	555	88.5	35*	269	304
2008-2009	842	710	84.3	74	310	384
2009-2010	882	762	86.4	107	327	434
2010-2011	1,202	946	78.7	108	371	479
2011-2012	1,382	1,128	81.6	122	450	572

* *Academic Year 2007-2008 was the first year that West O'ahu accepted freshmen.*

Source: University of Hawai'i Institutional Research Office.

Table A-6
COMMUNITY COLLEGES
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2007-2008	15,691	15,220	97.0	4,557	2,450	7,007
2008-2009	17,081	16,599	97.2	5,471	3,098	8,569
2009-2010	19,869	19,404	97.7	5,916	3,664	9,580
2010-2011	21,546	20,741	96.3	6,374	3,618	9,992
2011-2012	21,964	20,560	93.6	5,907	3,243	9,150

Source: University of Hawai'i Institutional Research Office.

Student Tuition, Housing Costs and Financial Aid

In October 2011 the Board approved a five-year tuition schedule for the academic years 2012-2013 through 2016-2017 to increase tuition at each campus. Under the approved schedule, tuition will increase between approximately 10 to 49 percent, depending on the campus and degree program, over the five-year period. The increases are projected to generate additional revenues over present levels increasing from approximately $15 million in the first year to approximately $25 million of additional revenues in 2016-2017.

The University seeks to provide affordable education for its students. The University has increased its institutional financial aid for students from $34.8 million in academic year 2007-2008 to $54.3 million in academic year 2010-2011. The share of first-time freshmen receiving aid in the 2009-2010 academic year ranged from 79% (at University of Hawai'i at Hilo) to 36% (at Kapi'olani Community College). On average, financial aid recipients receive $3,475 in financial assistance from the University. Concurrently with its approval of the new tuition schedule the Board approved a scheduled increase in the allocation of tuition revenues for financial assistance at Mānoa, Hilo and West O'ahu from the current rate of 15 percent to 20 percent, at the rate of one percent per year.

The following tables set forth the annual tuition and fee charges to each full-time undergraduate student, together with the average annual room and board charges, for each of the past five years.

Table A-7
MĀNOA CAMPUS
Tuition, Fees and Room and Board Charges

	Tuition and Fees		
Academic Year	Resident	Non-resident	Average Room and Board
2007-2008	$5,391	$14,655	$7,335
2008-2009	6,259	16,915	7,564
2009-2010	7,168	19,216	8,493
2010-2011	8,095	21,535	9,410
2011-2012	9,100	23,932	10,279

Source: University of Hawai'i Institutional Research Office.

Table A-8
HILO CAMPUS
Tuition, Fees and Room and Board Charges

Academic Year	Tuition and Fees: Resident	Tuition and Fees: Non-resident	Average Room and Board
2007-2008	$3,676	$11,212	$6,792
2008-2009	4,360	12,880	7,014
2009-2010	4,888	14,392	6,914
2010-2011	5,416	15,904	7,134
2011-2012	5,944	17,416	7,182

Source: University of Hawai'i Institutional Research Office.

Table A-9
WEST O'AHU CAMPUS
Tuition and Fees Charges

Academic Year	Tuition and Fees: Resident	Tuition and Fees: Non-resident
2007-2008	$3,226	$10,186
2008-2009	3,706	11,578
2009-2010	4,186	12,970
2010-2011	4,666	14,362
2011-2012	5,146	15,754

Source: University of Hawai'i Institutional Research Office.

Table A-10
COMMUNITY COLLEGES
Tuition, Fees and Room and Board Charges

Academic Year	Tuition and Fees [a][b]: Resident	Tuition and Fees [a][b]: Non-resident	Average Room and Board[c]
2007-2008	$1,568	$6,419	$7,246
2008-2009	1,772	6,733	7,478
2009-2010	1,967	7,038	N/A
2010-2011	2,183	7,223	N/A
2011-2012	2,399	7,408	N/A

(a) Average community college tuition.
(b) Academic Year 2009-2010 mandatory fees at the community colleges range from $30 per academic year to $134 per academic year.
(c) UH Maui College was the only community college with on-campus housing, which it no longer offered as of Spring 2009.

Source: University of Hawai'i Institutional Research Office.

Degrees Awarded by School

The following table shows the number of degrees awarded, by campus, for the five fiscal years shown:

Table A-11
DEGREES AWARDED BY CAMPUS
ASSOCIATE/BACHELOR/GRADUATE*

Fiscal Year/Degree	Total UH System	UH Mānoa	UH Hilo	UH West O'ahu	Community Colleges
2006-2007					
Associate/Certificate	2,710	0	0	0	2,710
Bachelor/Professional Degree	3,689	2,899	570	217	3
Graduate/JD	1,436	1,414	22	0	0
Other	0	0	0	0	0
Total:	7,835	4,313	592	217	2,713
2007-2008					
Associate/Certificate	2,660	0	0	0	2,660
Bachelor/Professional Degree	3,798	3,056	560	180	2
Graduate/JD	1,538	1,510	28	0	0
Other	0	0	0	0	0
Total:	7,996	4,566	588	180	2,662
2008-2009					
Associate/Certificate	2,749	0	0	0	2,749
Bachelor/Professional Degree	3,796	2,988	583	221	4
Graduate/JD	1,539	1,508	31	0	0
Other	0	0	0	0	0
Total:	8,084	4,496	614	221	2,753
2009-2010					
Associate/Certificate	3,025	0	0	0	3,025
Bachelor/Professional Degree	3,699	2,894	554	242	9
Graduate/JD	1,567	1,520	47	0	0
Other	0	0	0	0	0
Total:	8,291	4,414	601	242	3,034
2010-2011					
Associate/Certificate	3,324	0	0	0	3,324
Bachelor/Professional Degree	3,899	3,032	609	255	3
Graduate/JD	1,765	1,643	122	0	0
Other	0	0	0	0	0
Total:	8,988	4,675	731	255	3,327

* *The University Institutional Research Office maintains the information contained in this table only for fiscal years.*
Source: University of Hawai'i Institutional Research Office.

Faculty

The full-time equivalent faculty in the University System in the academic year 2011-2012 totals approximately 3412. Of the total headcount of faculty on the tenure track, approximately 71% are tenured. When all faculty are considered, including those that are neither tenured nor tenure-track, approximately 48.4% are tenured.

Scores of faculty members have been elected to distinguished academic societies such as the American Academy of Arts and Sciences, the American Philosophical Society, the National Academy of Sciences, and the National Academy of Engineering.

Collective Bargaining

The Constitution grants public employees in the State the right to organize for the purpose of collective bargaining. Chapter 89, HRS, provides for 13 recognized bargaining units for all public employees throughout the State, including State and county employees. Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. In the case of the bargaining units to which both the State and county employees belong, the representatives of the public employer with whom such bargaining units negotiate are the Governor of the State and the mayor of each of the counties (the Chief Justice and Board of the Hawaiʻi Health Systems Corporation are also involved in negotiations if they have employees in the bargaining unit). In the case of the University, the representatives are the Governor, the Board, and the President. Decisions by the employer representatives of the State and county employees are determined by simple majority vote with the Governor having varying numbers of votes depending on the bargaining unit involved. Decisions by the employer representatives of Board appointed employees (Units 7 & 8) are determined by simple majority vote with the Governor having three votes, the Board having two votes and the President having one vote. By statute, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation. If the impasse is not resolved through the efforts of the parties, it will be resolved through final and binding arbitration for ten of the bargaining units that do not have the right to strike. The bargaining units that do have the right to strike are still able to mutually agree to final and binding arbitration. Although the statute characterizes arbitration as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies.

Employees of the University belong to one of eight bargaining units: Unit 1 (Blue Collar Employees), Unit 2 (Blue Collar Supervisors), Unit 3 (White Collar Employees), Unit 4 (White Collar Supervisors), Unit 7 (University of Hawaiʻi Faculty), Unit 8 (Administrative, Professional and Technical Employees of the University of Hawaiʻi), Unit 9 (Registered Professional Nurses), or Unit 10 (Institutional and Hospital Employees). Employees in executive/managerial positions, as well as certain other personnel designated as excluded, are not represented by any union, and some employees (*e.g.*, certain contractual hires) are not parties to a formal labor contract.

With the exception of bargaining units 9 and 10, which are not yet resolved, all of the collective bargaining agreements (except the agreement for Unit 7) are for a two-year period beginning July 1, 2011 and ending on June 30, 2013. These bargaining units agreed to temporary salary reductions for employees paid from appropriated funds, in the form of furloughs (Unit 1) or across-the-board pay reductions and comparable leave with pay (all others), equivalent to 5% annualized over the contract period. Base salaries will revert to pre-reduction rates at the end of the current contract period.

The collective bargaining agreement for Unit 7 (University of Hawaiʻi Faculty) is for a six-year period beginning July 1, 2009 and ending on June 30, 2015. This agreement provides for a temporary salary reduction of 6.667% for 18 months (January 1, 2010 through June 30, 2011) for faculty paid from appropriated funds followed by 3% across-the-board salary increases on July 1, 2013 and July 1, 2014. Employees in Unit 7 also will be entitled to lump sum payments equivalent to 25%, 25% and 50% of the temporary salary reductions effective August 1, 2012, August 1, 2013 and August 1, 2014, respectively.

University Share of State Employees' Retirement System

The University's share of the State Retirement System costs for the five fiscal years ended June 30, 2007 through June 30, 2011 were: $58.1 million for the fiscal year ended June 30, 2007; $65.6 million for the fiscal year ended June 30, 2008; $79.7 million for the fiscal year ended June 30, 2009; $75.6 million for the fiscal year ended June 30, 2010; and $72.2 million for the fiscal year ended June 30, 2011.

Post-Retirement Benefits. In June 2004, the Governmental Accounting Standards Board ("*GASB*") issued Statement No. 45 ("*GASB 45*"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health and other non-pension benefits ("*OPEB*"). GASB 45 generally requires that governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they do for pensions. These requirements were effective for the State, including the University, beginning in the fiscal year ending June 30, 2008. The University has commissioned an actuarial study of the obligations for post-retirement benefits which are paid by the Hawai‘i Employers-Union Health Benefit Trust Fund.

The University's independent actuarial consultant has estimated the actuarial accrued liabilities and annual OPEB costs under GASB 45 for the University for the fiscal years 2007-2008 and 2008-2009. According to the consultant, the unfunded actuarial accrued liabilities for Trust Fund OPEBs were approximately $1.9 billion, $1.2 billion and $1.1 billion as of July 1, 2009, 2008 and 2007, respectively, and the corresponding annual OPEB costs (annual required contributions) for the fiscal years ended June 30, 2011, 2010, 2009 and 2008 were approximately $150.6 million, $101.5 million, $94.8 million and $88.6 million, respectively. Payments totaling approximately $39.0 million, $33.4 million, $29.7 million and $25.7 million were made to the Trust Fund during the fiscal year ended June 30, 2011, 2010, 2009 and 2008, respectively. The University contributions are financed on a pay-as-you-go basis. The University's annual required contribution for fiscal year 2011-2012 is estimated to be approximately $45.0 million. For additional information on employee benefits and pensions see Notes 14 and 15 to the University's audited financial statements in APPENDIX C – "AUDITED FINANCIAL STATEMENTS." For a description of the State Employees' Retirement System, see APPENDIX B − "STATE EMPLOYEES' RETIREMENT SYSTEM; EMPLOYEE AND PENSION BENEFITS; PENDING LITIGATION."

Financial Information

General. The University receives funds from various sources, including (i) general funds from Legislative Appropriations of the State; (ii) federal funds, including federal contracts and grants in support of research and training programs; (iii) special and revolving funds derived from wholly or partially self-supporting activities as well as funds appropriated by the legislature for specific purposes; and (iv) trust and agency funds received and expended by the University in accordance with terms of trusts or agreements with donors or grantors, or maintained by the University to account for certain funds. See APPENDIX A – "THE UNIVERSITY OF HAWAI‘I – Financial Information – State Appropriations" below.

Financial Statements. The audited financial statements of the University as of and for the year ended June 30, 2011 are included in APPENDIX C to this Official Statement to provide general information. Accuity LLP has not reviewed this Official Statement and has no responsibility with respect to this Official Statement. See "FINANCIAL STATEMENTS" in the forepart of this Official Statement.

The University maintains close relationships with the University of Hawai‘i Foundation ("*UHF*") and the Research Corporation of the University of Hawai‘i ("*RCUH*"). UHF and RCUH are considered to be component units of the University, and their financial information is blended into the University's financial statements. Both UHF and RCUH prepare stand-alone audited financial statements. See APPENDIX A – "THE UNIVERSITY OF HAWAI‘I – Financial Information – The University of Hawai‘i Foundation" and "– Financial Information Concerning Foundations and Other Entities" herein.

Total net assets has increased 25.8% over the past five fiscal years ended June 30 of the years shown in the table below.

Table A-12
SUMMARY BALANCE SHEET
AS OF JUNE 30
(in thousands of dollars)

	2007	2008	2009	2010	2011
Total Assets	$ 2,106,834	$ 2,302,047	$ 2,481,990	$ 2,687,219	$ 3,247,271
Total Liabilities	528,564	612,804	761,932	841,272	1,261,626
Net Assets					
Invested in capital assets, net of related debt	890,877	967,717	1,050,563	1,099,820	1,182,287
Restricted:					
Nonexpendable	133,507	152,449	162,483	170,706	184,089
Expendable	399,626	419,005	417,636	509,592	613,763
Unrestricted	154,260	150,072	89,376	65,829	5,506
Total Net Assets	1,578,270	1,689,243	1,720,058	1,845,947	1,985,645
Total Liabilities and Net Assets	$ 2,106,834	$ 2,302,047	$ 2,481,990	$ 2,687,219	$ 3,247,271

Source: University of Hawai'i.

The reduction in unrestricted net assets for the fiscal years ended June 30, 2011, 2010, 2009, and 2008, is attributable to the University's accounting and recognition for the University's allocated share of the State's actuarial determined total OPEB liability ($318.1 million, $206.3 million, $127.9 million, and $62.9 million as of June 30, 2011, 2010, 2009, and 2008, respectively). Annual required OPEB contribution payments, on a pay as you go basis, on this liability are paid directly by the State Department of Budget and Finance from its general fund appropriation and not out of the University's operating budget appropriation. See APPENDIX B – "STATE EMPLOYEES' RETIREMENT SYSTEM; EMPLOYEE AND PENSION BENEFITS; PENDING LITIGATION – Other Post Employment Benefits" and APPENDIX C – "AUDITED FINANCIAL STATEMENTS."

The following table provides a summary of the results of operations summarized to match revenues supporting core activities with expenses associated with core activities and other changes for the past five fiscal years.

Table A-13
RESULTS OF OPERATIONS SUMMARIZED TO MATCH REVENUES SUPPORTING CORE ACTIVITIES WITH EXPENSES ASSOCIATED WITH CORE ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30
(in thousands of dollars)

	2007	2008	2009	2010	2011
Revenues:					
Tuition and fees, net	$ 136,950	$ 150,969	$ 181,078	$ 209,588	$ 223,857
State appropriations	623,984	690,625	731,394	369,948	359,077
Grants and contracts	373,237	379,364	399,640	474,347	502,414
Sales and services	110,094	122,651	120,899	127,405	141,795
Investment income	46,549	10,662	--	28,146	47,307
Private gifts	40,057	31,543	23,285	24,398	24,703
Other revenue	2,541	3,266	2,921	2,847	3,063
Revenues Supporting Core Activities	1,333,412	1,389,080	1,459,217	1,236,679	1,302,216
Expenses Associated with Core Activities Before Depreciation	1,227,210	1,372,402[1]	1,525,232	1,209,526	1,293,204
Income (Loss) from Core Activities Before Depreciation	106,202	16,678	(66,015)	27,153	9,012
Depreciation	65,387	71,226	79,228	87,401	85,591
Expenses Associated with Core Activities Including Depreciation	1,292,597	1,443,628	1,604,460	1,296,927	1,378,795
Income (Loss) from Core Activities[1]	40,815	(54,548)	(145,243)	(60,248)	(76,579)
Other Nonoperating Income, net	172,081	165,521	176,058	186,137	216,277
Increase in Net Assets	212,896	110,973	30,815	125,889	139,698
Net Assets, Beginning of Year	1,365,374	1,578,270	1,689,243	1,720,058	1,845,947
Net Assets, End of Year	$ 1,578,270	$ 1,689,243	$ 1,720,058	$ 1,845,947	$ 1,985,645

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(1) *The increase in expenses associated with the University's core activities are primarily due to an increase in the University's OPEB liability. See APPENDIX A – "University Share of State Employees' Retirement System," APPENDIX B – "State Employees' Retirement System; Employee and Pension Benefits; Pending Litigation" and Notes 14 and 15 to the University's audited financial statements in APPENDIX C – "AUDITED FINANCIAL STATEMENTS."*

Source: University of Hawai'i.

Operating Budget Process. In accordance with State law, the University submits a biennial budget request, program and financial plan, and program performance reports to the Governor and Legislature for consideration by the Legislature when it convenes in regular session in every odd-numbered year. A supplemental budget request to amend any appropriation for the current fiscal biennium may also be submitted to the Legislature for approval when it convenes in regular session in even-numbered years. Operating and capital funds for the University are appropriated by major organizational units (UH-Mānoa, UH-Hilo, UH-West O'ahu, UH Community Colleges, Systemwide Support, as well as several program areas, including the John A Burns School of Medicine, Waikiki Aquarium, and Hawaii Small Business Development Center). Operating funds are generally organized and discussed in three functional categories: current service requirements that are necessary to support and maintain the current level of services, workload and program change requests to meet increases in workload and implementation of new program initiatives, and the University's share of various overhead type costs that are administered on a statewide basis (debt service, fringe benefits, risk management, etc.).

Upon approval by the Board, the University's operating and capital improvements budget requests are submitted simultaneously to the Governor for review and incorporation into the executive budget request for the State and to the Legislature for informational purposes. The executive budget request for the State is submitted to the Legislature in December for consideration in the regular session of the Legislature in mid-January. Appropriations by the Legislature (General or Supplemental Appropriations Act) are usually passed in May and transmitted to the Governor for approval. Upon approval by the Governor, generally not later than mid-June, allocation notices are transmitted to all State agencies, which may include any restrictions imposed by the Governor on legislative appropriations.

With the exception of the Community Colleges, lump sum allocations are made to each campus in the System and are generally equal to legislative appropriations less any restrictions imposed by the Governor. Due to the declining level of State general fund support, however, it has become necessary to assess each campus for a *pro rata* share of certain unfunded costs that are administered on a systemwide basis. These costs include but are not limited to: legal settlements, risk management costs, private fundraising costs, and workers compensation/unemployment insurance premiums.

As a result of several statutory changes and a State constitutional provision that authorizes the Board of Regents and the President to maintain exclusive jurisdiction over the internal organization and management of the University system, the University enjoys a much greater degree of discretion over its operating budget priorities than other State departments.

State Appropriations. Currently, State appropriations are the second-largest source of revenues supporting the University's core activities. State appropriations (excluding the University's share of various overhead costs that are administered on a statewide basis) comprised 27.7% and 34.2% of the University's revenues in fiscal year 2010-2011 and 2009-2010, respectively. General fund State appropriations to the University for the past four fiscal years and the budgeted amount for the current fiscal year are summarized in the table below. See Note 17 to the University's audited financial statements in APPENDIX C – "AUDITED FINANCIAL STATEMENTS."

Table A-14
GENERAL FUND STATE APPROPRIATIONS
FOR THE FISCAL YEAR ENDED JUNE 30
(in thousands of dollars)(1)

	2008	2009	2010	2011	2012(2)
General Fund State Appropriations	\$449,323	\$467,036	\$369,948	\$359,077	\$376,070

(1) *During the fiscal year 2009-2011 biennial budget process, the University's share of various overhead costs were transferred out of the University's budget. Accordingly, prior year amounts have been restated for comparability.*
(2) *Amount based on legislative appropriations, adjustments and executive restrictions to date. See "—The State's Finances and its Impact on the University" herein for additional information.*
Source: University of Hawai'i.

Across the nation and in Hawai'i, publicly funded institutions have been facing budget cuts and downsizing to help balance state budgets. In addition to the reduction in State general fund appropriations for fiscal year 2009-2010 shown in Table A-14, the Governor restricted the University's general funds by \$52.1 million. For fiscal year 2010-2011, the general fund budget was reduced by an additional \$9.8 million. On a combined basis, these reductions represent 23% of the University's fiscal year 2008-2009 appropriated general funds. The University has managed these budget reductions through a combined approach. The University used federal stabilization (ARRA) funds and previously scheduled tuition increases to offset some of the general fund reductions, and addressed the remainder through salary reductions, cost savings, restrictions on hiring, reducing class offerings and increasing class sizes, without reducing instructional days. Using this approach, the University has minimized the impact of the budget reductions on its students and instructional programs.

State lawmakers also appropriated \$150 million in Capital Improvement Program (CIP) general obligation bond-funded projects in the supplemental budget for fiscal year 2010-2011, in addition to the more than \$30 million previously appropriated in the biennium budget. This funding included \$20 million for the University's "Renovate to Innovate" initiative, which is being used for much-needed repairs and improvements to University research facilities, and $43 million for repairs, renewals and deferred maintenance to upgrade some key buildings on the Mānoa campus. The funding also includes $48 million for UH-West O'ahu, which will help to provide greater access to four-year baccalaureate programs for a key underserved region of the State, $28 million for a new home for Ka Haka 'Ula O Ke'elikōlani, College of Hawaiian Language at UH-Hilo, and $2 million for community college renovations. In addition, for the fiscal biennium 2011-2013, the Legislature has appropriated $155 million in general obligation bond-funded CIP monies to the University, including $94 million for repairs, renewals and deferred maintenance and $16 million for student housing at UH-Hilo.

Grants and Contracts. Grants and contracts are the largest source of revenues supporting the University's core activities. Grants and contracts comprised 38.6% and 38.4% of the University's revenues in fiscal years 2010-2011 and 2009-2010, respectively. From 2007 to 2011, such research funding grew approximately 34.6% from $373.2 million to $502.4 million. In fiscal year 2010-2011, federal grant revenue accounted for approximately 87.4% of research at the University, while the remainder was funded by private organizations and State and local agencies.

Grants and contracts are awarded to the University on behalf of faculty members. The administration of these funds is through the research departments and the Office of Research Services of the University in accordance with the policies of the sponsors and the University. The revenues from these awards are reimbursed by the funding agency on a periodic basis.

Table A-15
GRANTS AND CONTRACTS
FOR THE FISCAL YEAR ENDED JUNE 30
(in thousands of dollars)

	2007	2008	2009	2010	2011
Federal Grants and Contracts	$ 316,690	$ 313,770	$ 329,646	$ 397,984	$ 438,854
Other	56,547	65,594	69,994	76,363	63,560
Total Grants and Contracts	$ 373,237	$ 379,364	$ 399,640	$ 474,347	$ 502,414

Source: University of Hawai'i.

Auxiliary Enterprises Sales and Services. The University operates auxiliary enterprises to provide important goods and services to students, faculty, staff, and others. These self-supporting activities generate sales and services revenues that are used to fund their operations. Auxiliary enterprises include dormitories, bookstores, campus food service, parking, faculty housing, and others. Sales and services revenues increased 21.8% over the past five years.

Gifts and Fund Development.

The University of Hawai'i Foundation. The University of Hawai'i Foundation ("UHF") is a nonprofit organization that was established in 1955, legally separate from the University, to encourage and manage private support for the University. UHF is considered to be a component unit of the University, and its financial information is blended into the University's consolidated financial statements. See APPENDIX A – "THE UNIVERSITY OF HAWAI'I – Financial Information – Financial Statements" above. Currently, UHF is the central fundraising organization for the University, providing a variety of fundraising services and managing more than 4,900 separate donor accounts for the benefit of the University. As of November 30, 2011, UHF's endowment was valued at $197.0 million. Each year, UHF pays out approximately 5.5% of its endowment for its operations and to support the University's programs. In fiscal year 2010-2011, UHF distributed $30.8 million to the University, with approximately $9.2 million going into student aid and services. In fiscal year 2009-2010, UHF distributed $31.7 million to the University, with approximately $8.6 million going into student aid and services. For the fiscal year ended June 30, 2011, UHF reported in its financial statements revenues of $78.1 million and expenses of $40.4 million.

On June 30, 2009, UHF successfully completed its seven-year Centennial Campaign after raising $336 million. Fiscal years 2010 and 2011 were "interim" years between the Centennial Campaign and a new campaign that began it quiet phase on July 1, 2011. In fiscal year 2010, $41.2 million was raised versus a goal of $40.0 million. In fiscal year 2011, $46.7 million was raised versus a goal of $45.0 million.

A variety of activities have been completed for the new campaign including conducting a wealth analysis, a capacity analysis, identifying preliminary campaign priorities and completing a campaign prospectus. Activities underway include conducting a feasibility study, finalization of campaign priorities and preparing case statement, rebranding the foundation and campaign, developing a marketing and communication plan, and recruiting and partnering with effective volunteer leaders. The goal for the new campaign will likely range from $400 to $500 million.

UHF's results generally are based on two components: investment returns and donor contributions. From January 1, 2011 to November 30, 2011, UHF's investments generated a preliminary negative return of 1.6% and donors contributed more than $53 million. As of November 30, 2011, UHF's endowment was valued at approximately $197.0 million and allocated as follows:

Table A-16
UNIVERSITY OF HAWAI'I FOUNDATION
ENDOWMENT ASSET ALLOCATION PERCENTAGES
(as of November 30, 2011)[(1)]

Investment	Percentage
United States Equity	20%
Global Equity	16
Emerging Markets	7
Fixed Income	13
Marketable Alternative Assets	20
Cash	2
Private Real Assets	10
Private Equity/Venture Capital	6
Public Real Assets	6
Total	100%

(1) Preliminary.
Source: University of Hawai'i Foundation.

The University and UHF maintain separate investment policies. See "– The University's Investment Policy" herein. The Investment Committee of UHF's Board of Trustees makes the decisions regarding the investment of the endowment, with the goal of obtaining high investment returns through a diversified, professionally managed portfolio. UHF retains an independent consulting firm, Cambridge Associates, with expertise in investment policy development, spending policy analysis, manager evaluation, and selection and performance evaluation.

University Endowment. The University also maintains a separate endowment pool. In calendar year 2011, the University's endowment pool generated a preliminary positive return of 0.5%. As of December 31, 2011, the University's endowment was valued at approximately $56.0 million and allocated as follows:

Table A-17
UNIVERSITY OF HAWAI'I
ENDOWMENT ASSET ALLOCATION PERCENTAGES
(as of December 31, 2011)[1]

Investment	Percentage
Equity	48%
Fixed Income	40
International Equity	7
Cash	5
Total	100%

(1) Preliminary.
Source: University of Hawai'i.

The University's endowment and UHF's endowment are presented in the University's financial statements. See Note 2 to the University's audited financial statements in APPENDIX C – "AUDITED FINANCIAL STATEMENTS." The following table summarizes the performance of the endowment funds of the University and UHF over the last five years.

Table A-18
UNIVERSITY OF HAWAI'I AND UNIVERSITY OF HAWAI'I FOUNDATION
ENDOWMENT FUND PERFORMANCE
AS A PERCENTAGE OF THE ENDOWMENT FUND
(as of December 31 except as noted)

	2007	2008	2009	2010	2011[3]
University of Hawai'i[1]	6.1%	-21.6%	17.8%	9.2%	0.5%
University of Hawai'i Foundation[2]	9.4%	-22.8%	17.6%	10.4%	-1.6%[4]

(1) *Information provided by the University.*
(2) *Information provided by UHF.*
(3) *Preliminary.*
(4) *As of November 30, 2011.*

Investments. The University's endowment provides funds to support University academic programs and student-related activities. Historically, the University does not rely heavily on income from its investments as a source of revenue for the University. Investment activity constituted 2.3% and 3.6% of the University's revenues in fiscal years 2009-2010 and 2010-2011, respectively. The University and UHF have no exposure to derivative or other structured products, except that as of June 30, 2011, the University had approximately $48.4 million invested in interest-bearing auction rate securities. See Note 2 to the University's audited financial statements in APPENDIX C – "AUDITED FINANCIAL STATEMENTS."

University Endowment Spending Policy. Pursuant to the University's investment policy, the Board is required to adopt investment goals and comprehensive guidelines to insure the preservation of capital and adequate growth and income. The long-range investment objective of the University is to achieve a maximum rate of return on assets based on the asset allocation policy to produce current income to meet spending needs of 6% while preserving the real value of the endowment principal.

The investment goal of the University's endowment fund is to seek the highest expected total return (resulting from income from dividends, interest and option writing, and from realized and unrealized appreciation in securities and other investments) within reasonable levels of annual volatility to insure the long-term growth of the fund and the continued annual payout of not more than 6% of the market value which will be determined by the Board. Upon approval by the Board, the University shall provide each investment manager with a schedule of payouts to be made during the year. The payouts will be scheduled as close to the actual expenditures as practicable to maximize the amounts retained and invested by investment managers. In fiscal years 2009-2010 and 2010-2011, the University's spending rate policy provides for an annual distribution ranging from 3% to 5% of the five-year moving average of the endowment fair value.

The University's Investment Policy. The University and UHF maintain separate investment policies. See "—Gifts and Fund Development" above. The following guidelines currently govern the University's investments:

1. The "prudent man rule" shall be followed in the investment of the University's endowment fund. Securities in new and untried enterprises should not be purchased. There is an exception to this rule where prudence has been exercised through the use of investment vehicles that dramatically reduce the risk factors involved or where special expertise warrants the risk taken.

2. Equity investments will be made in quality common stocks, convertible preferred stocks and convertible bonds, with an emphasis on total return. Investment managers should invest for the long-term; however, this should not preclude the investment manager from making interim changes to meet the investment goal of the fund.

3. Investment in nonconvertible bonds should be managed to take advantage of the changes in the interest rate curves rather than to be purchased and allowed to mature. All nonconvertible bonds should have at least a "BBB" rating or higher and be readily marketable. In addition, no more than 15% of the fixed income investments may be graded with an S&P quality rating below "A."

4. All cash wherever and whenever possible should be invested in savings accounts or liquid interest bearing securities, including shares of money market funds.

In terms of asset allocation, the University's investment policy requires that a balanced portfolio be maintained, with a minimum of 30% and a maximum of 70% in equity or fixed income investments and a maximum of 40% in cash and equivalents. The Board's Committee of Finance and Facilities reviews the fund's asset allocation and investment manager performance annually and determines whether amounts invested with managers should be rebalanced toward policy allocation targets. To avoid the risk of concentration of assets, individual bond positions other than obligations of the United States government should not comprise more than 5% of the total fixed income portion of the portfolio. Individual equities should comprise no more than 5% of the total market value of the stock portfolio. In addition, investment in any one stock is not to exceed 5% of the corporation's outstanding common stock.

The University's investment policy currently prohibits investments in the following:

- companies which, including predecessors, have a record of less than 3 years of continuous operation;
- Commodities;
- Lettered stock and private placements;
- "naked" puts and/or calls;
- Derivative securities of any kind;
- adjustable rate issues with coupons which move inversely to an index;

- Tax exempt securities;
- Securities issued by the managers, their parents or subsidiaries;
- Assets of the fund in their own interest or for their own account;
- Transactions involving fund assets on behalf of a party whose interests are adverse to the interests of the fund or its beneficiaries; and
- Transactions involving third party compensation for their own account from any party in connection with a transaction involving fund assets.

Investment Monitoring. The endowment pool maintained by the University is managed through an investment monitoring contract with Morgan Stanley Smith Barney (the "Third Party Monitor"). The Third Party Monitor provides manager oversight, public market search and selection, monitor and performance reports, and monitor for compliance with the University's investment policy.

The following table summarizes the University's cash and investments as of June 30 of each of the past five fiscal years.

Table A-19
UNIVERSITY CASH AND INVESTMENTS
FOR THE FISCAL YEAR ENDED JUNE 30
(in thousands of dollars)

	2007	2008	2009	2010	2011
Current Assets:					
Cash and cash equivalents	$ 35,417	$105,545	$ 53,033	$ 47,031	$ 71,709
Operating investments	191,931	75,893	178,621	261,343	330,936
Noncurrent Assets:					
Restricted cash and cash equivalents	2,398	138	1,681	11,167	20,056
Endowment and other investments	379,767	464,723	500,745	488,165	699,501
Total Cash and Investments	$609,513	$646,299	$734,080	$807,706	$1,122,202

Source: University of Hawai'i.

The University and UHF have no exposure to derivative or other structured products, except that as of December 31, 2011, the University had approximately $35.2 million invested in interest-bearing auction rate securities. These securities were reclassified to long-term investments in the University's consolidated statements of net assets as of June 30, 2008, 2009, 2010 and in the 2011 figures shown in Table A-19 above.

Additional information regarding the University's investments is provided in the accompanying notes to the financial statements of the University included in APPENDIX C – "AUDITED FINANCIAL STATEMENTS."

Capital Assets. Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library books, and construction in progress. Assets acquired are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives of the respective assets. Capital assets net of accumulated depreciation at June 30, 2011 and 2010 amounted to $1.513 billion and $1.357 billion, respectively, an increase of 40.9% and 33.6% over the prior five fiscal years.

Table A-20
UNIVERSITY CAPITAL ASSETS
AS OF JUNE 30
(in thousands of dollars)

	2007	2008	2009	2010	2011
Capital assets not being depreciated:					
Land	$ 11,827	$ 12,486	$ 12,486	$ 12,486	$ 12,486
Construction in progress	146,623	211,866	171,701	170,744	264,415
Total capital assets not being depreciated	$ 158,450	$ 224,352	$ 184,187	$ 183,230	$ 276,901
Capital assets being depreciated:					
Land improvements	$ 75,816	$ 79,703	$ 83,353	$ 88,521	$ 89,668
Infrastructure	55,327	74,888	82,890	95,249	101,502
Buildings	1,130,857	1,188,899	1,352,529	1,446,951	1,553,107
Equipment	255,785	269,778	277,954	313,383	324,776
Library books	153,664	160,337	162,404	164,637	162,971
Total assets being depreciated	$ 1,671,449	$ 1,773,605	$ 1,959,130	$ 2,108,741	$ 2,232,024
Less accumulated depreciation	$ 755,869	$ 809,322	$ 867,399	$ 935,107	$ 995,788
Capital assets, net	$ 1,074,030	$ 1,188,635	$ 1,275,918	$ 1,356,864	$ 1,513,137

Source: University of Hawai'i.

The University's capital improvements program for fiscal biennium 2011-2013 includes a total of $173.70 million in Legislative Appropriations and authorizations; this includes $153.70 million in State funded general obligation bonds. The University received a total of $736.98 million in Legislative Appropriations and authorizations for capital improvements for the fiscal biennium 2009-2011, which included $374.79 million in State funded general obligation bonds.

Financial Information Concerning Foundations and Other Entities. The Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, establishes standards for defining and reporting on the financial reporting entity. The basic criterion for including a potential component within the reporting entity is financial accountability. Other criteria include fiscal dependency and the nature and significance of the relationship such that exclusion would cause the financial statements of the University to be misleading. Accordingly, the financial information of UHF and the RCUH are blended in the University's financial statements. See Note 1 to the University's audited financial statements in APPENDIX C – "AUDITED FINANCIAL STATEMENTS."

RCUH was formed for the purpose of promoting, encouraging, initiating, developing, and conducting scientific research and investigation. It provides administrative support services to projects of the University, the State and other organizations. For the fiscal year ended June 30, 2011, RCUH reported in its financial statements revenues of $7.2 million and expenses of $7.1 million.

The State's Finances and its Impact on the University

The University has experienced recent budget reductions similar to all State agencies in Hawai'i. Some of the negative impacts of these budget reductions have been mitigated due to tuition increases already in place, federal stimulus funds and increases in enrollment. However, budget reductions have impacted the University's ability to deliver academic programs by restricting hiring, reducing class offerings, and increasing class sizes. A significant number of lecturers have not been renewed, for example, even though the University presently serves more students than at any time in its history. In addition, State-funded employees have taken pay cuts and the University has reduced its workforce in a variety of areas. Other critical program areas, such as financial aid and student services, also have been adversely impacted. The University has improved its efficiency with added electronic services, and has reduced utility costs by closing campuses for winter holidays and spring break.

The Legislature appropriated $386.3 million in general funds for university operations for fiscal year 2011-2012. Subsequently, the Governor allocated to the University $7.6 million of the $88.2 million and $50 million in Legislative reductions to the State Department of Budget and Finance's appropriation for labor and program savings, respectively. Further, the Governor has restricted expenditures for fiscal year 2011-2012 by $2.6 million. The result of this, at this point in time, is an adjusted general fund appropriation of $376.1 million for fiscal year 2011-2012. Compared to a general fund appropriation of $359.1 million for fiscal year 2010-2011, this represents a 4.7 percent increase in general funds for fiscal year 2011-2012 from fiscal year 2010-2011. The University represents approximately twelve percent of the State's executive general fund budget.

For fiscal year 2012-2013, in terms of general fund appropriations, the Supplemental Operating Budget Request submitted to the Legislature by the Governor is to maintain the level appropriated by the Legislature in 2012 with an additional request for $5.0 million in funding for several systemwide projects including: Na Pua Noeau college preparatory program for native Hawaiian students; the Office of Mauna Kea Management for planning and reporting; West Oahu campus staffing for new campus facilities; establishment of Engineering Consortium to recruit and retain engineering students; and increasing staff to address routine facility maintenance project backlog.

At its meeting on January 5, 2012, the Council on Revenues revised its previous forecast for State general fund tax revenue growth in the fiscal year ending 2012 from 14.5% to 11.5%. The Council's revised forecast of State general fund tax revenues for fiscal year 2012 through fiscal year 2018 as of January 5, 2012 is shown below:

Fiscal Year Ending	General Fund Tax Revenues (in Thousands of Dollars)	Growth From Previous Year
2012	$4,827,182	11.5%
2013	5,140,949	6.5
2014	5,295,177	3.0
2015	5,559,936	5.0
2016	5,726,734	3.0
2017	6,013,071	5.0
2018	6,313,724	5.0

The Council's January 5, 2012 forecast largely reflected estimated revenue growth attributed to economic growth, the effect of new tax laws that took effect at the beginning of the 2011-2012 fiscal year, and the prior year's delay in income tax refunds. The forecast continues to project economic growth over fiscal year 2010-2011, albeit at a lower rate than forecast earlier in the fiscal year. In producing its forecasts, the Council accepted specific adjustments recommended by the State Department of Taxation reflecting the impacts on general fund tax revenues of tax law changes enacted in 2011 by the Legislature, including the following:

- Act 97 (SB 570 SD2 HD1 CD1). Part II repeals state tax deduction for taxpayers with Federal AGI above $100,000 (Single), $200,000 (Joint), and $150,000 (Head of Household). Part III caps itemized deductions at $25,000 for Single taxpayer with Federal AGI $100,000 and above; $50,000 for Joint filer with Federal AGI $200,000 and above, and $37,500 for Head of Household with Federal AGI $150,000 and above. Parts II and III sunset on January 1, 2016. Part IV delays the 10% increase in standard deduction and personal exemption by 2 years and makes them permanent.
- Act 103 (SB 1186 SD2 HD1 CD1) establishes a temporary $10 minimum daily tax on each transient accommodation furnished at no charge. The act also temporarily limits the TAT revenue distribution to the counties to $93 million per year, and limits the distribution to the tourism special fund to $69 million per year.
- Act 104 (HB 1039 HD1 SD2 CD1) changes the rental motor vehicle surcharge tax to $7.50 per day from July 1, 2011 to June 30, 2012, then $3.00 per day beginning July 1, 2012. The Act allocates the $4.50 per day increase to the General Fund from July 1, 2011 to June 30, 2012.
- Act 105 (SB 754 SD1 HD1 CD1) suspends the GET exemption for certain persons or amounts and imposes tax at 4 percent on those persons and amounts for the period of July 1, 2011 to June 30, 2013.

In its report on State general fund tax revenues dated January 10, 2012, the State Department of Taxation indicated that actual general fund tax revenues grew by 16% (unaudited) for the first six months of fiscal year 2011-

2012 as compared to the same period for fiscal year 2010-2011. However the report also indicated that if accrued refunds that were released in July 2010 are factored out, the increase would be 6%.

For budgetary and financial planning purposes, general fund revenues are recognized upon receipt and expenditures are recognized when expended or encumbered. In contrast, the State's audited financial statements are prepared on an accrual basis. Consequently, information reported for budgetary and financial planning purposes is not directly comparable to information reported on an accrual basis in the State's audited financial statements, and the differences in reporting may be substantial.

Most of the State's economic indicators were positive in the third quarter of 2011. Visitor expenditures, civilian wage and salary jobs, and State general fund tax revenues all increased; however, value of private building permits decreased in the quarter as compared to the same quarter last year.

The State general fund tax revenues increased in the third quarter of 2011 compared to the same quarter of 2010. All major components of the State general fund tax revenues increased in the quarter compared to the third quarter of 2010. In the first three quarters of 2011, State general fund tax revenues were up $311.5 million or 9.7 percent over the same period of 2010. As an indicator of current economic activity, state general excise tax revenue increased 7.1 percent in the third quarter of 2011 compared to the same quarter in 2010.

The labor market conditions show that the economy continues to improve. Hawaii's unemployment rate remains among the lowest in the nation. During the first nine months of 2011, the not-seasonally adjusted unemployment rate averaged 6.3% in Hawaii, while the unemployment rate was 9.2% in the U.S. during the same time period. After ten consecutive quarterly decreases in jobs from the third quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the fourth time. In the third quarter of 2011 Hawaii's civilian wage and salary jobs averaged 595,350 jobs, an increase of 8,600 jobs or 1.5 percent from the same quarter of 2010.

Job increase in the third quarter of 2011 was completely due to job increases in the private sector. In this quarter, the private sector added about 9,450 jobs compared to the third quarter of 2010. During the third quarter of 2011, the three levels of government together lost 1,050 jobs compared to the same quarter of 2010. The Federal government, the State government, and the Local government lost 250, 550, and 250 jobs, respectively, in the quarter.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total nominal personal income in the second quarter of 2011 increased $2,730 million or 4.8 percent from the same quarter of 2010. This increase includes inflation so that the growth of real personal income was smaller. The increase in nominal personal income during the second quarter of 2011 was due to increases in all major components of personal income. In dollar terms, the largest increase occurred in wage and salary disbursements, followed by dividends, interest, and rent, personal current transfer receipts, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income. In the first half of 2011, total annualized personal income increased 4.8 percent from the same period of 2010.

According to the most recent data available, consumer prices in Honolulu increased 3.5 percent in the first half of 2011 compared with the same period of 2010, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 2.8 percent in the first half of 2011. In 2010, the Honolulu CPI-U increased 2.1 percent from the previous year.

The higher Honolulu CPI-U in the first half of 2011 was primarily due to relatively large increases in the price index of Other Goods and Services (7.0 percent); followed by the index for Transportation (6.8 percent), Recreation (3.7 percent), and Education and Communication (3.6 percent). The prices for Housing and Food & Beverages increased 2.9 percent and 2.6 percent, respectively, while the price for Medical Care increased only 0.2 percent compared to the first half of 2010.

Visitor spending in Hawaii continued to grow in 2011 at a faster rate than the increase in visitor arrivals. Total visitor arrivals in 2011 were 7,284,069, a 3.8 percent increase over 7,018,131 arrivals in 2010. Total visitor spending in 2011 was $12.58 billion, a 15.6 percent increase over $10.88 billion in visitor spending in 2010. The increase in visitor spending was mainly due to the increase in daily spending. Daily visitor spending in 2011 averaged $182.3 per person, 9.7 percent higher than the $166.2 daily spending in 2010.

In construction, both the value of private building permits and government contracts awarded decreased. In the third quarter of 2011 the permit value for private construction decreased $14.7 million or 2.7 percent and government contracts awarded decreased $228.1 million or 64.7 percent from the same quarter of 2010. However, construction jobs increased by 1.4 percent in the third quarter of 2011 compared with the same quarter of 2010. According to the most recent data available, current construction put-in-place based on excise tax data increased $141.7 million or 10.9 percent in the second quarter of 2011 compared to the same quarter of 2010.

In the current economic and fiscal downturn, the University's enrollment has increased and reached the highest enrollment of degree-seeking students in its 105-year history. Enrollment at the University's ten campuses in fall 2011 was 60,330 students. Preliminary data for spring 2012 indicates continued growth. Combined with scheduled tuition increases, tuition and fees are expected to increase by $27.3 million in fiscal year 2012.

Insurance

Act 186 of the 2003 Hawaiʻi State Legislature established the Risk Management Special Fund ("*RMSF*") to finance a program of insurance and self-insurance for the University. The program is funded through annual assessments of each campus based on factors such as number of employees, student enrollment, loss history, and specialized facilities. The RMSF pays the University's insurance premiums, retention payments, settlements and judgments, litigation expenses incurred by the University General Counsel, and risk management related expenses.

In addition to its own insurance program, the University participates in the State of Hawaiʻi insurance program.

Outstanding Indebtedness

Bonds Issued Under the Resolution. The University has previously issued the following Bonds pursuant to the Resolution:

Designation	Principal Amount Outstanding as of February 1, 2012
$655,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Series 2001A (the "*Series 2001A Bonds*")	--
$18,665,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Refunding Series 2001B (the "*Series 2001B Bonds*")	$8,955,000*
$100,000,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Series 2006A (the "*Series 2006A Bonds*")	94,130,000
$100,000,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Series 2009A (the "*Series 2009A Bonds*")	96,700,000
$111,265,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Series 2010A-1 (the "*Series 2010A-1 Bonds*")	111,265,000
$27,375,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Series 2010A-2 (the "*Series 2010A-2 Bonds*")	24,735,000
$127,535,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Series 2010B-1 (the "*Series 2010B-1 Bonds*")	127,535,000
$26,555,000 Board of Regents of the University of Hawaiʻi, University Revenue Bonds, Series 2010B-2 (the "*Series 2010B-2 Bonds*")	24,580,000
Total	$487,900,000

* To be refunded in full by the Series 2012A Bonds on February 22, 2012.

The 2001A Bonds are no longer outstanding. The 2001B Bonds were issued to refund certain outstanding revenue bonds of the Board in advance of the maturity thereof and will be refunded in full with proceeds of the Series 2012A Bonds on February 22, 2012. The 2006A Bonds were issued for the purpose of financing or refinancing the costs of construction of a dormitory facility designated as Frear Hall, the maintenance of existing food service facilities at the Mānoa campus and the maintenance of existing University Projects in the University System. The 2006A Bonds are enhanced by a bond insurance policy issued by MBIA Insurance Corporation. The 2009A Bonds were issued to refund certain outstanding revenue bonds of the Board and to finance or refinance the costs of certain University Projects in the University System. The Series 2010A-1 Bonds and the Series 2010A-2 Bonds were issued for the purpose of financing and refinancing the costs of construction and maintenance of the University's Cancer Research Center of Hawai‘i. The Series 2010B-1 Bonds and the Series 2010B-2 Bonds were issued for the purpose of financing and refinancing the costs of certain other University Projects, as defined in the Resolution, including renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement and Edmondson Hall on the Mānoa campus, further development of the West O‘ahu campus, construction of a research building on the Hilo campus, construction of a new Regional Biocontainment Laboratory, renovations to Hale Haumana on the Maui community college campus, and various energy conservation/efficiency projects on the community college campuses of O‘ahu, Kauai and Maui. The Board elected to issue and designate the Series 2010A-1 Bonds and the Series 2010B-1 Bonds as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009, which authorized the Board to issue such Bonds as taxable bonds to finance capital expenditures for which it could otherwise issue tax-exempt bonds and to receive a subsidy payment from the federal government equal to 35% of each interest payment on such bonds ("*Subsidy Payment*"). To the extent such Subsidy Payments are paid by the federal government to the Board, such amounts constitute Revenues of the Network for purposes of the Resolution and are pledged as security for all Bonds. The Subsidy Payments do not represent a full faith credit obligation of the United States.

Separate Resolution Financing: University Bonds. Pursuant to a separate resolution, the Board has financed university projects not constituting a part of the Network, currently only Phase I of the University's Health and Wellness Center. In 2002, the University issued $150,000,000 principal amount of University Bonds to finance Phase I and to provide for the planning and design of Phase II. In 2006, the University issued $133,810,000 principal amount of University Bonds to advance refund a portion of the bonds issued in 2002. As of February 1, 2012, there are $135,390,000 principal amount of University Bonds outstanding. All bonds issued under the aforesaid resolution are equally and ratably secured by a pledge of moneys from time to time on deposit in any special fund or revolving fund of the University derived from its ownership or operation of the University, and the funds and accounts established thereunder, in each case, but does not include moneys deposited in the University Revenue-Undertaking Fund derived from the Network. Such special and revolving fund moneys constitute "Legislative Appropriations" under the Resolution. Under the supplemental resolutions authorizing the aforesaid bonds issued in 2002 and 2006, such bonds are additionally payable from and secured by a lien on a portion of the moneys in the Hawai‘i Tobacco Settlement Special Fund. The aforesaid bonds have a prior and paramount claim on the Legislative Appropriation pledged to the Bonds.

Reimbursable General Obligation Bonds. In addition to payment of debt service on the bonds issued for the Network, revenues from the Network are utilized to reimburse the State for debt service on certain reimbursable State of Hawai‘i general obligation bonds to the payment of which general obligation bonds the State has pledged its full faith and credit. Such reimbursement to the State is made after the payment of amounts due on the bonds issued for the Network and certain other amounts. As of June 30, 2011, $1,032,314 of principal reimbursements remained outstanding. Annual reimbursement, including semi-annual interest payments, range from $156,618 to $195,446 with the final installment in July 2017.

Master Financing Lease; Installment Contracts. The University entered into a "Master Financing Lease Agreement" in 1999 with Academic Capital Government Finance, Inc. for the lease of various equipment. Since the inception of the leasing agreement, the University has leased equipment from time to time. Payments under the leasing agreement are denominated as a "current expense" of the University, are not construed as a debt and are expressly subject to appropriation. In addition, the University from time to time purchases certain equipment under installment purchase contracts. Payments under these arrangements are also treated as a "current expense" of the University, are not construed as debt, are subject to appropriation and are payable from the revenues of the Network. Under both the aforesaid leasing agreement and installment purchases payments are generally made in monthly installments over the economic life of the equipment acquired. As of January 1, 2012, there were no outstanding obligations under the leasing agreement, nor under any installment purchase contract agreements.

EB-5 Financing – West O'ahu. The University expects to enter into a loan agreement before the end of the second calendar quarter of 2012 for an approximately $18,000,000 unsecured, five-year loan facility expected to be provided by a special entity formed or to be formed for the purpose of facilitating foreign investment in the cost of construction at the West O'ahu campus under the federal Immigrant Investor Program (also referred to as "EB-5") created by the United States Congress in 1990 and currently administered by the U.S. Citizenship and Immigration Services (the "Program."). Pursuant to the Program, foreign investors who, by subscription, fund advances under the loan facility may be issued a conditional United States visa. Proceeds of the loan are expected to be used for costs of working capital, site preparation, roadways, signage, supporting infrastructure, an administration building, and other construction-related costs at the West O'ahu. campus. Under certain circumstances, including failure of one or more investors to obtain a conditional visa, the loan agreement may require the University to repay portions of any advances made under the loan facility on an accelerated basis. If executed, the University expects the loan facility would be repaid from unsecured available revenues of the West O'ahu campus. Monies pledged to the repayment of the Bonds, including the Series 2012A Bonds, will not be pledged to the repayment of the EB-5 loan facility.

APPENDIX B

STATE EMPLOYEES' RETIREMENT SYSTEM; EMPLOYEE AND PENSION BENEFITS; PENDING LITIGATION

The information contained in this APPENDIX B – "State Employees' Retirement System; Employee and Pension Benefits; Pending Litigation" is excerpted from the Official Statement dated November 17, 2011 of the State of Hawai'i in connection with the issuance of $1,286,230,000 aggregate principal amount of multiple series of General Obligation Bonds and General Obligation Refunding Bonds of the State. For additional information on employee benefits and pensions see Notes 14 and 15 to the University's audited financial statements in APPENDIX C – "AUDITED FINANCIAL STATEMENTS" and in APPENDIX A – "–University Share of State Employees' Retirement System."

This section contains certain information relating to the Employees' Retirement System of the State of Hawai'i (the "*System*"). The information contained in this section is primarily derived from information produced by the System, its independent accountant and its actuary. The State has not independently verified the information provided by the System, its independent accountant and its actuary, and makes no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the System and most recent valuation report of the System may be obtained by contacting the System. The comprehensive annual financial reports of the System are also available on the State's website at http://ehawaii.gov, and other information about the System are available on the System's website at http://ers.ehawaii.gov/. Such documents and other information are not incorporated herein by reference.

The System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the System's Board of Trustees, the System's benefit structure or the actuarial method used by the System) will reflect the actual results experienced by the System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the System), one or more or which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. See "—General Information" and "—Actuarial Valuation" herein for more information on the actuarial assumptions used by the System.

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 85th Annual Actuarial Valuation for the Year Ended June 30, 2010 (the "*2010 Valuation Report*"), which is the most recent valuation report of the System. The information presented in the 2010 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in August 2006. As described more fully under "—General Information" below, subsequent to the issuance of the 2010 Valuation Report, new actuarial assumptions (including, among other changes, a decrease in the investment yield rate assumption) and a revised benefit structure for new members were adopted by the Board of Trustees and/or enacted through statute to better reflect the recent actual experience of the System. As a result, the actuarial information in the 2010 Valuation Report and, in turn, set forth herein do not reflect such new assumptions and revised benefit structure. While certain benefit changes may reduce the future liabilities of the System, other new assumptions (in particular, the decrease in the investment yield rate assumption) may have an adverse impact on the actuarial funded ratio and unfunded actuarial accrued liability of the System and may lead to the Legislature further increasing the statutorily established employers' annual required contributions ("ARC"). The new assumptions, funding changes and benefit structure will be reflected in the valuation report to be prepared by the System's actuary for the year ended June 30, 2011 (the "*2011 Valuation Report*"), which valuation report is expected to be issued in the first quarter of calendar year 2012.

On July 8, 2011, the Governmental Accounting Standards Board ("GASB") released its exposure draft of proposed changes in pension accounting and financial reporting standards for state and local governments (GASB 25 and 27), which, if implemented, would impact the accounting treatment of pension plans in which state and local governments participate. Major changes may include: (1) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities are now reported in the notes to the government's financial statements); (2) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (3) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements. Following public comments on the exposure draft in 2011, new standards could be adopted in final form in 2012 and are expected to take effect in fiscal years beginning mid-2013 for most employers.

General Information

The System began operation on January 1, 1926. The System is a cost sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System's plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost-sharing plan, the System does not allocate its liabilities among participating employers. However, the State estimates that its share of the System, based on a percentage of payroll, is approximately 75% with the remaining 25% share as the responsibility of the four counties. Although the State's employer contributions are recorded as expenses of the General Fund, 26.3% are reimbursed from various special funds of the State.

The statutory provisions of HRS Chapter 88 govern the operation of the System. Responsibility for the general administration of the System is vested in a Board of Trustees, with certain areas of administrative control being vested in the Department of Budget and Finance. The Board of Trustees consists of eight members: the Director of Finance of the State, ex officio; four members of the System (two general employees, one teacher, and one retiree) who are elected by the members and retirees of the System; and three citizens of the State (one of whom shall be an officer of a bank authorized to do business in the State, or a person of similar experience) who are appointed by the Governor and may not be employees of the State or any county. All contributions, benefits and eligibility requirements are established by statute, under HRS Chapter 88, and may only be amended by legislative action.

Prior to 1984, the System consisted of only a contributory plan. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan provides for reduced benefits and covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The minimum service required for retirement eligibility is five years of credited service under the contributory plan and ten years of credited service under the noncontributory plan. Both the contributory and noncontributory plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (the "*AFC*"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971 or the three highest paid years of service, excluding the vacation payment (whichever is higher). The AFC for members hired after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new defined benefit contributory plan (the "*Hybrid Plan*") was established pursuant to Act 179, SLH 2004. Members in the Hybrid Plan are eligible for retirement with full benefits at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the Hybrid Plan. Most new employees hired from July 1, 2006 were required to join the Hybrid Plan.

In December 2010, the System's actuary completed an Actuarial Experience Study for the five-year period ended June 30, 2010 (the "*2010 Experience Study*"). In fiscal year 2011, based in part on the results of the Experience Study, the Legislature acted to limit the growth of the State's pension liabilities by passing Act 163, SLH 2011. This Act, effective July 1, 2012, enacts certain changes to the funding of the System and the benefit structure for new members in all plans. Funding changes include increasing the statutorily required employer contribution rates (see "—Funding Status" below). Benefit changes for new members include increasing the age and service requirements for retirement eligibility, reducing the retirement benefit multiplier and reducing the interest rate credited to employee contributions to 2%. The change in the interest rate credited to employee contributions to 2% is for new members in the Hybrid Plan and Contributory Plan hired on or after July 1, 2011. All other benefit changes are effective for new members hired on or after July 1, 2012. Act 163, SLH 2011, also reduced the investment yield rate assumption for fiscal year 2011 from 8% to 7.75% and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the System, the Board of Trustees adopted the assumption recommendations set forth in the 2010 Experience Study, including continuing the investment yield rate assumption of 7.75%. While certain changes to the benefits and funding may reduce future liabilities and the UAAL of the System, other new assumptions (in particular, the decrease in the investment yield rate assumption) may have an adverse impact on the actuarial funded ratio and unfunded actuarial accrued liability of the System and may lead to the Legislature further increasing the statutorily established employers' annual required contributions. The new assumptions, funding changes and benefit structure will be reflected in the 2011 Valuation Report, which is expected to be issued in the first quarter of calendar year 2012.

In fiscal year 2011, the Legislature acted to improve and protect the System's funded status by placing a moratorium on the enhancement of benefits. Act 29, SLH 2011, provides that there shall be no benefit enhancement for any group of members until the actuarial value of the System's assets is 100 percent of the System's actuarial accrued liability.

As of March 31, 2010, the contributory plan covered 7,035 active employees or 10.7% of all active members of the System, the noncontributory plan covered approximately 21,268 active employees or 32.3%, and the Hybrid Plan covered 37,587 active members or 57.0%. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

As of June 30, 2011, the System's membership comprised approximately 65,310 active employees, 6,649 inactive vested members and 39,689 pensioners and beneficiaries. The following table shows the number of active members, inactive members and retirees and beneficiaries of the System as of June 30, 2010 and 2011:

Category	June 30, 2010	June 30, 2011
Active	65,890	65,310
Inactive	6,895	6,649
Retirees and beneficiaries	38,441	39,689
Total	**111,226**	**111,648**

Funded Status

Like most public pension funds in the United States, the System was significantly impacted by the severe downturn in the investment markets during fiscal year 2009. Based on the actuarial valuation as of June 30, 2010, the System's underfunded status has increased significantly because of continued recognition of market investment losses. However, the System had a partially offsetting liability experience gain which was caused primarily by lower than expected salary increases. The unfunded actuarial accrued liability (the "*UAAL*") as of June 30, 2010 was $7.138 billion. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the level percentage of payroll required to amortize the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 19.70% for police and fire employees and 15.00% for all other employees, the actuary has determined that the remaining amortization period is 41.3 years. Because this period is greater than 30 years (the maximum period specified by HRS Section 88-122(e)(1) and GASB 25), the financing objectives of the System are currently not being realized. Section 88-122(e)(1) of the Hawai'i Revised Statutes provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See "—Funding Policy" below for information on increases in the employer contribution rates and benefits changes to take effect to bring the funding period down to 30 years.

Funding Policy

Prior to fiscal year 2006, the System was funded on an actuarial reserve basis. Actuarial valuations were prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In earlier years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, SLH 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. See "Pending Litigation—Employees' Retirement System" below. For those two valuations, the investment earnings in excess of a 10% actuarial return was to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122, HRS, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund was comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement was determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation was paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the fiscal year ended June 30, 2001. The actuarial cost method used to calculate employer contributions was changed in 1997 by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions were determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation (15.75% for their police officers and firefighters and 13.75% for other employees) effective July 1, 2005. Pursuant to Act 256, SLH 2007, employer contributions beginning July 1, 2008 increased to 19.70% for police officers and firefighters and 15.00% for all others employees. As described above, the System's actuary determined that the remaining period required to amortize the UAAL as of June 30, 2010 was 41.3 years, which is greater than the maximum of 30 years specified by HRS Section 88-122(e)(1) and GASB 25. As a result, and pursuant to the recommendations of the 2010 Experience Study, the Board of Trustees requested an increase in the statutory employer contribution rates to bring the funding period down to 30 years. In response, the Legislature enacted Act 163, SLH 2011, pursuant to which, effective July 1, 2012, employer contribution requirements will gradually increase as follows:

Employer Contribution effective starting	Police Officers and Firefighters (% of total payroll)	Other Employees (% of total payroll)
July 1, 2012	22.0	15.5
July 1, 2013	23.0	16.0
July 1, 2014	24.0	16.5
July 1, 2015	25.0	17.0

Under the contributory plan, police officers, firefighters, and corrections officers are required to contribute 12.2% of their salary to the plan and most other covered employees are required to contribute 7.8% of their salary. Under the Hybrid Plan, covered employees are generally required to contribute 6.0% of their salary to the plan, with sewer workers in specified classifications, water safety officers and emergency medical technicians required to contribute 9.75% of their salary. Effective July 1, 2012, contribution rates for newly hired employees covered under the contributory and Hybrid Plan increase by 2% pursuant to Act 163, SLH 2011, such that the corresponding contribution rates for new employees as discussed in this paragraph will be 14.2%, 9.8%, 8.0% and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

Actuarial Methods

The System's actuary uses the entry age normal cost method. The most recent valuation was performed for the year ended June 30, 2010.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL on a level percentage of payroll basis, taking into account the payroll growth assumption and the normal cost expressed as a percent of pay.

Because of this amortization procedure, any change in the unfunded actuarial accrued liability due to (i) actuarial gains and losses, (ii) changes in actuarial assumptions, or (iii) amendments, affects the funding period.

On an aggregate basis with regards to the contributory, the Hybrid, and the noncontributory plans, the total normal cost for benefits provided by the System as of June 30, 2010 was 12.60% of payroll, which was 9.59% of payroll less than the total contributions required by law (15.49% from employers plus 6.70% in the aggregate from employees). Since only 5.90% of the employers' 15.49% contribution is required to meet the normal cost (6.70% comes from the employee contribution), it is intended that the remaining 9.59% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year.

Actuarial Valuation

The actuarial value of assets is equal to the market value, adjusted for a four year phase in of actual investment return in excess or below of expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds. The actuarial value of assets has been based on a four–year smoothed valuation that recognizes the excess or shortfall of investment income over or under the actuarial investment yield rate assumption. The actuarial asset valuation method is intended to smooth out year-to-year fluctuations in the market return. The excess or shortfall in the actual return during the year, compared to the investment yield rate assumption, is spread over this valuation and the next three valuations.

The System's actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. Prior to fiscal year 2012, HRS Section 88-122(b) provided for the Board of Trustees to adopt the assumptions to be used by the System except the investment yield rate, which was set by the Legislature. Act 163, SLH 2011, set the investment yield rate at 7.75% for fiscal year 2011 but also amended HRS Section 88-122(b) to allow the Board of Trustees to establish, for subsequent fiscal years, all assumptions to be used by the System, including the investment yield rate assumption. The Board of Trustees periodically evaluates and revises the assumptions used by the System for actuarial valuations, including by commissioning experience studies to evaluate the actuarial assumptions to be used by the System. The current assumptions, including continuing the investment yield rate of 7.75%, were adopted by the System's Board of Trustees based on the recommendations of the System's actuary in the most recent experience study, the 2010 Experience Study. The new assumptions, funding changes and benefit structure will be reflected in the 2011 Valuation Report, which is expected to be issued in the first quarter of calendar year 2012.

The following table sets forth the schedule of funding progress of the System for the ten most recent actuarial valuation dates.

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in millions)

June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b)–(a)	Funded Ratio (a)/(b)	Payroll (c)	UAAL as a Percentage of Payroll ((b)–(a))/(c)
2001	$ 9,516.0	$ 10,506.9	$ 991.0	90.6%	$ 2,444.2	40.5%
2002	9,415.2	11,210.2	1,795.1	84.0%	2,671.7	67.2%
2003	9,074.0	11,952.1	2,878.1	75.9%	2,826.7	101.8%
2004	8,791.1	12,271.3	3,474.2	71.7%	2,865.1	121.3%
2005	8,914.8	12,986.0	4,071.1	68.6%	3,041.1	133.9%
2006*	9,529.4	14,661,4	5,132.0	65.0%	3,238.3	158.5%
2007	10,589.8	15,696.5	5,106.8	67.5%	3,507.0	145.6%
2008	11,381.0	16,549.1	5,168.1	68.8%	3,782.1	136.6%
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%

Source: The 2010 Valuation Report.
* Assumption changes and new Hybrid Plan effective June 30, 2006.

The total assets of the System on a market value basis amounted to approximately $8.8 billion as of June 30, 2009, $9.8 billion as of June 30, 2010 and $11.6 billion as of June 30, 2011. Actuarial certification of assets as of June 30, 2009 was $11.4 billion. The June 30, 2010 actuarial certification of assets was $11.3 billion, and its unfunded actuarial accrued liability was $7.1 billion. Since the System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. The following table shows the normal cost as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for fiscal year 2009 and 2010:

NORMAL COST

	June 30,					
	2009			2010		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	18.79%	11.83%	12.55%	18.80%	11.84%	12.60%
Employee contribution rate	12.20%	6.05%	6.67%	12.20%	6.05%	6.70%
Effective employer normal cost rate	6.59%	5.78%	5.88%	6.60%	5.79%	5.90%

Source: The 2010 Valuation Report.

The following table shows a comparison of the actuarial value of assets ("*AVA*") to the market values, the ratio of the AVA to market value and the funded ratio based on AVA compared to funded ratio based on market value of assets, for the last two valuation dates:

	June 30, 2009	June 30, 2010
AVA	$11,400.1 million	$11,345.6 million
Market Value of Assets	$8,818.0 million	$9,821.6 million
Market Value as Percentage of AVA	77.4%	86.6%
Funded Ratio (AVA)	64.6%	61.4%
Funded Ratio (Market Value)	50.0%	53.1%

Source: The 2010 Valuation Report.

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 10 valuation dates. Employer contribution rates are set by the statute (see above) and, accordingly, may be greater or less than the ARC:

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2001	$ 164,397	$ 8,132	4.9%
2002	167,459	167,459	100.0%
2003	190,586	190,586	100.0%
2004	235,686	235,686	100.0%
2005	328,717	328,717	100.0%
2006*	423,446	423,446	100.0%
2007	476,754	454,494	95.3%
2008	510,727	488,770	95.7%
2009	526,538	578,635	109.9%
2010	536,237	547,613	102.1%

Source: The 2010 Valuation Report.

* Effective July 1, 2005 the required contributions are based on contribution rates and not specific dollar amounts.

Asset Allocation

The following table shows the target and actual asset allocation of the System as of June 30, 2011:

ASSET ALLOCATION

(as of June 30, 2011)

	Actual Allocation		Target Allocation		Allocation
Asset Type	Amount ($mm)	Percentage	Amount ($mm)	Percentage	Difference
Domestic Equity	$ 5,530.0	47.8%	$ 4,050.0	35.0%	12.8%
Non-US Equity	1,990.0	17.2%	2,430.0	21.0%	-3.8%
Fixed Income	2,710.0	23.4%	2,780.0	24.0%	-0.6%
Real Estate	810.0	7.0%	810.0	7.0%	0.0%
Private Equity	380.0	3.3%	580.0	5.0%	-1.7%
Real Return	150.0	1.3%	580.0	5.0%	-3.7%
Other	0.0	0.0%	350.0	3.0%	-3.0%
Total	**$11,600.0**	**100.0%**	**$11,600.0**	**100.0%**	

Source: Valuations provided by Northern Trust – 2011; values unaudited.

The following statistical information addresses the entire System, including both State and county employees. The System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawai‘i, 201 Merchant Street, Suite 1400, Honolulu, Hawai‘i 96813.

Employer Contribution Rate

The schedule which follows shows the total actuarially determined employer contribution rate for all employees based on the last six annual actuarial valuations.

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2004	13.95	22.6
2005	13.95	25.7
2006	13.95	35.2
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3

* Reflects Act 181, SLH 2004, which amended HRS Sections 88-105,88-122,88-123, 88-124, 88-125 & 88-126.

In fiscal year 2005, the funding period increased due to recognition of large actuarial losses. In fiscal year 2006, the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions. The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008 pursuant to Act 256, SLH 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in fiscal years 2009 and 2010 were from the recognition of the actuarial asset loss from the significant decline in the financial markets during fiscal year 2009. Act 163, SLH 2011, was enacted to raise the employer contribution rates over the next several years to bring the funding period in line with the 30-year statutory requirement.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2009 and 2010 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2009 and 2010
(Includes all counties)

ASSETS	2009	2010
Total current assets	$11,400,116,874	$11,345,618,006
Present value of future employee contributions	1,454,290,782	1,435,479,895
Present value of future employer normal cost contributions	1,658,595,716	1,601,394,963
Unfunded actuarial accrued liability	6,236,315,442	7,138,050,585
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$20,749,318,814	$21,520,543,449
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	8,584,029,950	9,259,425,898
Present value of future benefits to active employees and inactive members	12,165,288,864	12,261,117,551
TOTAL LIABILITIES	$20,749,318,814	$21,520,543,449

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2010, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $7.138 billion. The System's funded ratios – assets divided by the actuarial accrued liability - decreased during fiscal year 2010 as shown below:

FUNDED RATIOS

June 30, 2009	June 30, 2010
64.6%	61.4%

State Employees' Health Benefits

Act 88, SLH 2001, Relating to Public Employees Health Benefits (partially codified as HRS Chapter 87A), established the Hawai'i Employer Union Health Benefits Trust Fund ("*Trust Fund*"). The Trust Fund provides health and other benefit plans for public employees, retirees and their dependents. The employers participating in the Trust Fund include the State and each of the counties. Public employer contributions to the Trust Fund for the health and other benefit plans of public employees and their dependents are determined under HRS Chapter 89C, or by way of applicable public sector collective bargaining agreements. Except for reimbursement of voluntary medical insurance coverage under Medicare, public employer contributions to fund the health and other benefit plans of retirees are not to exceed certain monthly contribution levels specified in HRS Chapter 87A.

Act 245, SLH 2005 (partially codified as HRS Chapter 87D), temporarily authorized employee organizations to establish voluntary employees beneficiary association ("*VEBA*") trusts to provide health benefits to state and county employees in their bargaining units outside of the Trust Fund. Each VEBA trust was to provide health benefits to State and county employees who retired after establishment of the VEBA trust ("*future retirees*") and is to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("*existing retirees*") a one time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees were to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees were to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 was to allow the temporary establishment of a VEBA trust pilot program so as to enable a thorough analysis of the costs and benefits of VEBA trusts against the Trust Fund to determine what actual savings could be realized by the State through the VEBA trust mechanism. The Hawai'i State Teachers Association ("*HSTA*") implemented a VEBA trust for its active employees on March 1, 2006 and for retirees on January 1, 2007. Act 245 was amended by Act 294, SLH 2007 to extend the repeal date to July 1, 2009 for any VEBA implemented in March 2006. Act 5, First Special Session 2008, amended Act 245, SLH 2005, to extend the sunset date to July 1, 2010. Act 106, SLH 2010, amended Act 245, SLH 2005, to provide a final extension of the sunset date to December 31, 2010, to allow for a smoother transition from the HSTA-VEBA trust to the Trust Fund. In September 2010, two participants in the HSTA-VEBA trust and the trustees of the HSTA-VEBA trust ("*plaintiffs*") filed a purported class action lawsuit seeking, in part, to enjoin the transition from the HSTA-VEBA trust to the Trust Fund. See *Gail Kono, et al. v. Neil Abercrombie, et al*, Civil No. 10-1-1966-09, First Circuit Court, State of Hawai'i. On December 7, 2010, the First Circuit Court ("*circuit court*") denied the plaintiffs' motion for a temporary injunction to enjoin the transition of active employees and retirees from the HSTA-VEBA trust to the Trust Fund. However, the circuit court ruled that the Trust Fund was required to provide the active employees and retirees who transitioned from the HSTA-VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their HSTA-VEBA trust health benefits plans. Based on this ruling, the active employees and retirees in the HSTA-VEBA trust were transitioned to the Trust Fund, effective January 1, 2011. The State intends to appeal that part of the circuit court's ruling that requires the Trust Fund to provide former participants in the HSTA-VEBA trust with the same standard of coverage benefits that they had in their HSTA-VEBA trust health benefits plans.

Other Post Employment Benefits

The Government Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans ("OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 was implemented by the employers for fiscal year ending June 30, 2008 and for the County of Kauai for fiscal year ending June 30, 2009. The Trust Fund will separately track employer contributions and has prepared Trust Fund financial statements as an Agent Multiple Employer Plan under GASB 43.

The State has received the State of Hawai'i Employer Union Trust Fund ("*Trust Fund*") July 1, 2009 Actuarial Valuation Study (the "*Trust Fund Report*") of the Trust Fund's Other Postemployment Benefits ("*OPEB*") and the State of Hawai'i Voluntary Employee's Beneficiary Association ("*HSTA-VEBA*") Trust for the Hawai'i State Teachers Association July 1, 2009 Actuarial Valuation Study (the "*VEBA Report*," and, together with the Trust Fund Report, the "*Reports*") of the HSTA-VEBA's OPEBs. The Reports were prepared by the State's professional actuarial advisors, Aon Consulting Inc. The Reports quantify the Actuarial Accrued Liabilities ("*AAL*") of the respective employers under GASB 45 and develop Annual Required Contributions ("*ARC*") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year ending June 30, 2010.

The Reports provide, based on stated actuarial assumptions, costs with no prefunding of the ARC. The Trust Fund Report states that the State's AAL as of July 1, 2009 is $11,523.3 million, and the corresponding ARC for the fiscal year ending June 30, 2011 would be $842.3 million. The estimated Trust Fund pay as you go funding amount for such fiscal year is $188.3 million. The VEBA Report states that the HSTA-VEBA AAL as of July 1, 2009 is $2,484.2 million and the corresponding ARC for the fiscal year ending June 30, 2011 would be $211.9 million. The HSTA-VEBA pay as you go funding amount for such fiscal year is $18.3 million. The State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. The State expects to continue to fund its OPEB costs on a pay as you go basis for the near term.

The Reports will be updated every two years. Reports as of July 1, 2011 are expected to be available on or about April or May of 2012.

Pending Litigation

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346.9 million plus lost earnings and pre and post judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervenor defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervenor defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervenor defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated Article XVI, Section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in Article XVI, Section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346.9 million of employer contributions for 1997, 1998, and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). *See Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii ("Civil No. 06-1-1141-06"). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that: (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003 to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed the ERS Board's decision to the First Circuit Court. *See Marion Everson, et al. v. Board of Trustees of the Hawaii Employer-Union Health Benefits Trust Fund, et al.*, Civil No. 07-1-1872-10, First Circuit Court, State of Hawaii. By order dated July 23, 2008, the First Circuit Court reversed the decision of the EUTF Board holding, in part, that: (a) "accrued benefits" under Article XVI, Section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) HRS Section 87A-23 requires that retirees and their dependents be provided with health benefits plans that provide health benefits reasonably approximate to those provided to active employees and their dependents; and (d) certain of the health benefits provided to retirees and their dependents by the EUTF were not reasonably approximate to those provided to active employees and their dependents. The State and EUTF Board appealed the First Circuit Court's decision to the Hawaii Supreme Court. In a decision dated March 25, 2010, the Hawaii Supreme Court affirmed in part and reversed in part the First Circuit Court's decision. The Hawaii Supreme Court affirmed the First Circuit Court's holding that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but reversed the First Circuit Court's holding that HRS Chapter 87A (particularly HRS Section 87A-23) required that retiree health benefits reasonably approximate those provided to active employees. The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) again claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by not providing health care benefits to retirees and their dependents that are equivalent to those provides to active employees and their dependents. Plaintiffs added a new claim that retirees hired prior to July 1, 2001, are contractually entitled to participate in EUTF health plans without any premium contribution regardless of the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs also claim that the EUTF was negligent in failing to provide retirees and their dependents with health benefits that were equivalent to those provided to active employees and their dependents and/or in failing to recognize or inform retirees that they could not be required to contribute money towards the premiums of their health care coverage despite the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs seek declaratory and injunctive relief and damages. The damages sought are the amounts that Plaintiffs and their class have personally paid for health care that should have been covered by their EUTF health plans, for physical damages caused by their foregoing or delaying health care due to insufficient coverage in their EUTF health plans, and for pain and suffering caused by their delaying, foregoing, or personally paying for health care that should have been covered by their EUTF health plans. In March 2011, the First Circuit Court orally granted Plaintiffs' motion to certify a class consisting of all individuals who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, prior to July 1, 2003, and who qualify as a retired employee-beneficiary and/or whose dependent qualifies as a dependent-beneficiary as those terms are defined in HRS Sections 87A-1 and 87A-21. The parties are currently engaged in discovery. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

APPENDIX C
AUDITED FINANCIAL STATEMENTS

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CERTIFIED PUBLIC ACCOUNTANTS

University of Hawai‘i
State of Hawai‘i

Consolidated Financial Statements, Required Supplementary Information and Other Supplementary Information

June 30, 2011 and 2010

Quality *Integrity* *Insight*

University of Hawaiʻi
State of Hawaiʻi
Index
June 30, 2011 and 2010

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Board of Regents of the
University of Hawai‘i

In our opinion, based on our audits and the reports of other auditors, the financial statements listed in the accompanying index, which collectively comprise the consolidated financial statements of the University of Hawai‘i (the “University”), a component unit of the State of Hawai‘i, present fairly, in all material respects, the financial position of the University and its blended component units at June 30, 2011 and 2010, and the changes in their financial position and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Hawai‘i Foundation (the “Foundation”), which represent 9.8 percent of the total assets and 0.9 percent of the total operating revenues of the University as of and for the year ended June 30, 2011, and 10.6 percent of total assets and 1.0 percent of total operating revenues of the University as of and for the year ended June 30, 2010. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2011 and 2010, are based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing* Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The Management’s Discussion and Analysis (“MD&A”) and Required Supplementary Information (“RSI”) Other Than MD&A are not required parts of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI Other Than MD&A. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2012, on our consideration of the University’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 for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accuity LLP

Honolulu, Hawai‘i
January 19, 2012

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai‘i (the “University”) for the years ended June 30, 2011 and 2010, with selected information for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1907 under the auspices of the Morrill Act, the University is a land-grant, sea-grant, and space-grant institution. The University system distinguishes itself through its Hawaiian, Asian, and Pacific orientation and its position as one of the world’s foremost multicultural centers for global and indigenous studies. Students are members of a population in which no one ethnic group constitutes a majority, and the educational experience is enriched by the diversity of cultures represented.

The University is Hawai‘i’s sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawai‘i. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 278 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on O‘ahu, Hawai‘i, Maui, and Kaua‘i, the University offers more than 190 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system houses more than a hundred centers with a research, instruction, or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai‘i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

Using the Financial Statements

The University’s consolidated financial statements are prepared in accordance with Governmental Accounting Standards Board (“GASB”) principles, which establish standards for external financial reporting for public colleges and universities. The University’s consolidated financial statements are comprised of the following four components:

- **Statements of Net Assets** – The Consolidated Statements of Net Assets present information on the University’s assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the University’s financial condition is improving or deteriorating. Net assets increase when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, there is an indication of deteriorating financial condition.

- **Statements of Revenues, Expenses and Changes in Net Assets** – The Consolidated Statements of Revenues, Expenses and Changes in Net Assets present the University’s revenues and expenses and illustrate how current year activities improve or weaken the University’s financial condition. Changes in net assets are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. The Consolidated Statements of Revenues, Expenses and Changes in Net Assets also distinguish operating from non-operating revenues and expenses. Tuition and fees revenue and student housing fees revenue are reported net of scholarships and fellowships, including tuition and fee waivers applied to student accounts. Sales and services revenue primarily includes ticket sales for athletic events and distributions from the Western Athletic Conference and the National Collegiate Athletic Association. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs, including state appropriations, private gifts and investment income, are considered non-operating revenues.

- **Statements of Cash Flows** – The Consolidated Statements of Cash Flows distinguishes between cash inflows and outflows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

- **Notes to Consolidated Financial Statements** – The notes provide additional information that is essential to a full understanding of the information presented in the consolidated financial statements.

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University’s accompanying consolidated financial statements. The University of Hawai‘i Foundation (the “Foundation”) is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai‘i (the “Research Corporation”) provides administrative support services for research and training programs of the University. Both of the University’s component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. The following tables summarize the individual components of the University’s consolidated financial position and results of operations for the years ended June 30, 2011, 2010 and 2009 (in thousands of dollars):

Condensed Consolidated Statements of Net Assets

2011	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 513,342	$ 66,441	$ 9,577	$ (51,471)	$ 537,889
Noncurrent assets	2,408,945	748	317,052	(17,363)	2,709,382
Total assets	2,922,287	67,189	326,629	(68,834)	3,247,271
Current liabilities	254,242	55,157	2,367	(61,524)	250,242
Noncurrent liabilities	1,000,710	3,068	7,606	-	1,011,384
Total liabilities	1,254,952	58,225	9,973	(61,524)	1,261,626
Net assets	$ 1,667,335	$ 8,964	$ 316,656	$ (7,310)	$ 1,985,645

2010	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 412,261	$ 46,044	$ 4,392	$ (26,291)	$ 436,406
Noncurrent assets	1,981,726	703	283,912	(15,528)	2,250,813
Total assets	2,393,987	46,747	288,304	(41,819)	2,687,219
Current liabilities	228,314	35,336	2,788	(35,535)	230,903
Noncurrent liabilities	601,394	2,471	6,504	-	610,369
Total liabilities	829,708	37,807	9,292	(35,535)	841,272
Net assets	$ 1,564,279	$ 8,940	$ 279,012	$ (6,284)	$ 1,845,947

2009	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 334,878	$ 41,747	$ 19,599	$ (23,191)	$ 373,033
Noncurrent assets	1,874,878	890	248,307	(15,118)	2,108,957
Total assets	2,209,756	42,637	267,906	(38,309)	2,481,990
Current liabilities	219,254	31,814	3,586	(32,525)	222,129
Noncurrent liabilities	531,819	1,942	6,042	-	539,803
Total liabilities	751,073	33,756	9,628	(32,525)	761,932
Net assets	$ 1,458,683	$ 8,881	$ 258,278	$ (5,784)	$ 1,720,058

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets

2011

	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 866,988	$ 6,129	$ 7,521	$ (9,509)	$ 871,129
Operating expenses	1,485,016	6,207	40,428	(11,108)	1,520,543
Operating (loss) income	(618,028)	(78)	(32,907)	1,599	(649,414)
Nonoperating activity	721,084	102	70,551	(2,625)	789,112
Increase in net assets	103,056	24	37,644	(1,026)	139,698
Net assets					
Beginning of year	1,564,279	8,940	279,012	(6,284)	1,845,947
End of year	$ 1,667,335	$ 8,964	$ 316,656	$ (7,310)	$ 1,985,645

2010

	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 809,677	$ 5,402	$ 8,039	$ (8,931)	$ 814,187
Operating expenses	1,413,081	5,370	40,388	(14,945)	1,443,894
Operating (loss) income	(603,404)	32	(32,349)	6,014	(629,707)
Nonoperating activity	709,000	27	53,083	(6,514)	755,596
Increase in net assets	105,596	59	20,734	(500)	125,889
Net assets					
Beginning of year	1,458,683	8,881	258,278	(5,784)	1,720,058
End of year	$ 1,564,279	$ 8,940	$ 279,012	$ (6,284)	$ 1,845,947

2009

	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 700,153	$ 5,485	$ 7,828	$ (8,928)	$ 704,538
Operating expenses	1,431,561	5,545	38,928	(11,715)	1,464,319
Operating loss	(731,408)	(60)	(31,100)	2,787	(759,781)
Nonoperating activity	789,053	(846)	4,667	(2,278)	790,596
Increase (decrease) in net assets	57,645	(906)	(26,433)	509	30,815
Net assets					
Beginning of year	1,401,038	9,787	284,711	(6,293)	1,689,243
End of year	$ 1,458,683	$ 8,881	$ 258,278	$ (5,784)	$ 1,720,058

Financial Position

The Consolidated Statements of Net Assets present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net assets, representing a measurement of the current financial condition of the University. The University’s assets, liabilities and net assets at June 30, 2011, 2010 and 2009 are summarized as follows (in thousands):

	2011	Percentage of Total Assets	2010	Percentage of Total Assets	2009	Percentage of Total Assets	FY 11 vs 10 Change	FY 10 vs 09 Change
Current assets								
Cash and operating investments	$ 402,645	12%	$ 308,374	11%	$ 231,654	9%	$ 94,271	$ 76,720
Receivables, net	112,746	4%	107,528	4%	118,990	5%	5,218	(11,462)
Other current assets	22,498	1%	20,504	1%	22,389	1%	1,994	(1,885)
Total current assets	537,889	17%	436,406	16%	373,033	15%	101,483	63,373
Noncurrent assets								
Endowment and other investments	719,557	22%	499,332	19%	502,426	20%	220,225	(3,094)
Capital assets, net	1,513,137	46%	1,356,864	50%	1,275,918	52%	156,273	80,946
Other noncurrent assets	476,688	15%	394,617	15%	330,613	13%	82,071	64,004
Total assets	3,247,271	100%	2,687,219	100%	2,481,990	100%	560,052	205,229
Current liabilities	250,242	8%	230,903	9%	222,129	9%	19,339	8,774
Noncurrent liabilities								
Long-term debt	623,290	19%	344,315	13%	351,600	14%	278,975	(7,285)
Other noncurrent liabilities	388,094	12%	266,054	10%	188,203	8%	122,040	77,851
Total liabilities	1,261,626	39%	841,272	31%	761,932	31%	420,354	79,340
Net assets								
Invested in capital assets, net of related debt	1,182,287	36%	1,099,820	41%	1,040,144	42%	82,467	59,676
Restricted								
Nonexpendable	184,089	5%	170,706	6%	162,483	6%	13,383	8,223
Expendable	613,763	19%	509,592	19%	428,055	17%	104,171	81,537
Unrestricted	5,506	1%	65,829	3%	89,376	4%	(60,323)	(23,547)
Total net assets	$ 1,985,645	61%	$ 1,845,947	69%	$ 1,720,058	69%	$ 139,698	$ 125,889

A review of the University’s Consolidated Statements of Revenues, Expenses and Changes in Net Assets at June 30, 2011, 2010 and 2009 shows that the University continues to build upon its strong financial foundation. Its financial health reflects the prudent utilization of its financial resources, including careful cost control, management of its endowment, conservative utilization of debt and adherence to its long-range capital plan for the replacement of physical plant.

Current Assets and Liabilities

Working capital is a good measure of both the University’s efficiency and financial health. Positive working capital means that the University has current assets in excess of current liabilities and is able to pay off short-term obligations. A working capital deficit would mean that the University is unable to meet its short-term obligations with existing current assets.

At June 30, 2011, 2010 and 2009, working capital amounted to $287.6 million, $205.5 million and $150.9 million, respectively. The University is working toward maintaining a prudent level of working capital to fund operations, including pre-funding its approximately $500 million in extramural grants which are on a cost reimbursement basis and dealing with increasing enrollment, and to provide for uncertainties such as possible cuts to federal programs and the impact of the economic situation in Europe. Based on the $1,435 million of operating expenses for the fiscal year ended June 30, 2011, the working capital at year end represents approximately 73 days of operating funds.

The components of the University's current assets and liabilities and their fluctuations during the three-year period are as follows:

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were $537.9 million, $436.4 million and $373.0 million at June 30, 2011, 2010 and 2009, respectively. Total current assets increased by $101.5 million, or 23.3 percent, at June 30, 2011 compared to June 30, 2010, primarily due to increases in operating investments, cash and cash equivalents, and net accounts receivable. Operating investments increased by $69.6 million primarily due to an increase of $75 million in cash invested in TCDs with maturities greater than 90 days and less than one year. This increase was primarily attributable to liquidation of auction rate securities as well as an increase in tuition revenue. Cash and cash equivalents increased by $24.7 million and net accounts receivable increased by $7.3 million. Total current assets increased by $63.4 million, or 17 percent, at June 30, 2010 compared to June 30, 2009, primarily due to increases in operating investments offset by decreases in cash and cash equivalents and due from State of Hawai‘i. Operating investments increased by $82.7 million primarily due to an increase of $77.0 million in cash invested in TCDs with maturities greater than 90 days and less than one year. This increase was primarily attributable to an increase in tuition revenue as well as decreases in grants and contracts receivable balances and decreased compensation and benefits payments. Cash and cash equivalents decreased by $6.0 million and due from State of Hawai‘i decreased by $10.8 million.

- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsors, and deferred revenue. Current liabilities also include amounts due to the State of Hawai‘i, the current portion of long-term liabilities and other current liabilities. Total current liabilities were $250.2 million, $230.9 million and $222.1 million at June 30, 2011, 2010 and 2009, respectively. Total current liabilities increased by $19.3 million, or 8.4 percent, at June 30, 2011 compared to June 30, 2010, primarily due to increases in the current portion of long-term liabilities, other current liabilities, and accounts payable. The current portion of long-term liabilities increased by $7.2 million in fiscal year 2011 compared to fiscal year 2010, primarily due to the issuance of the Series 2010A and Series 2010B revenue bonds. Accounts payable increased by $9.2 million and other current liabilities increased by $2.3 million. Total current liabilities increased by $8.8 million, or 3.9 percent, at June 30, 2010 compared to June 30, 2009, primarily due to increases in accrued payroll and fringe benefits, accounts payable and other current liabilities, offset by a decrease in advances from sponsors. Accrued payroll and fringe benefits increased by $14.1 million in fiscal year 2010 compared to fiscal year 2009, primarily due to a bargaining unit's payroll lag transition which commenced with the June 30, 2010 pay period. Accounts payable increased by $4.1 million and other current liabilities increased by $3.9 million. Advances from sponsors decreased by $16.8 million in fiscal year 2010 due to decreased unexpended federal and private grant revenues.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by $220.2 million to $719.6 million at June 30, 2011 and decreased by $3.1 million to $499.3 million at June 30, 2010. Endowments and other investments held with the Foundation amounted to $272.3 million at June 30, 2011 and $234.4 million at June 30, 2010. The fiscal year 2011 increase was primarily due to unspent Series 2010A and 2010B proceeds.

At June 30, 2011 and 2010, endowments and other investments include $48.4 million and $89.8 million in auction rate securities, respectively. The University classifies its auction rate securities as noncurrent investments as a result of uncertainties surrounding the timing of liquidation of these investments. During fiscal year 2011, the University has entered into an agreement with Citigroup Global Markets Inc. (“CGMI”), which provides the University with the option during June 2015 to require CGMI to purchase all of the University’s auction rate securities at the date the option is exercised. As a result of this agreement, in addition to the University continuing to receive its contractual interest payments in a timely manner, management believes it is appropriate to report the University’s auction rate securities at par value. In fiscal year 2011, the University’s auction rate securities portfolio decreased by $41.4 million due to redemptions in accordance with contractual terms.

The University’s endowment funds consist of both permanent endowments and funds functioning as endowments (quasi-endowment funds). Permanent endowment funds are funds received from donors or other outside agencies with the stipulation that the principal be inviolate and invested in perpetuity for the purpose of producing present and future income which may either be expended for the purposes specified by the donor or added to principal. Quasi-endowment funds are funds which the Board of Regents, rather than a donor or other outside agency, has allocated for long-term investment purposes. The Board of Regents, in accordance with its policies, is not required to maintain the quasi-endowment principal in perpetuity. Quasi-endowment funds are further categorized as restricted and unrestricted. Restricted quasi-endowment funds represent donor-restricted gifts, without the requirement to maintain the principal in perpetuity. Unrestricted quasi-endowment funds represent unrestricted funds designated by the Board of Regents for long-term investment purposes.

Programs supported by the University’s permanent and quasi-endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities. The University uses its endowment to support operations by generating a predictable stream of annual support for current needs, while preserving the purchasing power of the endowment funds for future periods.

The University’s spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio’s fair value. In fiscal years 2011 and 2010, the University instituted a four percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to $2.5 million in fiscal year 2011 and $2.2 million in fiscal year 2010.

Capital and Debt Activities

The University’s capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2011, 2010 and 2009, total capital assets, net of accumulated depreciation amounted to $1.5 billion, $1.4 billion and $1.3 billion, respectively, which represented 47 percent, 50 percent and 52 percent, respectively, of the University’s total assets. Capital asset additions totaled $254.8 million, $181.5 million and $177.9 million in fiscal years 2011, 2010 and 2009, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $13 million, $13.1 million and $11.4 million, respectively. Of the total capital asset additions, $6.6 million and $17.7 million were related to building projects administered by the State of Hawai‘i Department of Accounting and General Services (“DAGS”) – Public Works Division and transferred to the University in fiscal years 2010 and 2009, respectively. No projects were transferred by DAGS to the University in fiscal year 2011. Purchases of equipment, including information technology, amounted to approximately $19.7 million, $23.7 million and $16.6 million and purchases of library materials amounted to approximately $3.1 million, $3.9 million and $4.0 million during fiscal years 2011, 2010 and 2009, respectively.

One of the critical factors in enhancing the quality of the University’s academic and research programs and student life enrichment is the development, replacement and renewal of capital assets. The University continues to modernize its older teaching and research facilities, and develop and construct new facilities.

Significant capital projects completed during fiscal year 2011, 2010 and 2009 or in progress as of June 30, 2010, 2009 and 2008 included:

- **Biomedical Science Building** – The expansion of the Biomedical Science Building on the University of Hawai‘i at Mānoa campus was celebrated on October 25, 2010 with the grand opening and dedication ceremony of C-MORE Hale. The new building houses the Center for Microbial Oceanography: Research and Education (“C-MORE”), providing 30,000 square feet of state-of-the-art research laboratory and support spaces. C-MORE is one of only 17 National Science Foundation sponsored Science and Technology Centers. The Center is designed to facilitate a more comprehensive understanding of the biological and ecological diversity of marine micro-organisms.

- **University of Hawai‘i Hilo Science and Technology Building** – On August 2, 2011, a blessing and dedication was held for the University of Hawai‘i at Hilo’s new Sciences and Technology Building. The $25 million building spans more than 42,000 square feet and fulfills the need for additional classrooms, office space and new state-of-the-art laboratories for UH Hilo’s expanding physics, astronomy and chemistry programs. Key features include an auditorium that seats in excess of 140, along with smaller rooms of 60 and 24 seats. In addition to the tenant programs, the building’s facilities will accommodate classes in biology, math, geography, history and communication. Based on projections, the building will serve more than 1,700 students in various classroom venues daily.

- **Library Learning Commons** – Groundbreaking for Windward Community College’s new $41.6 million Library Learning Commons was held in March 2010. The new three-story library is envisioned as a campus gathering place for the campus and community and will be home to media labs, a learning and tutoring center, academic computing, a Hawaiian collection and a coffee shop. Every aspect of the building construction and ongoing maintenance has been reviewed to reduce energy consumption, water use and waste. The structure has been called a “model of sustainability” with the goal of attaining a LEED (“Leadership in Energy and Environmental Design”) silver certification.

- **Johnson Hall** – The $6.7 million, year-long renovation was completed in August 2011 in time for the fall semester. The project includes major improvements to all 98 double rooms, lounges and offices, and installation of modern safety devices. Mānoa’s oldest residence facility, Johnson Hall A and B were constructed in 1958 and 1962, respectively, at a cost of $897,000. With Johnson’s reopening, the majority of the nearly 4,000 Mānoa campus housing units are either new or newly renovated, and Mānoa is now housing a record number of students on campus.

- **Hale Aloha Complex** – The University of Hawai‘i at Mānoa’s Hale Aloha Complex modernization project was completed in August 2010. The complex is comprised of four 13-story buildings that provide residences for 1,080 students. Each of the towers is named for the flower of the four largest islands in the state: Lehua (Hawai‘i), ‘Ilima (O‘ahu), Mokihana (Kaua‘i) and Lokelani (Maui). Renovations included the first floor, top floor community spaces and all bathrooms. The modernization included card access to student rooms and building entrances, new windows, and new fire alarm and suppression systems. The cost of the entire two-phase project including design and construction was just under $25 million.

- **University of Hawai'i Cancer Center** – Groundbreaking for the newly-renamed University of Hawai'i Cancer Center was held on November 4, 2010. The $120 million cancer center project, part of the University of Hawai'i at Mānoa, is being built adjacent to the UH Mānoa's John A. Burns School of Medicine in Kaka'ako. The more than 150,000 square foot building is due to be completed by 2013. Under a partnership agreement with The Queen's Medical Center, Hawai'i Pacific Health, and Kuakini Health Systems, the center will lead research efforts, including clinical trials and the hospitals will continue to deliver care to patients, making use of the latest research. The Cancer Center is one of 65 National Cancer Center Institute centers across the United States, a designation that brings grant funding needed to further the center's work in epidemiology, natural products and cancer biology, prevention and control and carcinogenesis.

- **University of Hawai'i West O'ahu** – Construction of the much anticipated $116 million, six building project in Kapolei is well underway. This first phase includes a classroom building, laboratory building, campus center, library and resource center, administration building and maintenance and mechanical plant building. Located on the makai side of Farrington Highway along the new Kualaka'i Parkway, the new classroom doors will open to approximately 2,000 students for fall 2012 classes. The architectural design of the new campus incorporates the latest trends in environmental sustainability and strives to achieve LEED certification. The construction of the entire campus and adjacent business and retail community will span several years. When completed, UH West O'ahu will accommodate 7,600 students and 1,000 faculty and staff.

- **Ka Haka 'Ula O Ke'elikolani College of Hawaiian Language** – A bilingual blessing and groundbreaking was held on February 11, 12011 for the $20 million permanent College of Hawaiian Language facilities at the University of Hawai'i at Hilo campus. The project consists of construction of a two-story concrete and steel structure with an approximate building floor area of 36,800 square feet. The project will be required to achieve LEED silver certification or better. The featured space for this educational facility is a 200-seat performing arts room with enhanced acoustics and includes a custom retractable lighting system (Haka) and a 36-feet high ceiling. Other notable spaces include a Distance Learning Center designed to support remote classroom instruction and video conferences as well as a Library and Archives collection for extremely rare printed and audio records.

The State of Hawai'i at times issues general obligation bonds on behalf of the University to finance certain capital projects. At June 30, 2011, 2010 and 2009, amounts due to the State of Hawai'i for general obligation bonds payable amounted to $1.0 million, $1.2 million and $1.3 million, respectively. For fiscal year 2011, debt service paid by the University amounted to $0.2 million consisting of $0.1 million in principal and $0.1 million in interest. For fiscal year 2010, debt service paid by the University amounted to $0.2 million consisting of $0.1 million in principal and $0.1 million in interest. For fiscal year 2009, debt service paid by the University amounted to $1.7 million consisting of $1.6 million in principal and $0.1 million in interest.

General obligation bonds have also been issued by the State of Hawai'i that included financing for University projects. These bonds are carried as liabilities of the State. In fiscal year 2011 and 2010, the State appropriated funds directly to the Department of Budget and Finance in the amount of $72.1 million each year to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal year 2009, the State appropriated funds to the University to pay for debt service on general obligation bonds in the amount of $87.7 million. The fiscal 2009 amount is reflected in nonoperating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

The University also uses revenue bond financing for major capital projects. In October 2010, the University issued $292.7 million in Series 2010A-1 ($111.3 million), 2010A-2 ($27.4 million), 2010B-1 ($127.5 million), and 2010B-2 ($26.6 million) bonds (collectively, the “Series 2010 Bonds”) for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects include the construction and maintenance of the University’s Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West O‘ahu campus, construction of a new Regional Biocontainment Laboratory, and various energy conservations/efficiency projects on the community college campuses on O‘ahu, Kaua‘i and Maui. The interest rates for the Series 2010 Bonds range from 2.50% – 6.03% (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

In April 2009, the University issued $100 million of Series 2009A revenue bonds to finance the acquisition and conversion of apartments for Hilo Student Housing, renovations to the Hale Aloha dormitory on the Mānoa campus, the development of the University of Hawai‘i West O‘ahu Kapolei campus, the acquisition of the Waianae Education Center, additions to the Biomedical Science building on the Mānoa campus, the bookstore addition to the Campus Center on the Hilo campus, and the repayment of indebtedness issued on behalf of the University to finance the Kau‘iokahaloa Nui Faculty Housing. The Series 2009A revenue bonds was assigned municipal bond ratings of “A+”, “Aa3”, and “AA-“ by Standard & Poor’s, Moody’s Investors Service and Fitch Ratings, respectively. The University Bond System’s other two outstanding revenue bonds, Series 2001B and 2006A, were given municipal bond ratings of “AAA”, “Aaa” and “AAA” by Standard & Poor’s, Moody’s Investors Service and Fitch Ratings, respectively, based on bond insurance policies.

At June 30, 2011, 2010 and 2009, revenue bonds payable amounted to $637 million, $351.6 million and $358.6 million, respectively. Debt service in fiscal year 2011 amounted to $31.1 million, consisting of $7.3 million of principal and $23.8 million of interest. Debt service in fiscal year 2010 amounted to $23.3 million, consisting of $7.0 million of principal and $16.3 million of interest. Debt service in fiscal year 2009 amounted to $16.1 million, consisting of $4.4 million of principal and $11.7 million of interest. Principal reductions during fiscal year 2011, 2010 and 2009 were in accordance with scheduled debt service payments.

In June 2002, the University issued $150 million in Series 2002A revenue bonds to finance the construction of the new John A. Burns School of Medicine campus. In October 2006, the University issued $133.8 million in Refunding Series 2006A bonds to refinance a portion of the University’s outstanding Series 2002A revenue bonds. The bond offering was structured to match the timing of receipt of projected State of Hawai‘i Tobacco Settlement funds. While all unrestricted revenues of the University, excluding those revenues pledged under other revenue bond offerings, are pledged as collateral, the University anticipates that State of Hawai‘i Tobacco Settlement funds will be the primary source of support for debt service payments on these revenue bonds. The University received State of Hawai‘i Tobacco Settlement funds in the amount of $12.4 million, $12.9 million and $14.8 million in fiscal years 2011, 2010 and 2009, respectively, to cover the debt service due.

As discussed above, in connection with the issuance of the $100 million Series 2009A revenue bonds, approximately $13.4 million of the bond proceeds was used to repay the Housing Finance and Development Corporation (“HFDC”) obligation in April 2009. Accordingly, ownership of the Kau‘iokahaloa Nui Faculty Project was transferred to the University Bond System. The net book value of the Kau‘iokahaloa Nui Faculty Project is included in Capital Assets and was $13.0 million and $13.5 million at transfer date and June 30, 2008, respectively. At transfer date, the original basis of the capital lease asset of $20.1 million and accumulated amortization of $7.1 million was reversed and a new cost basis of $13.0 million was established for the Kau‘iokahaloa Nui Faculty Project.

Net Assets

Net assets represent the residual interest in the University’s assets after liabilities are deducted. At June 30, 2011, 2010 and 2009, total net assets amounted to $2 billion, $1.8 billion and $1.7 billion, respectively. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

Net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, amounted to $1.2 billion, $1.1 billion and $1.0 billion at June 30, 2011, 2010 and 2009, respectively. The $82.5 million increase in fiscal year 2011, as compared to fiscal year 2010, was primarily attributable to $254.8 million of capital asset additions, offset by $85.6 million of depreciation expense, $13 million in net disposals, and $70.1 million net increase in related debt. The $100 million increase in fiscal year 2010, as compared to fiscal year 2009, was primarily attributable to $181.5 million of capital asset additions, offset by $87.4 million of depreciation expense.

Restricted nonexpendable net assets representing the University’s and Foundation’s permanent endowment funds, which are required to be maintained in perpetuity, amounted to $184.1 million, $170.7 million and $162.5 million at June 30, 2011, 2010 and 2009, respectively. The increases of $13.4 million and $8.2 million in fiscal years 2011 and 2010, respectively, were primarily attributable to new permanent endowment gifts received.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. These net assets were restricted for the following purposes at June 30, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
Plant facilities	$ 422,226	$ 343,958	$ 263,082
Donor-restricted activities	151,016	130,691	125,469
Loan activities	26,826	28,389	28,197
External sponsor activities	13,695	6,554	11,307
	$ 613,763	$ 509,592	$ 428,055

In fiscal year 2011, the overall increase of $104.2 million in restricted expendable net assets was attributable to increases of $78.3 million in plant facilities and $20.3 million in donor-restricted activities, and an increase in external sponsor activities of $7.1 million. In fiscal year 2010, the overall increase of $81.5 million in restricted expendable net assets was attributable to increases of $80.9 million in plant facilities and $5.2 million in donor-restricted activities, offset by a decrease in external sponsor activities of $4.8 million.

Net assets that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, all of the University’s unrestricted net assets have been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net assets of $37.1 million, $25.0 million and $19.3 million were designated for endowment activities at June 30, 2011, 2010 and 2009, respectively. Unrestricted net assets were comprised of the following at June 30, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
Designated			
Research and training	$ 49,161	$ 36,545	$ 44,755
Contract commitments	31,542	28,668	49,010
Quasi-endowment	37,148	25,025	19,264
Capital projects	37,126	37,756	30,717
Bond System	12,103	14,426	17,833
Other designated net assets	8,531	8,563	8,403
	175,611	150,983	169,982
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, other postemployment benefits, payroll, etc).	(170,105)	(85,154)	(80,606)
	$ 5,506	$ 65,829	$ 89,376

Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets is a presentation of the University’s results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts, and investment income, which are relied upon and budgeted to support the University’s core operations, are required to be reported as nonoperating revenues. The University’s results of operations for the years ended June 30, 2011, 2010 and 2009, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2011		2010		2009		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 11 vs 10	FY 10 vs 09
Revenues								
Operating								
Tuition and fees, net	$ 223,857	17.2%	$ 209,588	16.9%	$ 181,078	12.7%	$ 14,269	$ 28,510
Grants and contracts	502,414	38.6%	474,347	38.4%	399,640	28.0%	28,067	74,707
Sales and services	141,795	10.9%	127,405	10.3%	120,899	8.5%	14,390	6,506
Other revenue	3,063	0.2%	2,847	0.2%	2,921	0.2%	216	(74)
Total operating revenues	871,129	66.9%	814,187	65.8%	704,538	49.4%	56,942	109,649
Non-operating								
State appropriations	359,077	27.6%	369,948	29.9%	731,394	51.2%	(10,871)	(361,446)
Net Investment income (expense)	47,307	3.6%	28,146	2.3%	(31,928)	-2.2%	19,161	60,074
Private gifts	24,703	1.9%	24,398	2.0%	23,285	1.6%	305	1,113
Total non-operating revenues	431,087	33.1%	422,492	34.2%	722,751	50.6%	8,595	(300,259)
Total revenues supporting core activities	1,302,216	100.0%	1,236,679	100.0%	1,427,289	100.0%	65,537	(190,610)
Expenses								
Operating								
Compensation and benefits	1,007,237	73.1%	964,094	74.3%	995,777	63.3%	43,143	(31,683)
Supplies, services and cost of goods sold	218,469	15.8%	202,521	15.6%	201,618	12.8%	15,948	903
Telecom and utilities	62,398	4.5%	54,541	4.2%	57,959	3.7%	7,857	(3,418)
Scholarships and fellowships	53,411	3.9%	46,314	3.6%	36,297	2.3%	7,097	10,017
Other expense	93,437	6.8%	89,023	6.9%	93,440	6.0%	4,414	(4,417)
Total operating expenses	1,434,952	104.1%	1,356,493	104.6%	1,385,091	88.1%	78,459	(28,598)
Non-operating (revenues) expenses								
Transfers (from) to State, net	(163,992)	-11.9%	(160,971)	-12.4%	97,038	6.2%	(3,021)	(258,009)
Interest expense	22,244	1.6%	14,004	1.1%	11,175	0.7%	8,240	2,829
Total non-operating (revenues) expenses	(141,748)	-10.3%	(146,967)	-11.3%	108,213	6.9%	5,219	(255,180)
Expenses associated with core activities before depreciation	1,293,204	-	1,209,526	-	1,493,304	-	83,678	(283,778)
Income (loss) from core activities before depreciation	9,012	-	27,153	-	(66,015)	-	(18,141)	93,168
Depreciation	85,591	6.2%	87,401	6.7%	79,228	5.0%	(1,810)	8,173
Expenses associated with core activities including depreciation	1,378,795	100.0%	1,296,927	100.0%	1,572,532	100.0%	81,868	(275,605)
Loss from core activities	(76,579)		(60,248)		(145,243)		$ (16,331)	$ 84,995
Other nonoperating activity								
Capital gifts and grants	217,673		191,025		172,118			
Permanent endowment	12,315		6,101		13,479			
Other revenue (expenses) net	(13,711)		(10,989)		(9,539)			
Other nonoperating income, net	216,277		186,137		176,058			
Increase in net assets	139,698		125,889		30,815			
Net assets								
Beginning of year	1,845,947		1,720,058		1,689,243			
End of year	$ 1,985,645		$ 1,845,947		$ 1,720,058			

Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. State appropriations and tuition and fees are the core components that support the University’s instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research with renowned researchers. Private gifts contribute toward the support of the University’s instructional and academic initiatives. Sales and services revenues include revenues from educational departments and auxiliary enterprises, including bookstores, student and faculty housing, food services, parking and athletics.

Fiscal year 2011 was the fifth year in the University’s six-year plan to increase tuition and fee rates. Tuition and fees revenue, net of scholarship allowances, increased by $14.3 million, or 6.8 percent, to $223.9 million in fiscal year 2011, and increased by $28.5 million, or 15.7 percent, to $209.6 million in fiscal year 2010. Scholarship allowances amounted to $95.9 million, $82.3 million and $61.3 million in fiscal year 2011, 2010 and 2009, respectively. For fiscal year 2011, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment at the UH Hilo, UH West O‘ahu and community college campuses and undergraduate tuition and fee rate increases for all campuses ranging from 11.1 percent to 12.1 percent. For fiscal year 2010, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment in the UH Mānoa, UH Hilo and community college campuses and undergraduate tuition and fee rate increases for all campuses ranging from 10.5 percent to 15.8 percent.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by $28.1 million, or 5.9 percent, to $502.4 million in fiscal year 2011, and increased by $74.7 million, or 18.7 percent, to $474.3 million in fiscal year 2010. The fiscal year 2011 net increase was attributable to a $40.9 million increase in federal grants and contracts, offset by a $3.1 million decrease in nongovernmental sponsored programs and a decrease of $9.7 million in local grants and contracts. The fiscal year 2010 net increase was attributable to a $68.3 million and $10.3 million increase in federal grants and contracts and nongovernmental sponsored programs, respectively, and a decrease of $4.0 million in local grants and contracts.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, increased by $14.4 million, or 11.3 percent, to $141.8 million in fiscal year 2011, and increased by $6.5 million, or 5.4 percent, to $127.4 million in fiscal year 2010. In fiscal year 2011, the increase was largely due to an increase in Sales and Services of Educational Departments, other auxiliary enterprises, and student housing. In fiscal year 2010, the increase was largely due to increases in sales and services of other educational activities.

General state appropriations decreased by $10.9 million, or 3 percent, to $359.1 million in fiscal year 2011, and decreased by $361.4 million, or 49.4 percent, to $369.9 million in fiscal year 2010. The decrease in fiscal year 2011 was mainly attributable to legislative reductions and restrictions. The decrease in fiscal year 2010 was mainly attributable to a $307.3 million decrease in general state appropriation support due primarily to Act 162, SLH 2009, which appropriated $254.2 million directly to the Department of Budget and Finance to pay for debt service and fringe benefits on behalf of the University. Other contributing factors to the fiscal year 2010 decrease was a $9.9 million decrease in collective bargaining appropriations and a $44.2 million increase in executive restrictions.

The University's net investment income for fiscal year 2011, as compared to fiscal year 2010, increased by $19.2 million, resulting in net investment income of $47.3 million. The fiscal year 2011 increase was mainly due to a $17.1 million increase in net unrealized gains and a $3.7 million increase in net realized gains, offset by a $1.2 million decrease in interest and dividend income. The fiscal year 2010 increase was mainly due to a $58.4 million increase in net unrealized gains and a $2.6 million decrease in net realized losses, offset by a $4.7 million decrease in interest and dividend income.

The components of net investment income for the years ended June 30, 2011, 2010 and 2009 were as follows (in thousands):

				Increase (Decrease)	
	2011	2010	2009	FY 11-10	FY 10-09
Interest and dividend income	$ 10,551	$ 11,778	$ 16,521	$ (1,227)	$ (4,743)
Net realized gains (losses)	3,209	(539)	(3,140)	3,748	2,601
Net unrealized gains (losses)	34,931	17,803	(40,582)	17,128	58,385
Other, net	(1,384)	(896)	(4,727)	(488)	3,831
	$ 47,307	$ 28,146	$ (31,928)	$ 19,161	$ 60,074

Private gifts, most of which are restricted as to use, increased by $0.3 million, or 1.2 percent, to $24.7 million in fiscal year 2011 when compared to $24.4 million in fiscal year 2010. The fiscal year 2011 increase was primarily attributable to various private gifts given to the Foundation. Private gifts increased by $1.1 million, or 4.8 percent, to $24.4 million in fiscal year 2010 when compared to $23.3 million in fiscal year 2009. The fiscal year 2010 increase was primarily attributable to various private gifts given to the Foundation. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 66.2 percent during fiscal year 2011, approximately 66.8 percent during fiscal year 2010 and 68.0 percent during fiscal year 2009 were related to compensation and benefits. Compensation and benefits increased by $43.1 million, or 4.5 percent, to $1,007.2 million in fiscal year 2011 as compared to fiscal year 2010, and decreased by $31.7 million, or 3.2 percent, to $964.1 million in fiscal year 2010 as compared to fiscal year 2009. The fiscal year 2011 increase was attributable to the recognition of additional postretirement health and life insurance benefits during the year. The University recognized $150.6 million, $101.5 million and $94.8 million related to postretirement health and life insurance benefits in fiscal year 2011, 2010 and 2009, respectively. The fiscal year 2010 decrease was attributable to the system-wide salary reduction which commenced in December 2009.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items and other miscellaneous operating costs. In fiscal year 2011, such expenses increased by $15.9 million, or 7.9 percent, to $218.5 million as compared to fiscal year 2010. In fiscal year 2010, such expenses increased by $0.9 million, or 0.4 percent, to $202.5 million as compared to fiscal year 2009. The increase was primarily attributable to increases in supplies and materials, and controlled property purchases offset by a decrease in other services costs.

The University is committed to providing affordable yet quality education to its students. Scholarships and fellowships, primarily comprised of academic and athletic scholarships and fellowships, are payments, other than for tuition, fees, and housing, of financial aid made directly to students. Scholarships and fellowships increased by $7.1 million, or 15.3 percent, to $53.4 million in fiscal year 2011 as compared to fiscal year 2010, and increased by $10.0 million, or 27.6 percent, to $46.3 million in fiscal year 2010 as compared to fiscal year 2009. The increases in fiscal years 2011 and 2010 were primarily attributable to increased requests for financial aid related to increased enrollment and scheduled tuition increases.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense decreased by $1.8 million, or 2.1 percent, to $85.6 million during fiscal year 2011 as compared to fiscal year 2010, and increased by $8.2 million, or 10.3 percent, to $87.4 million during fiscal year 2010 as compared to fiscal year 2009. The decrease in fiscal year 2011 was attributable to disposals during the year. The increase in 2010 was primarily attributable to depreciation of infrastructure, building and equipment additions and reclassifications from construction in progress.

Transfers from State amounted to $151.6 million for fiscal year 2011 as compared to $148.1 million in fiscal year 2010 and a Transfers to State of $111.8 million in fiscal year 2009. For fiscal year 2011 and 2010, Transfers from State were primarily for fringe benefit expenses and the University’s Cancer Center cigarette stamp tax collections. For fiscal year 2009, increases in Transfers to State for debt service on general obligation bonds, fringe benefit expense and executive restrictions were offset by an increase in University’s Cancer Center cigarette stamp tax collections and a decrease in interest paid on Tobacco settlement funds.

The Cigarette Tax and Tobacco Tax Law, HRS section 245-15, effective July 1, 2006, established the Hawai‘i Cancer Research Special Fund. The cigarette stamp tax, beginning October 1, 2006, provides revenues to support research and operating expenses to this fund as follows:

Time Period	Cigarette Stamp Tax
October 1, 2006 – September 30, 2007	1.0 cent per cigarette
October 1, 2007 – September 30, 2008	1.5 cents per cigarette
October 1, 2008 – September 30, 2009	2.0 cents per cigarette
October 1, 2009 – September 30, 2010	2.0 cents per cigarette
October 1, 2010 – September 30, 2011	2.0 cents per cigarette
October 1, 2011 – thereafter	2.0 cents per cigarette

Other Nonoperating Activities

Revenues from other nonoperating activities are generally not used to support the University’s current operations and are comprised primarily of capital gifts and grants and additions to permanent endowments. Capital gifts and grants and state capital appropriations and transfers may only be used for the purchase or construction of specified capital assets. While additions to permanent endowments must be retained in perpetuity, investment earnings thereon may be available in future years to support specified programs.

In fiscal year 2011, capital gifts and grants, including state capital appropriations and transfers, increased by $26.7 million, or 14.0 percent, to $217.7 million compared to $191.0 million in fiscal year 2010. During fiscal year 2011, the University transferred $2.3 million to the Hawai‘i State Foundation on culture and the Arts. The State of Hawai‘i appropriated $204.6 million to the University for building renovations and other capital improvement projects on all campuses throughout the University system. Other capital gifts and grants during fiscal year 2011 included federal capital grants of $14.2 million and private capital gifts and grants of $1.1 million.

In fiscal year 2010, capital gifts and grants, including state capital appropriations and transfers, increased by $18.9 million, or 11.0 percent, to $191.0 million compared to $172.1 million in fiscal year 2009. During fiscal year 2010, the State of Hawai‘i transferred $6.1 million in completed construction projects to the University. In addition to the completed projects, the State of Hawai‘i appropriated $174.8 million to the University for building renovations and other capital improvement projects on all campuses throughout the University system. Other capital gifts and grants during fiscal year 2010 included federal capital grants of $7.1 million and private capital gifts and grants of $3.0 million.

Cash Flows

The Consolidated Statements of Cash Flows presents the University’s significant sources and uses of cash and cash equivalents, including restricted cash balances. The University’s cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University’s cash flows for the years ended June 30, 2011, 2010 and 2009 is as follows (in thousands):

	2011	2010	2009	FY 11 vs. 10 Change	FY 10 vs. 09 Change
Cash received from operations	$ 864,124	$ 804,407	$ 696,631	$ 59,717	$ 107,776
Cash payments for operations	(1,176,369)	(1,125,901)	(1,310,302)	(50,468)	184,401
Net cash used in operating activities	(312,245)	(321,494)	(613,671)	9,249	292,177
Net cash provided by noncapital financing activities	413,804	420,267	764,561	(6,463)	(344,294)
Net cash provided by (used in) capital and related financing activities	166,372	(58,302)	(34,852)	224,674	(23,450)
Net cash used in investing activities	(243,253)	(46,473)	(168,550)	(196,780)	122,077
Net (decrease) increase in cash	24,678	(6,002)	(52,512)	30,680	46,510
Cash					
Beginning of year	47,031	53,033	105,545	(6,002)	(52,512)
End of year	$ 71,709	$ 47,031	$ 53,033	$ 24,678	$ (6,002)

The University’s cash and cash equivalents increased by $24.7 million, or 52.5 percent, to $71.7 million at June 30, 2011 from $47 million at June 30, 2010. During fiscal year 2011, $312.2 million in cash was used for operating activities, offset by $413.8 million in cash provided by noncapital financing activities. The University’s cash and cash equivalents decreased by $6.0 million, or 11.3 percent, to $47.0 million at June 30, 2010 from $53.0 million at June 30, 2009. During fiscal year 2010, $321.5 million in cash was used for operating activities, offset by $420.3 million in cash provided by noncapital financing activities. Noncapital financing activities include state appropriations and gifts received for other than capital purposes, and are used to support the University’s core operations.

Net cash provided by capital and related financing activities amounted to $166.4 million in fiscal year 2011, net cash used in capital and related financing activities amounted to $58.3 million in fiscal year 2010 and $34.9 million in fiscal year 2009. The $224.7 million increase in net cash provided by capital and related financing activities in fiscal year 2011 as compared to fiscal year 2010 was primarily attributable to an increase of $298.5 million in proceeds from capital debt issuance. The $23.5 million increase in net cash used in capital and related financing activities in fiscal year 2010 as compared to fiscal year 2009 was primarily attributable to a $100 million decrease in proceeds from capital debt issuance, a $9.1 million increase in capital asset purchases, a $5.8 million increase in interest paid on capital debt and leases, a decrease in capital appropriations of $4.3 million and a $2.9 million decrease in capital gifts and grants, offset by an $87.7 million decrease in transfers to the State of Hawai‘i for debt service and a $12.9 million decrease in principal paid on capital debt and leases.

Net cash used in investing activities amounted to $243.3 million, $46.5 million, and $168.6 million in fiscal years 2011, 2010 and 2009, respectively. The increase in net cash used in investing activities of $196.8 million in fiscal year 2011 as compared to fiscal year 2010 is primarily attributable to a $1,381.2 million increase in the purchase of investments offset by a $1,184.6 increase in proceeds from sales and maturities of investments. The decrease in net cash used in investing activities of $122.1 million in fiscal year 2010 as compared to fiscal year 2009 is attributable to a $478.2 million increase in proceeds from the sales and maturities of investments offset by a $3.7 million decrease in income from interest and dividends on investments and a $352.4 million increase in investment purchases.

Looking Forward

Looking toward the future, the state and national economies continue to recover, albeit slowly, from the recession. While caution is being exercised in light of possible cuts to federal programs and European economic uncertainties, management believes that the University is well-positioned to maintain its strong financial condition and level of excellence in service to students, the research community, and the State of Hawai‘i.

System-wide enrollment increased in the fall 2010 to an all-time high of more than 60,000 students and has continued at that level in fall 2011 as the sluggish economy in the State of Hawai‘i and the country continues to encourage individuals to seek retraining and higher education to improve employment opportunities. Fiscal year 2012 is the last year of the University’s six-year tuition increase plan which was approved by the Board of Regents in 2005. On October 26, 2011, the University’s Board of Regents approved a new tuition increase schedule for fall 2012 through spring 2017. This new schedule provides stability and predictability for the University and its students while preserving affordability and access as the sole provider of public higher education in the State of Hawai‘i.

In fiscal year 2011, the University secured extramural research and training awards totaling approximately $489 million, a $37 million increase from the previous year. This represents an all time high in awards secured in a year as the University’s research programs continue to develop and faculty continue to compete successfully for contracts and grants despite decreases in federal funding at the national level.

The State continues to uphold a strong commitment to maintain and upgrade the University’s core facilities and infrastructure. General obligation bond funded capital improvement program appropriations for the fiscal biennium 2009 – 2011 were approximately $382 million as compared to approximately $309 million for the fiscal biennium 2007 – 2009. In addition, in October 2010, the University issued over $292 million in revenue bonds for the purpose of funding the costs of certain University projects, including the University’s Cancer Center. At present, the University has over $500 million in capital improvement projects under construction or to begin in the upcoming fiscal year.

In 2009, the University concluded its Centennial Campaign, which was the most ambitious fundraising campaign in the State’s history. The campaign attracted 90,000 donors, 50,000 of whom were new contributors, and raised $282 million, far surpassing the initial goal of $250 million. The next major fundraising effort; a seven year campaign, began its “quiet phase” on July 1, 2011. In the interim years, the University raised $41.2 million and $46.7 million in fiscal years 2010 and 2011, respectively.

Due to the unprecedented downturn in the State’s economy, and the resulting reductions in the revenue projections for the State by the Council on Revenues, general fund appropriations for fiscal year 2011 were reduced by $108 million from fiscal year 2009 levels and in addition the Governor restricted approximately $1.5 million of those general funds for fiscal year 2011. For fiscal year 2012 legislative appropriations and gubernatorial actions further reduced the University’s general funds by approximately $3 million, offset by an increase in general funds of $22 million to restore American Recovery and Reinvestment Act (“ARRA”) federal stabilization funds previously provided by the Legislature and the Governor which ended on September 30, 2011. Future general fund appropriations are dependent upon the Legislature and Counsel of Revenues projections. The University’s campuses continue to plan for and implement measures to deal with the above level of reductions in general funds, including salary reductions achieved in completed collective bargaining negotiations, hiring restrictions, operational consolidations and savings, and tuition and other non-general fund sources of revenue. The University remains committed to revenue generation and cost containment in order to provide the necessary resources to support and fund its operations and unprecedented enrollment growth.

University of Hawaiʻi
State of Hawaiʻi
Consolidated Statements of Net Assets
June 30, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 71,709	$ 47,031
Operating investments	330,936	261,343
Due from State of Hawaiʻi	1,936	5,129
Accounts receivable, net	96,589	89,275
Current portion of notes and contributions receivable, net	13,090	11,773
Accrued interest receivable	1,131	1,351
Inventories	12,954	13,470
Prepaid expenses, deferred charges and other current assets	9,544	7,034
Total current assets	537,889	436,406
Noncurrent assets		
Due from State of Hawaiʻi	418,309	335,480
Endowment and other investments	719,557	499,332
Notes and contributions receivable, net	29,020	32,059
Capital assets, net	1,513,137	1,356,864
Other noncurrent assets	29,359	27,078
Total noncurrent assets	2,709,382	2,250,813
Total assets	$ 3,247,271	$ 2,687,219
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 64,430	$ 55,212
Accrued payroll and fringe benefits	50,832	50,211
Advances from sponsors	37,499	38,290
Deferred revenue	35,905	35,151
Due to State of Hawaiʻi	6,257	6,253
Current portion of long-term liabilities	42,654	35,462
Other current liabilities	12,665	10,324
Total current liabilities	250,242	230,903
Noncurrent liabilities		
Accrued vacation	44,301	41,888
Accrued workers' compensation	8,963	7,573
Other postemployment benefits	318,143	206,271
Due to State of Hawaiʻi	881	1,032
Revenue bonds payable	623,290	344,315
Premium on bonds payable	6,621	1,630
Other noncurrent liabilities	9,185	7,660
Total noncurrent liabilities	1,011,384	610,369
Total liabilities	1,261,626	841,272
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	1,182,287	1,099,820
Restricted		
Nonexpendable	184,089	170,706
Expendable	613,763	509,592
Unrestricted	5,506	65,829
Total net assets	1,985,645	1,845,947
Total liabilities and net assets	$ 3,247,271	$ 2,687,219

The accompanying notes are an integral part of the consolidated financial statements.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Operating revenues		
Student tuition and fees	$ 319,772	$ 291,890
Less: Scholarship allowances	95,915	82,302
Net student tuition and fees	223,857	209,588
Federal appropriations, grants and contracts	438,854	397,984
State and local grants and contracts	18,358	28,064
Nongovernmental sponsored programs	45,202	48,299
Sales and services of educational departments, other	50,856	43,808
Auxiliary enterprises		
Bookstores	31,074	30,200
Student housing (net of scholarship allowances of $1,603 and $1,898)	24,107	20,535
Other auxiliary enterprises revenues	35,758	32,862
Other operating revenues	3,063	2,847
Total operating revenues	871,129	814,187
Operating expenses		
Compensation and benefits	1,007,237	964,094
Supplies, services and cost of goods sold	218,469	202,521
Depreciation	85,591	87,401
Telephone and utilities	62,398	54,541
Scholarships and fellowships	53,411	46,314
Travel expenses	31,349	27,207
Repairs and maintenance	22,343	24,965
Other operating expenses	39,745	36,851
Total operating expenses	1,520,543	1,443,894
Operating loss	(649,414)	(629,707)
Nonoperating revenues (expenses)		
State appropriations	359,077	369,948
Private gifts	24,703	24,398
Net investment income	47,307	28,146
Interest expense	(22,244)	(14,004)
Net transfers from (to) State of Hawai‘i for		
Fringe benefits	140,144	128,981
Interest on Tobacco settlement	(19)	(59)
Restrictions	(4,972)	-
Bridge to Hope	134	801
University of Hawai‘i Cancer Center	16,283	18,379
Loss on disposal of capital assets	(12,970)	(13,124)
Other, net	(741)	2,135
Net nonoperating revenues before capital and endowment additions	546,702	545,601
Capital – state appropriations	204,614	174,776
Capital – federal grants/subsidies	14,207	7,098
Capital – gifts and grants	1,119	3,046
Net transfers from (to) State of Hawai‘i for capital assets	(2,267)	6,105
Transfers from State of Hawai‘i, Tobacco settlement	12,422	12,869
Additions to permanent endowments	12,315	6,101
Total other revenues	242,410	209,995
Net nonoperating revenues	789,112	755,596
Change in net assets	139,698	125,889
Net assets		
Beginning of year	1,845,947	1,720,058
End of year	$ 1,985,645	$ 1,845,947

The accompanying notes are an integral part of the consolidated financial statements.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Cash flows from operating activities		
Student tuition and fees	$ 221,141	$ 210,154
Grants and contracts	499,379	468,689
Other revenues	143,604	125,564
Payments to employees	(749,629)	(733,998)
Payments to suppliers and other	(373,329)	(345,589)
Payments for scholarships and fellowships	(53,411)	(46,314)
Net cash used in operating activities	(312,245)	(321,494)
Cash flows from noncapital financing activities		
State appropriations	362,270	380,718
Gifts and grants for other than capital purposes	40,111	29,268
Transfer from State of Hawai‘i for		
Bridge to Hope	134	801
University of Hawai‘i Cancer Center	16,283	18,379
Transfers to State of Hawai‘i for		
Fringe benefits	-	(10,044)
Restrictions	(4,972)	-
Interest on Tobacco Settlement	(19)	(59)
Other receipts (disbursements)	(3)	1,204
Net cash provided by noncapital financing activities	413,804	420,267
Cash flows from capital and related financing activities		
Capital appropriations	121,785	112,203
Capital gifts and grants	13,052	8,082
Proceeds from issuance of capital debt	298,450	-
Purchases of capital assets	(245,741)	(167,971)
Principal paid on capital debt	(7,429)	(7,214)
Interest paid on capital debt	(26,167)	(16,271)
Transfer from State of Hawai‘i, Tobacco settlement	12,422	12,869
Net cash provided by (used in) capital and related financing activities	166,372	(58,302)
Cash flows from investing activities		
Interest and dividends on investments, net	10,303	10,426
Proceeds from sales and maturities of investments	2,167,917	983,329
Purchase of investments	(2,421,473)	(1,040,228)
Net cash used in investing activities	(243,253)	(46,473)
Net increase (decrease) in cash and cash equivalents	24,678	(6,002)
Cash and cash equivalents		
Beginning of year	47,031	53,033
End of year	$ 71,709	$ 47,031

The accompanying notes are an integral part of the consolidated financial statements.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (649,414)	$ (629,707)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	140,144	139,024
Depreciation expense	85,591	87,401
Bad debt expense (recoveries), net	222	(703)
Changes in operating assets and liabilities		
Accounts receivable	(6,104)	671
Notes and contributions receivable	(105)	639
Inventories	516	801
Prepaid expenses and other assets	(6,939)	723
Accounts payable	5,326	1,621
Accrued payroll and benefits	3,715	12,286
Accrued workers’ compensation liability	1,443	(1,032)
Advances from sponsors	(791)	(16,763)
Other postemployment benefits	111,872	78,360
Other, net	2,279	5,185
Net cash used in operating activities	$ (312,245)	$ (321,494)
Supplemental information of noncash transactions		
Noncash contributions	$ 1,330	$ 2,555
Net transfers from (to) State of Hawai‘i for capital assets	(2,267)	6,105
Accounts payable for capital assets	16,242	15,543

The accompanying notes are an integral part of the consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity
The accompanying consolidated financial statements of the University of Hawai‘i (the “University”) include the activities of the University of Hawai‘i at Mānoa, University of Hawai‘i at Hilo, University of Hawai‘i at West O‘ahu, University of Hawai‘i Community Colleges and its component units. The University has defined its reporting entity in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The basic criterion for including a potential component unit within the reporting entity is financial accountability. Other criteria include fiscal dependency and the nature and significance of the relationship are such that exclusion would cause the financial statements of the University to be misleading. Accordingly, the financial information of the Research Corporation of the University of Hawai‘i (the “Research Corporation”) and the University of Hawai‘i Foundation (the “Foundation”) have been blended with the University’s financial activity in the accompanying consolidated financial statements.

Complete financial statements of the Research Corporation can be obtained at the Research Corporation of the University of Hawai‘i, 2800 Woodlawn Drive, Honolulu, HI 96822. The Foundation’s federal Form 990 is available for inspection as required by Internal Revenue Code (“IRC”) Section 6104 at the University of Hawai‘i Foundation, 2444 Dole Street, Bachman Hall, Room 101, Honolulu, HI 96822.

Similarly, the University is fiscally dependent upon the State of Hawai‘i (the “State”) and therefore, the State is financially accountable for the University as defined by GASB Statement No. 14. Accordingly, the University’s financial information is discretely presented as a component unit within the State’s comprehensive annual financial report (“CAFR”).

The University is classified as a state instrumentality under IRC Section 115, and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under IRC Sections 511 and 514.

Basis of Presentation
The University follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, as amended. The consolidated financial statements of the University are presented using the economic resources measurement focus and the accrual basis of accounting. The University has elected not to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989.

The Foundation’s accounting policies conform to accounting principles generally accepted in the United States (“GAAP”) applicable to not-for-profit organizations as promulgated by the FASB. The Foundation’s financial information has been converted to conform to the University’s presentation.

The Research Corporation’s accounting policies conform to GAAP applicable to business-type activities of governmental units as promulgated by the GASB.

Cash, Cash Equivalents and Investments
The University considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts reported in the Consolidated Statements of Net Assets for cash equivalents approximate fair value due to the short maturity of these investments.

The University classifies unspent cash, cash equivalents and investments from the issuance of revenue bonds held with an escrow agent and invested until used for the cost of construction as noncurrent assets.

Investments
Investments in money market funds, fixed income securities, equity securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Investments in auction rate securities are reported at par value, which approximates fair value based on successful auctions at or near fiscal year-end. Investment agreements, absolute return funds and real assets are reported at fair value, which is generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. Investments in limited partnerships and real estate are not readily marketable and involve assumptions and methods that are reviewed by management. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed. Unrealized gains and losses on investments are included in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. 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.

The title to investment securities is vested in the name of Securities and Exchange Commission (“SEC”) registered brokerage firms representing the various investment managers of the University and the Foundation. The title to short-term investments, made from pooled cash, is vested in the name of the University or the Foundation.

Due from and Due to State
The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the University’s general operating and capital appropriations. Although these appropriations are available to the University to expend, custody and ownership of the funds remain with the State. Unspent general and capital appropriations that continue to be available to the University for expenditure at the end of the fiscal year are reported as Due from State of Hawai‘i in the accompanying Consolidated Statements of Net Assets.

Amounts due to the State of Hawai‘i are primarily due to operating advances and general obligation bond debt service requirements.

Perpetual Trusts
The Foundation is the beneficiary of certain perpetual trusts held and administered by others. The fair value of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distribution revenues from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in fair value.

Split Interest Agreements
The Foundation's split interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts and charitable gift annuities for which the Foundation serves as trustee. Assets held under the split interest agreements are included in investments. Contribution revenues are recognized at the date the split interest agreements are established after recording liabilities for the present value (utilizing discount rates ranging from two percent to five percent) of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the split interest agreements for changes in the fair value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

Accounts Receivable
Accounts receivable are initially recorded at the amount invoiced or otherwise due and normally do not bear interest. The University maintains an allowance for doubtful accounts to reduce receivables to their estimated collectible amount. Management estimates the allowance for doubtful accounts based on a specific review of customer balances, the overall aging of outstanding balances, historical collection experience and current business and economic conditions. Generally, accounts past due by more than 30 days are considered delinquent. Delinquent accounts are written off upon approval of University general counsel and when, in the judgment of management, they are deemed uncollectible based on an evaluation of the specific circumstances.

Contributions
The Foundation receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In absence of such a promise, revenue is recognized when the gift is received. Endowment pledges that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received.

Capital Assets
Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $27,289 and $16,698 for the years ended June 30, 2011 and 2010, respectively, of which capitalized interest as a cost of construction amounted to $5,045 and $2,693, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

The University evaluates the future service utility of capital assets when events or changes in circumstances have occurred. A diminished service utility of the University's capital assets is reported as an impairment loss and netted against any insurance or appropriated recoveries.

Advances from Sponsors
Amounts received from grant and contract sponsors which have not been earned under the terms of the agreement are deferred and reported as advances from sponsors in the Consolidated Statements of Net Assets.

Deferred Revenue
Deferred revenue includes amounts received in advance of an event such as student tuition and advance sports ticket sales related to a future period.

Other Postemployment Benefits
The University applies the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires accrual-based measurement and recognition and disclosure of other postemployment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability.

Revenue Bonds Payable
Revenue bonds payable include outstanding amounts due from the issuance of revenue bonds by the University. The University defers recognition of bond refunding and issuance costs, and amortizes these costs, as well as the premiums on bonds payable, over the life of the bonds using the effective interest rate method.

Net Assets
The University's net assets are classified into the following four net asset categories:

- **Invested in capital assets, net of related debt**: This component of net assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those capital assets.

- **Restricted**:

  - <u>Nonexpendable</u> – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

  - <u>Expendable</u> – Net assets that are restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

- **Unrestricted**: Net assets not classified as restricted or invested in capital assets and not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents ("Board") or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted assets are designated for academic and research programs and initiatives, and capital asset programs.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available to pay the expenses, resources are generally applied proportionate to the benefit realized. For instances in which such a determination is not feasible or if there are cost compliance issues, unrestricted resources are applied first.

Net Assets Restricted by Enabling Legislation
GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net assets at June 30, 2011 and 2010 amounted to $797,852 and $680,298, respectively, of which $734,076 and $440,633 were restricted by enabling legislation.

Operating and Nonoperating Activities
The University’s policies for defining operating activities, as reported on the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, are those that generally result from exchange transactions such as payments received for providing services and goods and payments made for services and goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

Student tuition and fees revenues are recognized in the period earned. Revenues for programs that cross fiscal years are prorated between the two fiscal years.

The University recognizes revenue associated with the direct costs of research and training grants and contracts as the related expenses are incurred.

Bookstore revenues are recognized at the point of sale. Sales returns (which are not significant) are recognized at the time returns are made.

Room and other rental revenues are recognized over the period the room is occupied. Room and other rental revenues for the summer term are recognized in the fiscal year in which the term primarily falls. Had room and other rental revenues for the summer term been prorated between fiscal years, the difference would not be material.

Scholarships and Fellowships
Scholarships and fellowships, including tuition and fee waivers applied to student accounts, are shown as a reduction to student tuition and student housing revenues. Stipend and other payments made directly to students are reflected as scholarships and fellowships expense.

State Appropriations
The University recognizes general operating and capital appropriations as nonoperating revenue when allotments are made available to the University for expenditure. If restrictions are placed on such appropriations, the restrictions are given separate and discrete accounting recognition.

Management's Estimates
The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. These estimates, among others, include workers' compensation liabilities, postemployment benefit liabilities, allowances for doubtful accounts, the useful lives of capital assets, the valuation of investments and the current versus noncurrent classification of assets and liabilities.

With respect to workers' compensation insurance, the University is self-insured for the first $500 per occurrence and annual aggregate and obtains excess insurance of $50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University uses a third party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability represents the University's best estimate of workers' compensation liabilities based on available information.

The University also uses a third party actuary to estimate its postretirement health care and life insurance benefit obligations. The assumptions used to determine the liability are described in Note 15.

The allowance for doubtful accounts is a valuation account used to estimate the portion of accounts, notes and contributions receivable that are considered uncollectible.

The University depreciates its capital assets using useful lives internally or externally determined to represent the expected service period of the asset.

In general, the fair value of investments has been determined using values supplied by independent pricing services.

Reclassifications
Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation. Such reclassifications have no impact on the 2010 change in net assets as previously reported.

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2011 and 2010, classified as cash and cash equivalents and operating investments, were $329,614 and $228,935, with corresponding bank balances of $332,837 and $242,733, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Finance in the name of the University totaled $326,615 at June 30, 2011 and $237,921 as of June 30, 2010. Additional cash equivalent balances of $5,290 at June 30, 2011 and $1,342 as of June 30, 2010 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

Endowment funds are combined in investment pools with each individual account subscribing to or disposing of shares on the basis of the market value per share.

Cost of securities sold is determined using the first-in first-out method.

As a result of market declines, the fair market value of certain donor-restricted endowments was less than the historical cost value of such funds by $4,054 and $11,767 at June 30, 2011 and 2010, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases restricted expendable net assets.

- **Endowment funds** are received from benefactors who, by the terms of their conveying instruments, have stipulated that the principal of their gifts may never be expended, and use of the income is generally restricted.

- **Quasi-endowment funds** are funds that have been transferred to the endowment funds by the Board. Use of the income is either restricted by the donor or unrestricted and designated by the Board.

The Uniform Prudent Management of Institutional Funds Act (“HUPMIFA”), established under Hawai‘i Revised Statute §517E, was enacted by the State of Hawai‘i on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the University classifies as restricted nonexpendable net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net assets is classified as restricted expendable net assets until those amounts are expended and distributed by the University in accordance with its Board approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2011 and 2010, the University’s spending rate policy provided for annual distributions ranging from four percent to five percent of the trailing five-year moving average of the endowment fair value.

Investment management fees incurred by the University during fiscal years 2011 and 2010 approximated $1,745 and $1,308, respectively.

(All dollars reported in thousands)

At June 30, 2011 and 2010, the University's investments were comprised of the following:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 25,267	$ 25,267	$ 23,989	$ 23,989
Fixed income securities	473,697	469,220	272,959	268,800
Equity securities	15,034	20,253	26,468	27,067
Mutual funds	80,561	64,224	50,675	50,439
Time certificates of deposit	258,000	258,000	181,997	181,997
Student loan auction rate securities	48,350	48,350	89,750	89,750
Limited partnerships	55,810	50,139	39,650	49,160
Absolute return	20,476	18,339	23,525	22,033
Real estate	21,377	22,144	10,629	12,216
Other investments	51,921	46,510	41,033	42,108
Total investments	1,050,493	1,022,446	760,675	767,559
Less: Current portion	330,936	330,314	261,343	260,521
Total noncurrent investments	$ 719,557	$ 692,132	$ 499,332	$ 507,038

Due to uncertainties surrounding the timing of liquidation of auction rate securities, which are comprised primarily of AAA-rated student-loan-backed taxable securities, all of the University's investments in such securities are classified as long-term investments in the Consolidated Statements of Net Assets. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and resets the applicable interest rate at pre-determined intervals, usually every 7 to 28 days. The securities held by the University for which auctions have failed continue to earn interest at the contractual rate and are auctioned every 7 to 28 days until either the auction succeeds, the issuer calls the securities, or they mature.

In March 2011, the University and Citigroup Global Markets Inc. ("CGMI") signed an agreement providing the University with an option during June 2015 to require CGMI to purchase for par value (plus accrued interest) all of the University's auction rate securities held by CGMI at the date the option is exercised. In addition, CGMI is obligated to pay the University the difference between the sale price and par value on any auction rate security sold below par value between March 2011 and June 2015. Citigroup, Inc. is guaranteeing the full payment and performance of CGMI. As a result of this agreement in addition to the University continuing to receive its contractual interest payments in a timely manner, University management believes it is appropriate to report the University's auction rate securities at par value.

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2011 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 57,536	$ 53,809	$ 3,727	
Beginning of year	51,162	52,387	(1,225)	
Net change	6,374	1,422	4,952	$ 2,517
Foundation Endowment Pool				
End of year	208,010	186,199	21,811	
Beginning of year	168,980	175,890	(6,910)	
Net change	39,030	10,309	28,721	884
Associated Students of the University of Hawai‘i				
End of year	6,982	6,107	875	
Beginning of year	6,021	5,975	46	
Net change	961	132	829	256
School of Medicine				
End of year	11,661	11,638	23	
Beginning of year	11,990	11,961	29	
Net change	(329)	(323)	(6)	-
University Bond System				
End of year	322,431	322,335	96	
Beginning of year	105,676	106,347	(671)	
Net change	216,755	215,988	767	(867)
Operating investments				
End of year	330,936	330,315	621	
Beginning of year	261,343	260,522	821	
Net change	69,593	69,793	(200)	61
Auction rate securities				
End of year	48,350	48,350	-	
Beginning of year	89,750	89,750	-	
Net change	(41,400)	(41,400)	-	-
Other				
End of year	64,587	63,693	894	
Beginning of year	65,753	64,727	1,026	
Net change	(1,166)	(1,034)	(132)	358
Total investments				
End of year	1,050,493	1,022,446	28,047	
Beginning of year	760,675	767,559	(6,884)	
Net change	$ 289,818	$ 254,887	$ 34,931	$ 3,209

(All dollars reported in thousands)

Changes in the University’s investments for the year ended June 30, 2010 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 51,162	$ 52,387	$ (1,225)	
Beginning of year	49,936	53,857	(3,921)	
Net change	1,226	(1,470)	2,696	$ 487
Foundation Endowment Pool				
End of year	168,980	175,890	(6,910)	
Beginning of year	146,214	166,861	(20,647)	
Net change	22,766	9,029	13,737	(692)
Associated Students of the University of Hawai‘i				
End of year	6,021	5,975	46	
Beginning of year	5,583	5,816	(233)	
Net change	438	159	279	135
School of Medicine				
End of year	11,990	11,961	29	
Beginning of year	11,936	11,920	16	
Net change	54	41	13	2
University Bond System				
End of year	105,676	106,347	(671)	
Beginning of year	124,619	124,489	130	
Net change	(18,943)	(18,142)	(801)	(193)
Operating investments				
End of year	261,343	260,522	821	
Beginning of year	178,621	177,855	766	
Net change	82,722	82,667	55	60
Auction rate securities				
End of year	89,750	89,750	-	
Beginning of year	108,500	108,500	-	
Net change	(18,750)	(18,750)	-	-
Other				
End of year	65,753	64,727	1,026	
Beginning of year	55,638	56,436	(798)	
Net change	10,115	8,291	1,824	(338)
Total investments				
End of year	760,675	767,559	(6,884)	
Beginning of year	681,047	705,734	(24,687)	
Net change	$ 79,628	$ 61,825	$ 17,803	$ (539)

(All dollars reported in thousands)

	2011	2010
Summary of net investment income		
Change in unrealized net gain	$ 34,931	$ 17,803
Net realized gain (loss)	3,209	(539)
	38,140	17,264
Interest and dividend income	10,453	11,495
Other	459	695
Investment income before management fees	49,052	29,454
Less: Management fees	1,745	1,308
Net investment income	$ 47,307	$ 28,146

The Board is responsible for the establishment of policies over and monitoring of operating investments and endowments held by the University. Investments authorized by the Board include equity investments, bond investments, certificates of deposit, money market funds, U.S. Government, its Agencies, or its Instrumentalities securities, securities guaranteed or collateralized by the U.S. Government, its Agencies or its Instrumentalities and other types of investments.

The Board of Directors of the Foundation is responsible for the establishment of policies over and monitoring of investments and endowments held by the Foundation.

The University's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forward and futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the Consolidated Statements of Net Assets and is not represented by the contract or notional amounts of the instruments.

Investment Risk Factors
There are many factors that affect the value of investments. Some, such as custodial credit risk, concentration risk and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Concentration Risk
Concentration risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit development. The University limits its risk of concentration of assets by limiting individual bond positions other than obligations of the U.S. government to not more than five percent of the total fixed income portion of the portfolio. Individual equities are limited to not more than five percent of the total market value of the stock portfolio. In addition, investment in any one stock is not to exceed five percent of a corporation's outstanding common stock.

(All dollars reported in thousands)

Credit Risk
Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody’s and Standard and Poor’s (“S&P”), assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. To manage credit risk, the University specifies that all nonconvertible bonds should have at least a “BBB” rating or higher and be readily marketable. In addition, no more than 15 percent of the fixed income investments may be graded with an S&P quality rating below “A”.

The composition of fixed income securities at June 30, 2011 and 2010, along with credit quality ratings, is summarized below:

		Credit Quality Rating				
2011	**Fair Value**	**U.S. Govt-Exempt**	**AAA**	**AA**	**A**	**BBB**
U.S. Treasury	$ 244,358	$ 244,358	$ -	$ -	$ -	$ -
U.S. government agencies	207,263	-	207,038	225	-	-
Corporate bonds	22,076	120	4,977	6,268	7,403	3,308
Total fixed income securities	$ 473,697	$ 244,478	$ 212,015	$ 6,493	$ 7,403	$ 3,308

		Credit Quality Rating				
2010	**Fair Value**	**U.S. Govt-Exempt**	**AAA**	**AA**	**A**	**BBB**
U.S. Treasury	$ 97,628	$ 97,628	$ -	$ -	$ -	$ -
U.S. government agencies	147,813	-	147,813	-	-	-
Corporate bonds	27,518	100	3,200	13,602	7,263	3,353
Total fixed income securities	$ 272,959	$ 97,728	$ 151,013	$ 13,602	$ 7,263	$ 3,353

Interest Rate Risk
Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices 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.

At June 30, 2011, the composition of the University’s fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
2011	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
U.S. Treasury	$ 244,358	$ 153,580	$ 87,244	$ 3,330	$ 204
U.S. government agencies	207,263	99,886	90,326	10,276	6,775
Corporate bonds	22,076	501	8,146	13,342	87
Total fixed income securities	$ 473,697	$ 253,967	$ 185,716	$ 26,948	$ 7,066

(All dollars reported in thousands)

Foreign Currency Risk

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policy permits investments in publicly-traded foreign securities.

At June 30, 2011 and 2010, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2011	2010
Equity securities		
British pound	$ 6,718	$ 6,633
Euro	12,008	13,799
Hong Kong dollar	1,760	1,520
Japanese yen	9,876	10,567
Korean won	1,248	1,315
Singapore dollar	1,437	1,351
Swiss franc	3,532	2,820
Other (27 countries)	10,321	6,425
	46,900	44,430
Fixed income securities		
Australian dollar	-	984
British pound	520	1,176
Euro	4,478	928
Japanese yen	1,970	2,311
Other (4 countries)	1,570	505
	8,538	5,904
Total exposure to foreign currency risk	$ 55,438	$ 50,334

3. Accounts Receivable

The composition of accounts receivable at June 30, 2011 and 2010 is summarized as follows:

	2011	2010
U.S. government	$ 51,963	$ 48,233
State and local government	4,324	6,635
Private agencies	8,912	8,093
Other	43,596	38,499
	108,795	101,460
Less: Allowance for doubtful accounts	12,206	12,185
	$ 96,589	$ 89,275

(All dollars reported in thousands)

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately $46,128 in 2011 and $40,678 in 2010. During fiscal year 2011, the University expended 98.28 percent and 1.72 percent of this cost recovery on research and training programs and discovery and inventions, respectively. During fiscal year 2010, the University expended 98.36 percent and 1.64 percent of this cost recovery on research and training programs and discovery and inventions, respectively.

The University's federal grants and contracts are subject to periodic audit by federal examiners. In the opinion of the University, any adjustments which may be required as a result of these audits would not be material to the overall financial position of the University.

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2011 and 2010 is summarized as follows:

	2011	2010
Student notes		
Federal loan programs	$ 19,291	$ 19,253
State loan programs	8,672	7,943
University loan funds	67	67
Other notes receivable	73	86
Total student and other notes outstanding	28,103	27,349
Less: Allowance for doubtful accounts	6,719	5,828
Total student and other notes receivable, net	21,384	21,521
Contributions receivable	21,827	23,634
Less: Allowance for uncollectible pledges	1,024	1,178
Less: Discount to present value	77	145
Total contributions receivable, net	20,726	22,311
Total student notes and contributions receivable, net	42,110	43,832
Less: Current portion, net	13,090	11,773
	$ 29,020	$ 32,059

(All dollars reported in thousands)

The allowance for doubtful accounts at June 30, 2011 and 2010 is comprised of:

	2011	2010
Federal Perkins loan program	$ 3,524	$ 3,379
State of Hawai‘i Higher Education loans	3,122	2,350
Nursing/Health Profession loans	32	32
Hawai'i Educator loans	4	2
Short-term loans	37	65
	$ 6,719	$ 5,828

Payments on contributions receivable at June 30, 2011 are expected to be collected in:

Less than one year	$ 10,596
One year to five years	11,231
	$ 21,827

The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for doubtful accounts only applies to University funded notes and the University’s portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various health profession loan programs.

The Federal Perkins loan program provides for the assignment of uncollectible loans to the U.S. Department of Education for collection. Uncollectible Nursing and Health Profession loans may be written off with the approval of the U.S. Department of Health and Human Services, Division of Financing Services. Uncollectible State of Hawai‘i Higher Education loans, Hawai‘i Educator loans and University short-term loans may be written off with the approval of the University’s General Counsel.

During the years ended June 30, 2011 and 2010, the University distributed $2,618 and $1,177 in student loans through the U.S. Department of Education Federal Perkins Loan, respectively, and $139,251 and $1,145 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $7,301 and $8,295 at June 30, 2011 and 2010, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

(All dollars reported in thousands)

Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in private gift revenues.

6. Inventories

The inventories and the methods of valuation at June 30, 2011 and 2010 are summarized below:

		2011	2010
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 10,620	$ 11,145
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,148	1,130
University of Hawai‘i Press merchandise inventory	Job order or specific identification method. Books remaining in the inventory after the first year of publication are written off on the straight-line basis over a five-year period.	692	760
University of Hawai‘i other cost of goods sold	Cost applied on the first-in, first-out basis.	494	435
		$ 12,954	$ 13,470

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2011 and 2010 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2011					
Nondepreciable capital assets					
Land	$ 12,486	$ -	$ -	$ -	$ 12,486
Construction in progress	170,744	222,724	696	(128,357)	264,415
Total capital assets not being depreciated	183,230	222,724	696	(128,357)	276,901
Depreciable capital assets					
Land improvements	88,521	233	192	1,106	89,668
Infrastructure	95,249	568	-	5,685	101,502
Buildings	1,446,951	8,498	22,180	119,838	1,553,107
Equipment	313,383	19,703	10,038	1,728	324,776
Library materials	164,637	3,108	4,774	-	162,971
Total capital assets being depreciated	2,108,741	32,110	37,184	128,357	2,232,024
Less: Accumulated depreciation	935,107	85,591	24,910	-	995,788
Capital assets, net	$ 1,356,864	$ 169,243	$ 12,970	$ -	$ 1,513,137

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2010					
Nondepreciable capital assets					
Land	$ 12,486	$ -	$ -	$ -	$ 12,486
Construction in progress	171,701	141,221	7,586	(134,592)	170,744
Total capital assets not being depreciated	184,187	141,221	7,586	(134,592)	183,230
Depreciable capital assets					
Land improvements	83,353	64	-	5,104	88,521
Infrastructure	82,890	6,966	75	5,468	95,249
Buildings	1,352,529	5,648	14,154	102,928	1,446,951
Equipment	277,954	23,657	9,320	21,092	313,383
Library materials	162,404	3,915	1,682	-	164,637
Total capital assets being depreciated	1,959,130	40,250	25,231	134,592	2,108,741
Less: Accumulated depreciation	867,399	87,401	19,693	-	935,107
Capital assets, net	$ 1,275,918	$ 94,070	$ 13,124	$ -	$ 1,356,864

(All dollars reported in thousands)

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress (“CIP”) additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,581 acres, or 93 percent of the University’s property, are recorded at the State’s value of $1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

The State Department of Accounting and General Services (“DAGS”) administers certain of the University’s construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. Capital assets transferred to the University from DAGS amounted to $6,616 in 2010. No capital assets were transferred to the University from DAGS in 2011.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2011 and 2010 were comprised of:

	2011	2010
Interest in beneficial trusts held by others	$ 14,657	$ 16,769
Deferred bond refunding and issuance costs (Note 11)	8,090	8,197
Other	6,612	2,112
	$ 29,359	$ 27,078

9. Due From and Due To the State of Hawai‘i

Amounts due from and due to the State of Hawai‘i at June 30, 2011 and 2010 were as follows:

	2011		2010	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 1,936		$ 5,129	
State capital appropriations-noncurrent	418,309		335,480	
Total due from State of Hawai‘i	$ 420,245		$ 340,609	
Imprest/petty cash advances		$ 94		$ 93
Advance		6,000		6,000
General obligation bonds – current		151		144
Employee fringe adjustments		12		16
Due to State of Hawai‘i – current		6,257		6,253
General obligation bonds – noncurrent		881		1,032
Total due to State of Hawai‘i		$ 7,138		$ 7,285

(All dollars reported in thousands)

10. Due to the State of Hawai‘i for General Obligation Bonds

Activity related to amounts due to the State of Hawai‘i for general obligation bonds for the year ended June 30, 2011 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	$ 731	$ 595	$ 73	$ 522
Hilo	143	116	14	102
Parking Structure Phase I	425	346	42	304
	1,299	1,057	129	928
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	67	8	59
Hilo	16	13	2	11
Parking Structure Phase I	47	39	5	34
	145	119	15	104
	$ 1,444	$ 1,176	$ 144	$ 1,032

Activity related to amounts due to the State of Hawai‘i for general obligation bonds for the year ended June 30, 2010 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	$ 731	$ 665	$ 70	$ 595
Hilo	143	130	14	116
Parking Structure Phase I	425	386	40	346
	1,299	1,181	124	1,057
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	75	8	67
Hilo	16	14	1	13
Parking Structure Phase I	47	43	4	39
	145	132	13	119
	$ 1,444	$ 1,313	$ 137	$ 1,176

(All dollars reported in thousands)

General obligation bonds are payable in annual installments, including semi-annual interest payments, with final payment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The interest and principal payments are due as follows:

	Principal	**Interest**
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

At June 30, 2011, principal and interest maturities on general obligation bonds for each of the next five years, and the next subsequent five-year period and thereafter are as follows:

	Principal	**Interest**
Year ending June 30,		
2012	$ 151	$ 6
2013	159	5
2014	167	4
2015	175	3
2016	185	1
2017–2018	195	-
	$ 1,032	$ 19

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of the bond principal redeemed, range from 0.5 percent to 2 percent.

In June 2005, the State issued $772,600 in general obligation Series DG (refunding bonds), of which the University’s portion was approximately $145, with a five percent interest rate to advance refund approximately $152 (University’s portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunded bonds.

In September 2003, the State issued $188,700 in general obligation Series DB bonds (refunding bonds) of which the University’s portion was approximately $1,299, with interest rates ranging from 2.80 percent to 5.25 percent to advance refund approximately $1,299 (University’s portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2011 and 2010 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2011					
Bonds payable					
Revenue bonds payable	$ 351,600	$ 292,730	$ 7,285	$ 637,045	$ 13,755
Other liabilities					
Workers' compensation	11,745	5,239	3,796	13,188	4,225
Accrued vacation	65,893	23,678	20,596	68,975	24,674
Postretirement health care/life insurance benefits (Note 15)	206,271	150,637	38,765	318,143	-
Total other liabilities	283,909	179,554	63,157	400,306	28,899
Total long-term liabilities	$ 635,509	$ 472,284	$ 70,442	$ 1,037,351	$ 42,654
2010					
Leases and bonds payable					
Revenue bonds payable	$ 358,630	$ -	$ 7,030	$ 351,600	$ 7,285
Other liabilities					
Workers' compensation	12,777	3,655	4,687	11,745	4,172
Accrued vacation	67,679	20,106	21,892	65,893	24,005
Postretirement health care/life insurance benefits (Note 15)	127,911	101,521	23,161	206,271	-
Installment contract payable	47	-	47	-	-
Total other liabilities	208,414	125,282	49,787	283,909	28,177
Total long-term liabilities	$ 567,044	$ 125,282	$ 56,817	$ 635,509	$ 35,462

(All dollars reported in thousands)

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2011 and 2010 is as follows:

	Series	Date Issued	Authorized	2011	2010
Student Housing System at Mānoa and Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	$ 18,665	$ 10,160	$ 11,315
University Health & Wellness Center (interest rate, 2.70% to 5.59%)	2002A	June 27, 2002	150,000	6,660	9,800
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	100,000	96,165	98,120
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	132,475	132,940
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	98,855	99,425
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	138,640	-
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	154,090	-
			$ 795,205	$ 637,045	$ 351,600

In October 2010, the University issued $292,730 in Series 2010A-1 ($111,265), 2010A-2 ($27,375), 2010B-1 ($127,535), and 2010B-2 ($26,555) bonds (collectively, the "Series 2010 Bonds") for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects may include the construction and maintenance of the University's Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West O‘ahu campus, construction of a new Regional Biocontainment Laboratory, and various energy conservation/efficiency projects on the community college campuses on O‘ahu, Kaua‘i and Maui. The coupon interest rates for the Series 2010 Bonds range from 2.50 percent – 6.03 percent (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

In April 2009, the University issued $100,000 Series 2009A Bonds for the purpose of financing the costs of certain University projects. These University projects include the identification and acquisition of an existing apartment complex on O‘ahu for conversion to faculty housing, the development of new faculty housing units on O‘ahu, the acquisition and conversion of apartments on the Hilo campus for student housing, renovations to student housing at Hale Aloha, the development of the University of Hawai‘i West O‘ahu Kapolei campus, the acquisition of Waianae Education Center, the repayment of indebtedness issued on behalf of the University by the Housing Finance and Development Corporation in November 1995 to finance the Kau‘iokahaloa Nui Faculty Housing, additions to the University Biomedical Science Building on the Mānoa campus, and additions to the Campus Center on the Hilo campus.

(All dollars reported in thousands)

The University receives funds from the State of Hawai‘i Tobacco Settlement Special Fund, which are solely applied to the payment of principal and interest on the Series 2002A and Refunding Series 2006A bonds. The funds received from the State of Hawai‘i Tobacco Settlement Special Fund amounted to $12,422 in 2011 and $12,869 in 2010.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $174 to $5,002 with the final payment due in October 2038. Series 2001B, 2006A and 2009A interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Series 2002A and Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 stipulates that all available monies on deposit in any special fund or revolving fund of the University, excluding monies on deposit in the University Revenue – Undertakings Fund (“University Bond System”), are pledged to the payment of the Series 2002A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System, are pledged to the payment of the Series 2001B, 2006A and 2009A bonds, interest and premiums (if any).

At June 30, 2011, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2012	$ 13,755	$ 31,569
2013	14,225	31,078
2014	14,765	30,546
2015	15,390	29,912
2016	17,175	29,173
2017–2021	92,855	133,990
2022–2026	111,035	110,111
2027–2031	130,535	80,839
2032–2036	129,350	46,290
2037–2041	97,960	13,383
	$ 637,045	$ 536,891

(All dollars reported in thousands)

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2011 and 2010 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2011					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 81	$ -	$ 21	$ 60
John A. Burns School of Medicine	Ref 2006A	1,515	-	65	1,450
University's Cancer Center	2010 A	-	2,453	288	2,165
Various construction projects	2010B	-	3,267	347	2,920
General obligation	DB	29	-	7	22
General obligation	DG	5	-	1	4
Total bond premiums		$ 1,630	$ 5,720	$ 729	$ 6,621
2010					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 108	$ -	$ 27	$ 81
John A. Burns School of Medicine	Ref 2006A	1,577	-	62	1,515
General obligation	DB	38	-	9	29
General obligation	DG	6	-	1	5
Total bond premiums		$ 1,729	$ -	$ 99	$ 1,630

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2011 and 2010 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2011					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 262	$ -	$ 68	$ 194
John A. Burns School of Medicine	Ref 2006A	7,908	-	337	7,571
University's Cancer Center	2010A	-	1,091	939	152
Various construction projects	2010B	-	1,225	1,072	153
General obligation	DB	22	-	6	16
General obligation	DG	5	-	1	4
Total bond premiums		$ 8,197	$ 2,316	$ 2,423	$ 8,090
2010					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 349	$ -	$ 87	$ 262
John A. Burns School of Medicine	Ref 2006A	8,235	-	327	7,908
General obligation	DB	29	-	7	22
General obligation	DG	6	-	1	5
Total bond premiums		$ 8,619	$ -	$ 422	$ 8,197

(All dollars reported in thousands)

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $2,000 for short-term working capital, expiring on February 1, 2012. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2011 and 2010. At June 30, 2011 and 2010, there were no borrowings under this line.

13. Property Leases

The University has entered into real property operating lease agreements with future minimum payments as follows:

Year ending June 30,	Lease Amount
2012	$ 2,703
2013	2,246
2014	1,023
2015	825
2016	255
2017–2021	406
2022–2026	342
Thereafter	2,057
	$ 9,857

Rent expense for outside space for the years ended June 30, 2011 and 2010 approximated $6,502 and $6,200, respectively.

14. Employee Benefits

Employees' Retirement System
Substantially all eligible employees of the University are members of the Employees' Retirement System of the State of Hawai‘i ("ERS"), a cost-sharing, multiple-employer, public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits.

Prior to July 1, 1984, the ERS consisted only of a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). If the employee became a member prior to January 1, 1971, the AFC is the average salary earned during the five highest paid years of service, including the vacation payment, or three highest paid years of service, excluding the vacation payment. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment. Contributions are based upon negotiated collective bargaining agreements, and the majority is funded by the State general fund as accrued. Subsequently, if an employee is paid from another funding source, contributions will be made from that same source. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for full retirement benefits at age 62 with 5 years of credited service or age 55 with 30 years of credited service. Members will receive a benefit multiplier of two percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Contribution requirements are not actuarially determined, but are established by the Hawai‘i Revised Statues (“HRS”) Chapter 88 and amended by the Hawai‘i state legislature. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. The employee contribution rate is 7.8 percent of salary for the Contributory Plan and 6.0 percent of salary for the Hybrid Plan. There is no employee contribution for the Noncontributory Plan. Employer contributions are calculated as part of the State’s total contribution requirements and are reimbursed to the State’s General Fund as part of the fringe benefit rate on the University employees’ actual salaries. The required employer contributions for the years ended June 30, 2011, 2010 and 2009 were $72,199, $75,609 and $79,724, respectively. Effective July 1, 2008, the employer contribution rate increased from 13.75 percent to 15.00 percent of salary.

Actuarial valuation is prepared for the entire ERS and not separately computed for the University. Information on vested and nonvested benefits and other aspects of the ERS is also not available at the University level.

ERS issues a Comprehensive Annual Financial Report (“CAFR”) that includes financial statements and required supplementary information which may be obtained from the following address:

Employees’ Retirement System of the State of Hawai‘i
210 Merchant Street, Suite 1400
Honolulu, Hawai‘i 96813

Basis of Accounting

The financial statements of the ERS are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments

Plan investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2011 and 2010, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $136,154 and $139,024 for fiscal years 2011 and 2010, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of 14 hours for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year. Accumulated vacation leave, earned, but not taken, is reflected as an accrual in the accompanying consolidated financial statements. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2011 and 2010, accumulated sick leave approximated $387,311 and $391,795, respectively.

The University’s regular employees may enter into deferred compensation arrangements directly with authorized insurance companies or agencies through a payroll deduction plan. Accordingly, the University has no deferred compensation or withholding payable.

The University manages its workers’ compensation program. Medical related payments for fiscal years 2011 and 2010 were $1,544 and $1,864, respectively. Temporary wage loss payments for fiscal years 2011 and 2010 amounted to $496 and $425, respectively.

15. Postemployment Benefits Other than Pensions

In addition to providing pension benefits, the State of Hawai’i, pursuant to HRS Chapter 87, provides other postemployment benefits (“OPEB”) such as health care and life insurance benefits to all retired University employees. Effective July 1, 2007, the University implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively which establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosure and required supplementary information in the financial reports.

(All dollars reported in thousands)

Plan Description

The State contributes to the Hawai‘i Employer-Union Health Benefits Trust Fund (“EUTF”), an agent, multiple-employer defined benefit plan that replaced the Hawai‘i Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

Hawai‘i Employer-Union Health Benefits Trust Fund
City Financial Tower
210 Merchant Street, Suite 1520
Honolulu, Hawai‘i 96813

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50 percent of the base monthly contribution for employees retiring with fewer than ten years of credited service. Retirees may elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years, but fewer than 15 years of service, the State pays 50 percent of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Retirees in this category may elect a family plan to cover dependents.

For employees hired on or after July 1, 2001 and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years, but fewer than 15 years of service, the State pays 50 percent of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Only single plan coverage is paid for retirees in this category. Retirees may elect family coverage, but must pay the difference.

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University’s contributions are calculated as part of the State’s total contribution requirements and are reimbursed to the State’s General Fund as part of the fringe benefit rate on the University employees’ actual salaries. The University’s annual OPEB cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following tables present the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2011:

Projected June 30, 2011 Net OPEB Obligation (“NOO”)

July 1, 2010 net OPEB obligation	$ 206,271
Plus: Annual OPEB cost	150,637
Less: Employer contributions (estimated “pay as you go” method)	38,765
Equals: Expected June 30, 2011 net OPEB obligation	$ 318,143

(All dollars reported in thousands)

The University remitted $34,775 and $33,205 in State assessed OPEB contributions for the years ended June 30, 2011 and 2010, respectively. The University's actuarially determined minimum OPEB contribution was $38,765 and $23,161, for the years ended June 30, 2011 and 2010, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$150,637	25.7%	$318,143
June 30, 2010	$101,521	22.8%	$206,271
June 30, 2009	$94,770	31.3%	$127,911

Funded Status

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment return and health care cost trends. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

The funding status as of the most recent actuarial valuation date of July 1, 2009 is as follows:

Actuarial value of assets	$ -
Actuarial accrued liability	1,849,949
Unfunded actuarial accrued liability ("UAAL")	$ 1,849,949
Funded ratio	0%
Covered payroll (active plan members)	$ 495,498
UAAL as a percentage of covered payroll	373.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(All dollars reported in thousands)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions used were as follows:

State of Hawai‘i actuarial valuation date	July 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	4%
Projected salary increases	3.5%
Health care inflation rate	
Medical and Rx Pre-65	10.5% initial, 5% ultimate
Medical and Rx Post-65	10.25% initial, 5% ultimate

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2011 and 2010 are comprised of:

	2011	2010
Liabilities under split interest agreements	$ 5,400	$ 4,484
Amounts held for others	2,206	2,020
Other	1,579	1,156
	$ 9,185	$ 7,660

17. State Appropriations

By statutory provision, the University prepares a biennium budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act and from other specific appropriations acts in various Session Laws of Hawai‘i (“SLH”).

An allotment system and encumbrance accounting are utilized by the University for statutory budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. To the extent they are not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

(All dollars reported in thousands)

Act 180, SLH 2010 Section 4, provided $72,116 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2011.

Act 162, SLH 2009, Section 57, provided $72,093 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2010.

Act 192, SLH 2010 Section 21 through 23, authorized $4,900 in University non-general funds to be transferred into the State general fund in fiscal year 2011. No transfer of non-general funds into the State general fund occurred during fiscal year 2010. The net amount of the University’s State general and capital appropriations for the years ended June 30, 2011 and 2010 were $359,077 and $204,614 and $369,948 and $174,776, respectively.

Net general and capital appropriations for the year ended June 30, 2011 were as follows:

General appropriations	
Act 180 SLH 2010, Appropriation Warrant No. 28	$ 360,687
Act 3, SP SLH 2009, Appropriation Warrant No. 12 (G 301)	70
	360,757
Total funds lapsed	(286)
G 10 301 Lapse adjustment	70
Executive restrictions	(1,464)
Total general appropriations	$ 359,077
Capital appropriations	
Act 162, SLH 2009 as amended by Act 180, SLH 2010	$ 181,485
Act 162, SLH 2009 Sections 62 & 90 as amended by Act 180, SLH 2010	7,000
Act 162, SLH 2009 as amended and renumbered by Act 180, SLH 2010	16,317
Total funds lapsed	(188)
Total capital appropriations	$ 204,614

(All dollars reported in thousands)

Net general and capital appropriations for the year ended June 30, 2010 were as follows:

General appropriations	
Act 162, SLH 2009, Appropriation Warrant No. 16	$ 422,591
Act 3, SP SLH 2009, Appropriation Warrant No. 37 (G 301)	70
	422,661
Total funds lapsed	(556)
G 301 Lapse adjustment	(70)
Executive restrictions	(52,087)
Total general appropriations	$ 369,948

Capital appropriations	
Act 162, SLH 2009	$ 141,590
Section 125, Act 213, SLH 2009	3,494
Section 125 & 152, Act 213, SLH 2007, as amended by Act 158, SLH 2008	6,720
Section 213, SLH 2007, as amended & renumbered by Act 158, SLH 2008	45,399
Total funds lapsed	(22,427)
Total capital appropriations	$ 174,776

18. Unrestricted Net Assets

Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. Accordingly, unrestricted net assets may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic and research programs and initiatives, and capital programs. Some designated, unrestricted net assets may be used to fund certain unfunded liabilities included in the undesignated, unrestricted net assets.

The unrestricted net assets at June 30, 2011 and 2010 were as follows:

	2011	**2010**
Unrestricted net assets		
Designated		
Research and training	$ 49,161	$ 36,545
Contract commitments	31,542	28,668
Quasi-endowment	37,148	25,025
Capital projects	37,126	37,756
Bond System	12,103	14,426
Other designated net assets	8,531	8,563
Total designated	175,611	150,983
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, payroll, etc.)	(170,105)	(85,154)
Total unrestricted net assets	$ 5,506	$ 65,829

(All dollars reported in thousands)

19. Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirement of GASB Statement No. 35.

The University Bond System consists of several University projects funded by bond proceeds. The University projects, operated and maintained jointly as a system, include: (1) all existing University housing units located on the Mānoa campus and connecting food service facilities; (2) the University's student center known as the Campus Center and food service activities on the Mānoa campus; (3) all existing University housing units located on the Hilo campus and connecting food service facilities; (4) the telecommunication system located on the Mānoa campus; (5) all existing bookstores located on any campus of the University; (6) all University parking units located on any campus of the University which were financed in whole or in part from certain revenue or general obligation bonds; and (7) certain other University projects.

The University Bond System's outstanding debt was issued pursuant to bond resolutions adopted in November 2001 and February 2009. The bond resolutions established a network of the University consisting of the University Bond System and any University purpose which, at the election of the Board, is included in the network pursuant to a supplemental resolution. The bond resolutions provide that all revenues collected or received from the Network be used to support the Network (which includes the University projects of the University Bond System) and bond related expenses.

The following summary financial information of the Bond System as of June 30, 2011 and 2010 is presented before elimination of certain intra-University transactions.

	2011	2010
Condensed statements of net assets		
Assets		
Current assets	$ 69,522	$ 62,336
Capital assets, net	266,464	184,877
Other assets	322,951	105,965
Total assets	$ 658,937	$ 353,178
Liabilities		
Current liabilities	$ 43,935	$ 27,745
Noncurrent liabilities	495,281	207,506
Total liabilities	539,216	235,251
Net assets		
Invested in capital assets, net of related debt	75,613	71,077
Restricted expendable	1,037	1,037
Unrestricted	43,071	45,813
Total net assets	119,721	117,927
Total liabilities and net assets	$ 658,937	$ 353,178

(All dollars reported in thousands)

	2011	2010
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	$ 31,452	$ 30,203
Room and other rentals	25,492	22,313
Parking	6,549	5,946
Telecommunications	3,883	3,576
Other operating revenues	7,804	7,178
Total operating revenues	75,180	69,216
Operating expenses (including $10,079 and $10,036 in depreciation expense in 2011 and 2010, respectively)	(70,929)	(67,080)
Operating income	4,251	2,136
Nonoperating revenues	18,939	5,482
Nonoperating expenses	(21,396)	(7,411)
Change in net assets	1,794	207
Net assets		
Beginning of year	117,927	117,720
End of year	$ 119,721	$ 117,927

	2011	2010
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 444	$ 12,934
Net cash flows provided by non-capital financing activities	1,638	1,720
Net cash flows provided by (used in) capital and related financing activities	216,231	(28,163)
Net cash flows provided by investing activities	1,217	939
Net (decrease) increase in cash and cash equivalents	219,530	(12,570)
Cash and cash equivalents		
Beginning of year	154,582	167,152
End of year	$ 374,112	$ 154,582

20. Litigation, Other Contingent Liabilities and Commitments

Hawai‘i Revised Statutes §304A-108 stipulates that any liability arising from a claim, action, or suit brought against the University shall be payable solely from the moneys and property of the University and shall not constitute a general obligation of the State. The Board of Regents is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, the University's management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

Substantial amounts are received and expended by the University under federal and state programs which are subject to audit by cognizant governmental agencies and independent auditors under OMB Circular A-133. This funding relates to research, student aid and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The State and the Office of Hawaiian Affairs ("OHA") are involved in an ongoing dispute relating to certain lands transferred by the former Republic of Hawai‘i to the United States which were reconveyed to the State upon Hawai‘i's admission to the Union in 1959. These lands (collectively, the "ceded lands") are the subject of a number of claims, litigation and legislation, which are being addressed by the State on behalf of all State agencies, including the University. These matters are more fully described in the State's Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information which may be obtained from the following address:

State of Hawai‘i Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawai‘i 96813

Although the ultimate outcome and financial impact to the University of these OHA matters are not presently known, the University has come to an agreement with the State with respect to the University's estimated pro rata portion of its obligation due to OHA related to revenues generated from ceded lands. The University's financial statements reflect the liabilities and disbursements in connection with this agreement.

Risk Management

In general, the University obtains third party insurance coverage directly from third party insurers or is covered under the umbrella of the State's insurance program. However, the University is partially or entirely self-insured for certain risks, such as unemployment and workers' compensation claims.

With respect to workers' compensation insurance, the University is self-insured for the first $500 per occurrence and annual aggregate and obtains excess insurance of $50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Statements of Net Assets (see Note 11).

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately \$434,026 and \$235,426 as of June 30, 2011 and 2010.

Collective Bargaining Agreements

Personnel costs are a significant component of the University's expenses. With the exception of executive/managerial personnel, employees of the University belong to one of eight bargaining units and are represented by the Hawai‘i Government Employees Association ("HGEA"), the United Public Workers ("UPW"), or the University of Hawai‘i Professional Assembly ("UHPA"). The University (in some cases, via the State of Hawai‘i) enters into collective bargaining agreements with unions representing its employees which commit to wages and benefits for its employees in the future. The University may make strategic and operational decisions that require the consent of one or more of its labor unions and cannot assure that the labor unions will not require additional wages, benefits or other consideration in return for their consent.

All of the collective bargaining agreements, except for the agreement with UHPA, which represents faculty members, are for a two-year period beginning July 1, 2009 and ending June 30, 2011. These bargaining units agreed to temporary salary reductions in the form of furloughs or across-the-board pay reductions and comparable leave with pay, equivalent to five percent per year over the contract period. Subsequent to June 30, 2011, most of the bargaining units agreed to the same terms for July 1, 2011 through June 30, 2013. However, the state and other employer jurisdictions have yet to reach agreement with the respective unions on successor agreements for two bargaining units − 9 and 10. These agreements for these two bargaining units, which represent approximately 15 employees at the University, will be resolved through interest arbitration.

In January 2010, faculty members ratified a new six-year collective bargaining agreement which included a provision to temporarily reduce faculty salaries by 6.67 percent for 18 months beginning January 1, 2010. After June 30, 2011, faculty salaries revert back to original salaries at December 31, 2009. One-time stipends, equivalent to the amount of the temporary reduction, will be paid in fiscal years 2013, 2014 and 2015 to faculty who were subject to the reduction and are still employed at the University. The faculty agreement also provides for three percent salary increases on July 1, 2013 and July 1, 2014.

The University cannot assure that future agreements with its employees' unions will be on terms in line with expectations or comparable to agreements entered into by others, and any future agreements may increase labor costs or otherwise adversely affect the University. If the University is unable to reach an agreement with the bargaining units representing blue collar workers (BU1) and/or faculty (BU7), it may be subject to future work interruptions and/or stoppages, which may hamper or halt operations. The remaining six bargaining units are subject to interest arbitration and, therefore, member of those units may not participate in a strike or work stoppage.

21. New Accounting Pronouncements

The GASB has recently issued the following accounting pronouncements:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued in November 2010. This Statement addresses financial reporting issues related to arrangements between a transferor and an operator (Service Concession Arrangements) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued in November 2010. This Statement modifies certain requirements for inclusion and reporting of component units in the financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012.

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance issued by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, issued in June 2011. This Statement provides financial reporting guidance related to the consumption or acquisition of net assets related to a future period by standardizing the presentation of deferred outflows and inflows of resources and their effects on the government's net position. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

The University is currently evaluating the above noted accounting pronouncements and believes that these pronouncements will not have a material effect on the University's financial statements.

Required Supplementary Information Other Than Management's Discussion and Analysis

University of Hawai‘i
State of Hawai‘i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2011
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2009	$0	$1,849,949	$1,849,949	0%	$495,498	373.4%
July 1, 2007	$0	$1,135,855	$1,135,855	0%	$477,152	238.0%

Other Supplementary Information

Accuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai‘i

The report on our audits of the consolidated financial statements of the University of Hawai‘i as of June 30, 2011 and 2010, and for the years then ended, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII, and IX) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accuity LLP

Honolulu, Hawai‘i
January 19, 2012

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and
University Bond System
As of and for the Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) **Schedule I**

	2011	2010
Condensed statements of net assets		
Assets		
Current assets	$ 353,828	$ 275,634
Noncurrent assets	54,551	71,695
Total assets	$ 408,379	$ 347,329
Liabilities		
Current liabilities	$ 95,873	$ 87,635
Noncurrent liabilities	10,283	9,600
Total liabilities	106,156	97,235
Net assets		
Unrestricted	302,223	250,094
Total net assets	302,223	250,094
Total liabilities and net assets	$ 408,379	$ 347,329
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 339,327	$ 310,578
Operating expenses	288,195	272,761
Operating income (loss)	51,132	37,817
Nonoperating revenues and transfers	43,173	47,312
Nonoperating expenses and transfers	42,176	33,452
Change in net assets	52,129	51,677
Net assets		
Beginning of year	250,094	198,417
End of year	$ 302,223	$ 250,094

1. **Basis of Presentation**

The accompanying condensed statements of net assets and related condensed statements of revenues, expenses and changes in net assets present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2002A revenue bonds and Refunding Series 2006A bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

In accordance with University policy, the University's liability for other postemployment benefits is not allocated internally to individual departments and funds. Accordingly, no liability for other postemployment benefits is reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule II

	2011	2010
Beginning balance	$ 11,990	$ 11,936
Additions		
Interest and investment income	36	43
Other	-	21
Total additions	36	64
Deductions		
Payments – building, construction in progress, other	300	-
Transfers to State of Hawai‘i	55	-
Management fees	10	10
Total deductions	365	10
Ending balance	$ 11,661	$ 11,990

1. Basis of Presentation

The accompanying schedules of Series 2002A revenue bond proceeds activity present the sources and uses of Series 2002A revenue bond proceeds associated with the construction of the John A. Burns School of Medicine facility at Kaka‘ako. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

2. Refinancing

In October 2006, the University refinanced a majority of the outstanding Series 2002A revenue bonds through the issuance of Refunding Series 2006A bonds. Proceeds from the State’s settlement agreement with tobacco companies are expected to be utilized to service the outstanding balance of the new debt.

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule III

	2011	2010
Condensed statements of net assets		
Assets		
Current assets	$ 384,795	$ 305,008
Noncurrent assets	54,551	71,695
Total assets	$ 439,346	$ 376,703
Liabilities		
Current liabilities	$ 113,248	$ 101,240
Noncurrent liabilities	11,414	10,594
Total liabilities	124,662	111,834
Net assets		
Unrestricted	314,684	264,869
Total net assets	314,684	264,869
Total liabilities and net assets	$ 439,346	$ 376,703
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 414,507	$ 379,794
Operating expenses	344,351	326,206
Operating income	70,156	53,588
Nonoperating revenues and transfers	43,781	47,718
Nonoperating expenses and transfers	64,122	51,972
Change in net assets	49,815	49,334
Net assets		
Beginning of year	264,869	215,535
End of year	$ 314,684	$ 264,869

1. Basis of Presentation

The accompanying condensed statements of net assets and related condensed statements of revenues, expenses and changes in net assets present the financial position and results of operations of certain of the University’s Special and Revolving Funds, which are pledged as collateral on the University’s Series 2006A revenue bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

In accordance with University policy, the University’s liability for other postemployment benefits is not allocated internally to individual departments and funds. Accordingly, no liability for other postemployment benefits is reflected in this schedule.

University of Hawaiʻi
State of Hawaiʻi
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule IV

	2011	2010
Beginning balance	$ 26,272	$ 36,601
Additions		
Interest and investment income	82	58
Total additions	82	58
Deductions		
Payments – building, construction in progress, other	7,767	10,363
Transfers to State of Hawaiʻi	559	-
Management fees	19	24
Total deductions	8,345	10,387
Ending balance	$ 18,009	$ 26,272

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity present the sources and uses of Series 2006A revenue bond proceeds associated with the construction of the Frear Hall dormitory at the Mānoa campus and repair and maintenance of various housing projects. The financial information of the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi Foundation is not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule V

	2011	2010
Beginning balance	$ 79,404	$ 88,018
Additions		
Interest and investment income	426	378
Total additions	426	378
Deductions		
Payments – building, construction in progress, other	37,138	8,923
Transfers to State of Hawai‘i	264	-
Management fees	49	69
Total deductions	37,451	8,992
Ending balance	$ 42,379	$ 79,404

1. Basis of Presentation

The accompanying schedules of Series 2009A revenue bond proceeds activity present the sources and uses of Series 2009A revenue bond proceeds associated with the financing of costs of certain University projects. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2010A Revenue Bond Proceeds Activity
Year Ended June 30, 2011
(All dollars reported in thousands)

Schedule VI

	2010A-1	2010A-2
Beginning balance	$ -	$ -
Additions		
Bond proceeds	111,265	29,828
Interest and investment income	163	20
Total additions	111,428	29,848
Deductions		
Payments − building, construction in progress, other	22,859	173
Management fees	53	15
Total deductions	22,912	188
Ending balance	$ 88,516	$ 29,660

1. Basis of Presentation

The accompanying schedules of Series 2010A-1 and Series 2010A-2 revenue bond proceeds activity present the sources and uses of the bond proceeds associated with construction and maintenance of the University’s Cancer Center. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in these schedules.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2010B Revenue Bond Proceeds Activity
Year Ended June 30, 2011
(All dollars reported in thousands) Schedule VII

	2010B-1	2010B-2
Beginning balance	$ -	$ -
Additions		
Bond proceeds	127,535	29,822
Interest and investment income	126	38
Total additions	127,661	29,860
Deductions		
Payments – building, construction in progress, other	13,122	173
Transfers to State of Hawai‘i	-	280
Management fees	64	15
Total deductions	13,186	468
Ending balance	$ 114,475	$ 29,392

1. Basis of Presentation

The accompanying schedules of Series 2010B-1 and Series 2010B-2 revenue bond proceeds activity present the sources and uses of the bond proceeds associated with renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West O‘ahu campus, construction of a new Regional Biocontainment Laboratory, and various energy conservation/ efficiency projects on the community college campuses on O‘ahu, Kaua‘i and Maui. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in these schedules.

University of Hawai‘i
State of Hawai‘i
Statements of Net Assets – Community College System
June 30, 2011 and 2010
(All dollars reported in thousands) Schedule VIII

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 5,045	$ 2,079
Operating investments	55,422	45,480
Accounts receivable, net	7,543	5,900
Current portion of notes and contributions receivable, net	187	167
Accrued interest receivable	50	91
Inventories	4,181	4,563
Prepaid expenses, deferred charges and other current assets	309	741
Total current assets	72,737	59,021
Noncurrent assets		
Due from State of Hawai‘i	59,944	75,987
Endowment and other investments	38,433	18,622
Deferred charges	34	-
Notes and contributions receivable, net	1,401	1,479
Capital assets, net	242,280	222,017
Other noncurrent assets	1,621	1,559
Total noncurrent assets	343,713	319,664
Total assets	$ 416,450	$ 378,685
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 6,964	$ 6,322
Accrued payroll and fringe benefits	7,806	7,645
Advances from sponsors	1,398	1,221
Due to RCUH	685	520
Deferred revenue	6,151	6,381
Due to State of Hawai‘i	134	109
Current portion of long-term liabilities	6,078	5,767
Investment trade settlement payable	516	-
Other current liabilities	469	26
Total current liabilities	30,201	27,991
Noncurrent liabilities		
Accrued vacation	9,285	8,669
Accrued workers’ compensation	1,727	1,280
Revenue bonds payable	35,608	1,979
Total noncurrent liabilities	46,620	11,928
Net assets		
Invested in capital assets, net of related debt	207,277	220,038
Restricted – expendable	90,241	79,615
Unrestricted	42,111	39,113
Total net assets	339,629	338,766
Total liabilities and net assets	$ 416,450	$ 378,685

The accompanying notes are an integral part of Schedule VIII.

University of Hawai‘i
State of Hawai‘i
Statements of Revenues, Expenses and Changes in Net Assets – Community College System
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands)

Schedule IX

	2011	2010
Operating revenues		
Student tuition and fees	$ 71,859	$ 64,343
Less: Scholarship allowances	20,905	15,497
Net student tuition and fees	50,954	48,846
Federal appropriations, grants and contracts	68,420	60,272
State and local grants and contracts	1,264	1,863
Nongovernmental sponsored programs	824	1,170
Sales and services of educational departments, other	8,123	8,389
Auxiliary enterprises		
Bookstores	11,226	11,536
Other auxiliary enterprises revenues	1,107	1,404
Other operating revenues	65	53
Total operating revenues	141,983	133,533
Operating expenses		
Compensation and benefits	189,417	187,433
Supplies, services and cost of goods sold	36,265	37,171
Scholarships and fellowships	23,880	19,955
Depreciation	10,909	10,598
Telephone and utilities	11,229	10,549
Repairs and maintenance	3,502	3,718
Travel expenses	2,563	2,186
Other operating expenses	3,604	4,297
Total operating expenses	281,369	275,907
Operating loss	(139,386)	(142,374)
Nonoperating revenues (expenses)		
State appropriations	102,406	105,096
Private gifts	1	1
Net investment income	407	478
Interest expense	(999)	(24)
Transfers from State of Hawai‘i for		
Fringe Benefits	38,291	38,060
Restrictions	(325)	-
Loss on disposal of capital assets	(19)	(426)
Other, net	(5,146)	(1,909)
Net nonoperating revenues before capital and endowment additions	134,616	141,276
Capital – state appropriations	4,107	5,067
Capital – federal grants/subsidies	1,524	313
Capital – gifts and grants	7	1,014
Net transfers (to) from State of Hawai‘i for capital assets	(5)	(79)
Transfers to other funds	-	(653)
Total other revenues	5,633	5,662
Net nonoperating revenues	140,249	146,938
Change in net assets	863	4,564
Net assets		
Beginning of year	338,766	334,202
End of year	$ 339,629	$ 338,766

The accompanying notes are an integral part of Schedule IX.

1. Basis of Presentation

The accompanying statements of net assets and related statements of revenues, expenses and changes in net assets – Community College System present the financial position and results of operations of the Community College System, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in these schedules.

In accordance with University policy, the University's liability for other postemployment benefits is not allocated internally to individual departments and funds. Accordingly, no liability for other postemployment benefits is reflected in these schedules.

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APPENDIX D
SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the resolution adopted by the Board of Regents of the University of Hawai'i (the "*Board*") on November 16, 2001, entitled "A RESOLUTION CREATING AND ESTABLISHING A NETWORK CONSISTING OF A UNIVERSITY SYSTEM, INCLUDING CERTAIN UNIVERSITY PROJECTS, AND UNIVERSITY PURPOSES, OF THE BOARD OF REGENTS, UNIVERSITY OF HAWAI'I; CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE BOARD OF REGENTS, UNIVERSITY OF HAWAI'I, AND PROVIDING FOR THE SECURITY FOR AND PAYMENT OF SAID BONDS AND LIMITING SUCH PAYMENT TO THE REVENUES OF SAID NETWORK; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE OF BONDS; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE OF ADDITIONAL SERIES OF SAID BONDS; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF SAID BONDS; AND MAKING CERTAIN OTHER COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING," as amended and supplemented by the resolutions adopted by the Board on November 16, 2006, February 20, 2009, August 30, 2010 and January 19, 2012 (herein referred to collectively as the "*Resolution*"). This summary is not a complete recital of the terms of the aforementioned documents and reference should be made to the Resolution for its complete terms. Words and terms used in this summary and not defined herein shall have the same meaning as in the Resolution. Copies of the Resolution will be available for inspection after delivery of the Bonds to any registered owner of the Bonds upon request by such owner at the principal corporate trust office of the Director of Finance.

DEFINITIONS OF CERTAIN TERMS

"Additional Bond" or "Additional Bonds" means any Bond or Bonds issued pursuant to the provisions of the Resolution relating to the issuance of additional bonds, including Bonds issued to refund Outstanding Bonds.

"Certificate of Determination" means a certificate of the Designated Financial Officer authorizing the issuance of refunding Bonds as permitted in Section 2.04 of the Resolution and/or fixing the terms, conditions and other details of Bonds in accordance with the delegation of powers to do so under the Resolution or under a Supplemental Resolution.

"Construct" and "Construction" mean and include respectively, (i) acquire, purchase, plan, construct, reconstruct, remodel, renovate, improve, better and extend, and (ii) acquisition, purchase, planning, construction, reconstruction, remodeling, renovation, improvement, betterment and extension.

"Cost of Construction" means all costs and estimated costs of construction, and without limiting the generality of the foregoing, shall include all costs and estimated costs of the preparation and issuance of revenue bonds and obtaining of a loan; cost of land acquisition; engineering, architectural, supervisory, inspection, fiscal, legal, administrative and clerical fees, costs and expenses; interest which it is estimated will accrue during the construction period and for six months thereafter on money obtained by loan or through the issuance of Bonds, or both; amounts necessary to establish or increase reserves; costs of utilities, equipment, fixtures and apparatus necessary or convenient for the use and occupancy of a University Project, and, if so determined by the Board, the initial furnishings of a University Project; and necessary travel expenses.

"Current Expenses" means the costs and estimated costs of operation, maintenance and repair and without limiting the generality of the foregoing, shall include all necessary operating expenses; charges for and expenses of repairs, upkeep, replacement and renewals occurring in the ordinary course; salaries, wages and fees of officers, employees and contractors of the Board engaged in the maintenance of the Network; costs of supplies and equipment including ordinary and current rentals of equipment or property or fees and charges for equipment or property incurred under agreement to the extent permitted by the fourth paragraph of Section 6.10 of the Resolution; cost of food, beverages and merchandise; a properly allocated share of charges for insurance; costs and expenses of administration arising out of, and properly allocable to, the operation, maintenance and repair of the Network and the servicing of the debt (including the Bonds) incurred with respect thereto; Integrated Swap Agreement Payments; payments required to be made by the Board pursuant to law to the extent such payments constitute Current Expenses of the Network; and all other expenses incident to the operation, maintenance and repair of the Network; provided that the term "Current Expenses" shall not include depreciation, general administration expenses of the Board, and the credits to the University Network Repair and Replacement Account or any subaccount therein required by the Resolution.

"Designated Financial Officer" means the chief financial officer of the University or such other person as may be designated and authorized by the Board to sign for the Board.

"Director of Finance" means the single executive heading the Department of Budget and Finance of the State pursuant to Section 26-8, Hawai'i Revised Statutes.

"Federal Government" means the United States of America or the Department of Housing and Urban Development or any other department or agency acting for and on behalf of the United States of America.

"Fiscal Year" means the fiscal year for the State of Hawai'i as established from time to time by said State, being on the date of adoption of the Resolution the period from July 1 in any year to and including the following June 30.

"Hedge Agreement" means an interest rate swap or exchange agreement, including an Integrated Swap Agreement, a payment exchange agreement, forward purchase agreement or any other hedge agreement entered into by the Board for any purpose providing for payments between the parties based on levels of, or changes in, interest rates, stock or other indices or contracts to exchange cash flows or a series of payments or contracts, including without limitation, interest rate floors or caps, options, puts or calls to hedge payment, rate, spread or similar risk.

"Holder of a Bond" or "Bondholder" means any person who shall be the bearer of any Bond not then registered, or the registered owner or his duly authorized attorney-in-fact, representative or assigns, of any Bond which shall at the time be registered other than to bearer.

"Integrated Swap Agreement" means any interest rate swap agreement entered into by the Board with respect to a series of Bonds having a notional amount equal to the principal amount of such series of Bonds and pursuant to which the Board agrees to make payments on the basis of (a) a fixed rate of interest or (b) a variable rate of interest.

"Integrated Swap Agreement Payments" means payments made pursuant to an Integrated Swap Agreement on the basis of fixed or variable rates of interest; specifically excluding, however, termination payments, fees, expenses and other amounts payable under an Integrated Swap Agreement not specifically made on the basis of interest rates.

"Integrated Swap Agreement Payments" means payments made pursuant to an Integrated Swap Agreement on the basis of fixed or variable rates of interest; specifically excluding, however, termination payments, fees, expenses and other amounts payable under an Integrated Swap Agreement not specifically made on the basis of interest rates.

"Interest Increment Amount" means, as of any particular date of computation and for any particular period or year, with respect to any Bonds the difference, if any, between the rate of interest per annum borne by Variable Rate Bonds in accordance with their terms as set forth in the Supplemental Resolution or Certificate of Determination authorizing the issuance thereof for all Holders other than an issuer or issuers of a Support Facility, and the rate such Variable Rate Bonds bear when such Variable Rate Bonds are held by an issuer or issuers of a Support Facility.

"Investment Securities" means any of the following which at the time are legal investments under the laws of the State for the moneys held hereunder then proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; and interest of which are unconditionally guaranteed by the United States of America; (ii) obligations of any of the following which constitute the full faith and credit of the United States of America: Export-Import Bank, Farm Credit System Financial Assistance Corporation, Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage

Association, U.S. Department of Housing & Urban Development, and Federal Housing Administration; (iii) senior debt obligations rated "AAA" by Standard & Poor's Ratings Group ("*S&P*") and/or "Aaa" by Moody's Investors Service ("*Moody's*") and/or "AAA" by Fitch, Inc. ("*Fitch*") issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation; (iv) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by "S&P and/or "P-1" by Moody's and/or "F-1" by Fitch, Inc. and maturing not more than 360 days after the date of purchase; (v) commercial paper rated "A-1+" by S&P and/or "P-1" by Moody's and/or "F-1+" by Fitch, Inc. at the time of purchase and which matures not more than 270 days after the date of purchase; (vi) investments in a money market fund rated "AAAm" or AAm-G" or better by S&P; (vii) repurchase agreements collateralized by direct obligations of the U.S. Treasury or GNMAs, each at a collateral percentage of 103% or FNMAs or FHLMCs each at a collateral percentage of 104% with any registered Broker/Dealer (a "*Broker/Dealer*") or any commercial bank insured by the FDIC (a "*Bank*"), if at the time of the investment such Broker/Dealer (or its parent) has long-term uninsured, unsecured and unguaranteed debt rated "A3" or better by Moody's or "A-" or better by S&P or "A-" or better by Fitch such Bank has long-term uninsured, unsecured and unguaranteed debt rated "Aa" or better by Moody's and "AA" or better by S&P or "AA" or better by Fitch, *provided*:

(a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (b) the securities are held free and clear of any lien of the Resolution or of an independent third party acting solely as agent ("*Agent*") for the Board, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the Board shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Board; and (c) a security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Bondholders; and (d) the Board will be provided with a valuation for the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (e) the Board has the option of terminating the repurchase agreement in the event that the long-term debt ratings of the provider, are reduced below "Baa3" by Moody's and/or "BBB-" by S&P, and/or "BBB-" by Fitch if such provider is a Broker/Dealer and below "A3" by Moody's and/or "A-" by S&P and/or "A-" by Fitch if such provider is a Bank; (viii) investment agreements with: (a) a Broker/Dealer (or its parent) which has long-term unsecured, uninsured and unguaranteed debt rated "A3" or better by Moody's or "A-" or better by S&P or "A-" or better by Fitch; *provided*, that such Broker/Dealer collateralizes the obligations under the investment agreement with securities described in clause (vii) above meeting the requirements of subparagraphs (b) through (d) of clause (vii) above; *provided further*, that such agreement shall include a provision to the effect that if the long-term rating of the Broker/Dealer (or its parent, where applicable) is downgraded below "Baa3" by Moody's and "BBB-" by S&P and/or "BBB-" by Fitch, the Board shall have the option of terminating such agreement; (b) a Bank which has a long-term unsecured, uninsured and unguaranteed debt rating "Aa" or better by Moody's and/or "AA" or better by S&P and/or "AA" or better by Fitch *provided*, that such Bank collateralizes the obligations under the investment agreement with securities described in clause (vii) above meeting the requirements of subparagraphs (b) through (d) of clause (vii) above; *provided further* that if such Bank's rating falls below "A3" by Moody's and/or "A-" by S&P, and/or "A-" or better by Fitch, the Board shall have the option to terminate such agreement; and (c) a corporation whose principal business is to enter into such investment agreements *provided* that such corporation has been assigned a "Aaa" counterparty rating by Moody's, S&P or Fitch has rated the investment agreements of such corporation "AAA" *provided further* that if such counterparty rating is downgraded below "Aaa" by Moody's and/or the investment agreement of such corporation is downgraded below "AAA" by S&P and/or [such counterparty] [the investment agreement] is downgraded below "AAA" by Fitch, the Board shall have the option to terminate the agreement; and (ix) such other investments as may from time to time to be permitted by the laws of the State but are not described above.

"<u>Legislative Appropriations</u>" means moneys in any revolving fund or special fund appropriated or allocated by the Legislature of the State to the Board, the University, the University System or the Network and permitted to be expended for Current Expenses of the Board, the University, the University System or the Network or for Aggregate Debt Service or Debt Service, or a combination thereof; *provided* that so long as any bonds of the Board are outstanding under the resolution adopted on May 17, 2002, Legislative Appropriations shall be subject and subordinate to the lien on such moneys imposed by such resolution, except to the extent that such Legislative

Appropriations are not permitted to be used to pay debt service on such bonds or to pay costs of any project financed with such bonds.

"Network" means the University System and any University Purpose which, at the election of the Board, is included as a part of the Network pursuant to a Supplemental Resolution, *provided* that the inclusion of such University Purpose in the Network under the Resolution would not be in violation of law or in violation of the terms of any grant, gift, bequest or devise.

"Resolution" means the Resolution as originally adopted by the Board on November 16, 2001 as it may from time to time be supplemented, modified or amended by any resolution supplemental thereto.

"Revenues" means and includes all moneys and other income of whatever nature received or derived by the Board from its ownership or operation and management of the Network or which the Board is entitled to receive as a result of such ownership, operation and management, or as a result of the financing thereof, including Legislative Appropriations to the extent permitted by law; *provided, however,* that the term "Revenues" shall not include moneys received as proceeds from the sale of Bonds except to the extent such proceeds are credited to the University Bond Account in the University System Revenue-Undertakings Fund or a subaccount therein, or the moneys derived from any University Project or University Purpose which is not included in the Network hereunder, or the moneys derived from any other network or university system that may hereafter be established separate and apart from the Network established hereunder, or gifts the terms of which preclude their being used for the payment of cost of construction, cost of maintenance, or both, of the Network or for the payment of the principal of or interest on the Bonds or, unless permitted by law, general appropriations or taxes.

"Supplemental Resolution" means a resolution duly adopted by the Board for any of the purposes of the Resolution or otherwise supplemental to or amendatory to the Resolution but only if and to the extent specifically authorized thereunder.

"University Project" means any undertaking or improvement, whether or not capable of producing revenue, constructed, maintained, or both, by the Board, in furtherance of the purposes of the University, including facilities defined in the Chapter 304A, Hawai‘i Revised Statutes. A University Project shall include, but not be limited to, all land, fixtures, appurtenances, improvements, utilities, equipment, and furnishings necessary or convenient for the use and occupancy of a University Project for the purposes for which it was constructed or is used.

"University Purpose" means any action, undertaking or improvement by the Board reasonably related to the development and promotion of the University as an institution of higher learning or an action or undertaking related thereto.

"University Revenue-Undertakings Fund" means the special fund of the name created in the treasury of the State of Hawai‘i by Section 304A-2167.5, Hawai‘i Revised Statutes.

"University System" shall mean that portion of the Network established in Section 2.01 of the Resolution.

"Variable Rate Bonds" means any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof and calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For the purposes of this definition, Bonds shall not be considered to be Variable Rate Bonds upon the establishment of or conversion of the rate of interest thereon to a fixed interest rate.

THE RESOLUTION

The Resolution authorizes the issuance and sale or exchange of revenue bonds of the Board, which bonds may be issued in series from time to time, without limit as to the aggregate principal amount, except as may be provided by law and subject to the limitations contained in the provisions of the Resolution relating to the issuance of Additional Bonds, including refunding Bonds.

Authorization of Bonds; Equal Security;
Validity (Section 2.02)

The Bonds shall be payable solely from and secured solely by the Revenues, all of which Revenues are pledged to the punctual payment of the Bonds and interest and premium thereon. The foregoing pledge constitutes a lien on the Revenues prior and paramount to any claim or obligation of any nature against the Revenues subsequently arising or subsequently incurred, subject to the application of the Revenues to the payment of the Current Expenses of the Network, as provided in the Resolution.

All of the Bonds shall rank *pari passu*, and shall be equally and ratably secured, without priority by reason of series, number, date or maturity of Bonds, date of sale, date of issuance, date of execution, or delivery of Bonds.

The Bonds shall not constitute general or moral obligations of the State of Hawaiʻi or an indebtedness of the State within the meaning of any limitation of law, or a charge upon the general fund of the State, nor shall the full faith and credit of the State be pledged to the payment of the principal and interest thereof. No holder of a Bond shall have the right to compel any exercise of the taxing power of the State to pay any such Bond or interest thereon.

Authorization and Issuance of Additional Bonds
(Sections 2.03, 2.04 and 2.05)

At any time and from time to time, the Board may issue one or more additional series of Bonds under the Resolution upon compliance with certain conditions enumerated therein, including the following:

1. The Additional Bonds are to be issued for lawful purpose.

2. The University Project or Projects and/or the University Purpose to be financed from the proceeds of the Additional Bonds of such series, is or are made part of the Network and the moneys, if any, to be derived therefrom, or Legislative Appropriations or other moneys made a part of the Revenues shall thereafter constitute Revenues pledged as additional security for the Bonds, including the Bonds then outstanding and the Proposed Additional Bonds.

3. Except in the case of Additional Bonds issued to refund outstanding Bonds, the Supplemental Resolution providing for the issuance of the Additional Bonds shall provide that any accrued interest received upon the sale of the Additional Bonds shall be paid into the University Revenue-Undertakings Fund and credited to the Interest Subaccount in the University Network Bond Account.

4. Except in the case of Additional Bonds issued to refund certain Bonds for which sufficient funds are not available for payment thereon, at the time of the issuance of the Additional Bonds, (a) no default shall exist in the payment of the principal of and premium, if any, and interest on any Bond; (b) the Board shall have made all payments into the several funds and accounts created under the Resolution to the extent required at the time of the issuance of the Additional Bonds; and (c) no deficiencies shall exist in the University Network Revenue Account, the University Network Bond Account (including any subaccounts therein) and the University Network Repair and Replacement Account.

Bonds may be issued under the Resolution at any time upon compliance with the provisions of the Resolution, (a) for the purpose of refunding, at their maturity or at any time within one year prior to their maturity, any of the then outstanding Bonds for which sufficient funds are not available for payment, and any Bonds issued for such purpose shall mature (or mandatory payments of sinking fund installments for redemption of such Bonds shall commence) not earlier than the latest stated maturity of any Bond then outstanding which shall remain outstanding after the completion of such refunding, and (b) for the purpose of refunding at any time part of the Bonds, including amounts to pay principal, redemption premiums and interest, provided that, except for a refunding of Variable Rate Bonds from the proceeds of fixed rate Bonds, the Aggregate Debt Service Requirement of all Bonds to be outstanding after such refunding shall not be greater, after such refunding, in any year in which the Bonds not refunded shall be outstanding, than would have been the Aggregate Debt Service Requirement of the Bonds for such year were such refunding not to occur. All such refunding Bonds shall constitute "Bonds" and

"Additional Bonds" under the Resolution. Nothing in the Resolution shall be deemed to apply to, or be construed to prevent, a refunding at one time of all Bonds then outstanding.

In the event of the inclusion of a University Purpose in furtherance of the purposes of the University which is not capable of producing any revenue or revenue sufficient to make such University Purpose self-sufficient and is authorized by law to be designated as and included in the Network for all purposes hereof: the Board shall allocate Legislative Appropriations in an amount, together with revenues (if any) of such University Purpose, sufficient to pay Current Expenses allocable to such University Purpose and the Debt Service allocable to the Bonds issued to finance such University Purpose, all such Legislative Appropriations allocated shall continue to constitute Revenues, and all payments thereafter required to be made by the Board as Current Expenses related to such University Purpose shall continue to constitute Current Expenses, of the Network so long as Bonds remain outstanding; in the event of the inclusion of a university parking unit or units in the University System by reason of the foregoing provisions of this paragraph, for all purposes hereof: all moneys thereafter derived by the Board under Sections 304A-2601 and 304A-2102, Hawai‘i Revised Statutes, from the campus or campuses on which such university parking units are located or are to be located shall constitute Revenues, and all payments thereafter required to be made by the Board by reason of the provisions of Section 304A-2102, Hawai‘i Revised Statutes, with respect to such campus or campuses shall constitute Current Expenses of the University System; and, in the event of the inclusion of a University Project in the University System in furtherance of the purposes of the University which is not capable of producing any revenue or revenue sufficient to make such University Project self-sufficient and is authorized by law to be designated as and included in a university system, including the Network, for all purposes hereof: the Board shall allocate Legislative Appropriations in an amount, together with revenues (if any) of such University Project, sufficient to pay Current Expenses allocable to such University Project and the Debt Service allocable to the Bonds issued to finance the cost of construction, all such Legislative Appropriations allocated shall continue to constitute Revenues, and all payments thereafter required to be made by the Board as Current Expenses related to such University Project shall continue to constitute Current Expenses, of the Network so long as Bonds remain outstanding.

The Board has authorized the Designated Financial Officer to cause to be issued one or more series of refunding Bonds for the purpose of refunding any Outstanding Bonds of the Board. In order to effect said issue, and in lieu of and substitution for a Supplemental Resolution of the Board, the Designated Financial Officer shall set forth in a Certificate of Determination:

(1) a brief statement of the Designated Financial Officer that, in his opinion, the issue of the one or more series of refunding Bonds is advisable, expedient and in the best financial interest of the Board and the University;

(2) except in the case of the issue of one or more series of refunding Bonds that are issued to refund Variable Rate Bonds, a statement that such issue will result in a present value savings to the University System of at least three percent (3%) of the principal amount of the Bonds to be refunded;

(3) the Bonds to be refunded and the date or dates, if any, of the retirement or redemption thereof; and

(4) the matters listed in clauses (a) through (m) the paragraph numbered 1 of Section 2.05 of the Resolution.

The authorization granted to the Designated Financial Officer, unless extended or renewed, shall expire one (1) year from the date of adoption of the Resolution.

Variable Rate Bonds (Section 2.06)

Nothing in the Resolution shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Board from issuing Variable Rate Bonds. The Supplemental Resolution or Certificate of Determination authorizing the issuance of such Variable Rate Bonds may provide for the Board to obtain Support Facilities or alternate Support Facilities and enter into Support Agreements in connection therewith, enter into Remarketing Agreements and appoint Remarketing Agents in accordance with standards specified in the Supplemental Resolution or Certificate of

Determination, provide for interest to be payable or redetermined on such dates and to accrue over such periods as set forth in such Supplemental Resolution or Certificate of Determination, provide for the determination or establishment of rates of interest based on determinations of a Remarketing Agent, market auction procedures or the establishment, use, composition, adjustment and change of interest indices or the establishment and use of alternate interest indices or the establishment of a fixed interest rate or rates, provide for an Interest Increment Amount, provide for the establishment of special funds and accounts in connection with the issuance of such Variable Rate Bonds, provide for special redemption or purchase provisions for such Variable Rate Bonds and establish notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Bonds.

Hedge, Support and Other Financial Agreements (Section 2.07)

Nothing in the Resolution shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Board from entering into Hedge Agreements, Support Agreements or other financial agreements under which payments (including but not limited to, fees, charges, expenses but excluding any termination, indemnification or other payments intended to pay any person for loss of benefits under such agreement) are payable from Revenues and secured by a lien on and pledge of Revenues on a parity with the lien on and pledge of the Revenues created for the payment and security of the Bonds; *provided* such payments shall meet the requirements of Section 2.02 or 2.03 of the Resolution; and *provided, further,* that Integrated Swap Agreement Payments shall be treated as payment of interest on Bonds. In the event any such payments, other than payments constituting principal of, premium, if any, and interest on, Bonds, shall be secured by a lien on and pledge of Revenues on a parity with the lien on and pledge of the Revenues created for the payment and security of the Bonds, a separate account shall be established in the University Network Bond Account for the payment thereof and payments to such account shall be made ratably from Revenues at the time Revenues are disbursed to the other accounts in the University Network Bond Account pursuant to Section 5.02 of the Resolution. For the purposes of Sections 2.03, 6.05, and for any other provision of the Resolution as otherwise appropriate, any obligation to make payments which are payable from Revenues and secured by a lien on and pledge of Revenues on a parity with the lien on and pledge of the Revenues created for the payment and security of the Bonds as provided in this Section 2.07 shall be deemed and treated as a " Bond" under the Resolution.

Deposit of Revenues; (Section 5.01)

From and after the delivery of any Bond and so long as any Bond remains outstanding, all Revenues are required to be deposited in the University Revenue-Undertakings Fund and credited to the University Network Revenue Account.

Use and Application of Moneys Credited to the University Network Revenue Account (Section 5.02)

The moneys in the University Revenue-Undertakings Fund on credit to the University Network Revenue Account therein shall be used and applied for the following purposes in the following order of priority:

A. **FIRST:** *Current Expenses.* Moneys on credit to the University Network Revenue Account shall be applied from time to time to pay, as a first charge and as the same become due and payable, all Current Expenses of the Network.

B. **SECOND:** *Debt Service and Subordinate Debt Service and Reserves.* To pay when due the Debt Service and the Debt Service Reserve Requirement for each series of the Bonds and, after such payments shall be provided for, to pay when due any bonds, notes, certificates, warrants or other evidences of indebtedness issued as permitted by the Resolution.

C. **THIRD:** *University Network Repair and Replacement Account Credits.* On or before the close of each Fiscal Year, but only after the Current Expenses of the Network becoming due or accruing in such Fiscal Year have been paid or provided for and the credits required by B above of this section to be made during such Fiscal Year shall have been made, there shall be transferred from the moneys on credit to the University Network Revenue Account to the University Network Repair and Replacement Account as provided in Section 5.04 of the Resolution.

D. **FOURTH:** *Reimbursement of Principal and Interest of General Obligation Bonds.* On or before the close of each Fiscal Year, but only after the Current Expenses of the Network becoming due or accruing in such Fiscal Year have been paid or provided for and the credits required by the provisions of B and C above of this section to be made during such Fiscal Year shall have been made, the moneys then remaining on credit to the University Network Revenue Account may be credited to the Reimbursable General Obligation Bond Subaccount in the University Network Reimbursable General Obligation Bond Account, to be applied to the reimbursement of the general fund of the State for any bond requirements on general obligation bonds issued for University Projects or University Purposes included in the Network to the extent such reimbursement is required by law.

E. **FIFTH:** *Surplus Revenues.* At the end of each Fiscal Year, but only after the Current Expenses of the Network becoming due or accruing in such Fiscal Year have been paid or provided for and the credits required by the provisions of B, C and D above in this section to be made in such Fiscal Year shall have been made, there shall be set aside in the University Network Revenue Account such amount of the moneys then remaining therein as may be deemed necessary by the Board to be retained therein for the purpose of the provisions of A, B, C and D above in the next following Fiscal Year. Any moneys then remaining in the University Network Revenue Account which have not been set aside therein pursuant to the preceding sentence may be used by the Board at the end of the Fiscal Year for any one or more of the following purposes:

(i) to redeem, in an amount of not less than $5,000 principal amount at any one time, outstanding Bonds in accordance with the provisions for redemption of such Bonds and the provisions of the Resolution; or

(ii) for any expenditures, including the payment of debt service (including the payment of the principal of or interest on bond anticipation notes), in improving or restoring any existing University Project and/or University Purpose included in the Network or providing additional University Projects and/or University Purposes, which additional University Projects and/or University Purposes shall constitute part of the Network; or

(iii) to complete the restoration of University Projects and/or University Purposes included in the Network which are damaged or destroyed if the proceeds of insurance received with respect thereto are insufficient for such restoration; or

(iv) for any other lawful purpose, including without limitation, the making of loans under a loan program or programs established by the Board or the making of payments into the Debt Service Reserve Subaccount in the University Network Bond Account and the University Network Repair and Replacement Account.

University Network Bond Account (Section 5.03)

(a) *Interest Subaccount.* There shall be established a separate subaccount in the University Network Bond Account for each series of Bonds issued hereunder, each subaccount to be known as an "Interest Subaccount" and separately identified, which shall be disbursed by the Board solely for the purpose of paying interest on the Bonds of the series for which such Interest Subaccount was established as the same becomes due and may not be applied to the payment of interest on any other series of Bonds.

Moneys in an Interest Subaccount shall be used and applied solely for the purpose of paying interest on Bonds of the series for which such Interest Subaccount is established as the same becomes due and payable and may not be applied to any other series of Bonds. For each series of the Bonds, so long as any of the Bonds of such series are Outstanding, commencing with the first business day which is at least fifteen (15) calendar days prior to an Interest Payment Date for the Bonds of such series, there shall be credited to the Interest Subaccount for Bonds of the series for which such Interest Subaccount is established an amount equal to the interest coming due on such series of Bonds on the next ensuing Interest Payment Date, or to pay, or to reimburse the a provider for a draw on the Support Facility, if any, made to provide funds for the payment of, the interest payable on such series of Bonds on such Interest Payment Date.

In making the foregoing credits to each Interest Subaccount, consideration shall be given to and allowance made for accrued interest received upon the sale of a series of the Bonds, or from the proceeds of the sale of Bonds (*i.e.*, capitalized interest) and credited to the University Network Bond Account or other lawfully available moneys credited to an Interest Subaccount; *provided* that in any event there shall be credited to the University Network Bond Account such amount as shall be necessary to permit the payment on the next succeeding Interest Payment Date of the amount of interest becoming due on that date on all Bonds then outstanding.

(b) There shall be established a separate subaccount in the University Network Bond Account for each series of Bonds issued hereunder, each subaccount to be known as a "Serial Bond Principal Subaccount" and separately identified, which shall be disbursed by the Board solely for the purpose of paying principal on the Bonds of the series for which such Serial Bond Principal Subaccount was established as the same becomes due and may not be applied to the payment of principal on any other series of Bonds.

Moneys in a Serial Bond Principal Subaccount shall be used and applied solely for the purpose of paying the principal on the Bonds of the series for which such Serial Bond Principal Subaccount is established as the same becomes due and payable and may not be applied to any other series of Bonds. In the event of the issuance of all or any portion of a series of the Bonds maturing at times customarily known as maturing serially, in order to provide for the payment of principal of such Bonds of such series at the stated maturity thereof, or to pay, or reimburse the provider for a draw a Support Facility made to provide funds for the payment of such principal, unless otherwise provided in a Supplemental Resolution or Certificate of Determination authorizing the issuance of such series of Bonds, commencing with the first business day which is at least fifteen (15) calendar days prior to the stated maturity of and a principal payment of any such Bonds of such series maturing serially, there shall be credited to the Serial Bond Principal Subaccount for such Bonds of the series for which such Serial Bond Principal Subaccount is established an amount equal to the principal of any Bonds of such series maturing serially coming due on such series of Bonds on the next ensuing maturity date.

In any event there shall be credited to the University Network Bond Account such amount as shall be necessary to permit the payment on the next succeeding date of maturing principal the amount of principal becoming due on that date on all Bonds then outstanding.

(c) There shall be established a separate subaccount in the University Network Bond Account for each series of Bonds issued hereunder, each subaccount to be known as a "Term Bond Principal Subaccount" and separately identified, which shall be disbursed by the Board solely for the purpose of paying principal on the Bonds of the Series for which such Term Bond Principal Subaccount was established as the same becomes due and may not be applied to the payment of principal on any other series of Bonds.

Moneys in a Term Bond Principal Subaccount shall be used and applied solely for the purpose of providing for the respective sinking fund installment and the retirement of the Bonds of the series for which such Term Bond Principal Subaccount is established as the same becomes due and payable and may not be applied to any other series of Bonds. In the event of the issuance of all or any portion of a series of the Bonds maturing at times customarily known as term bonds, in order to provide for the sinking fund installments and the retirement of such Bonds of such series, or to pay, or reimburse the provider for a draw a Support Facility made to provide funds for the sinking fund installment and retirement of such Bonds of such series, unless otherwise provided in a Supplemental Resolution or Certificate of Determination authorizing the issuance of such series of Bonds, commencing with the first business day which is at least fifteen (15) calendar days prior to the date upon which a sinking fund installment to provide for the retirement of such term Bonds is due, there shall be credited to the Term Bond Principal Subaccount for such Bonds of the series for which such Term Bond Principal Subaccount is established an amount equal to the sinking fund installment then due for the retirement of any Bonds of such series on the next ensuing date of the sinking fund installment. The respective amounts of moneys credited to a Term Bond Principal Subaccount for the purpose of providing for the retirement of the term Bonds of a particular series shall be applied to the redemption of such Bonds of such series on each date on which such a sinking fund installment for said Bonds is due in the respective principal amounts required by the Supplemental Resolution or Certificate of Determination authorizing the issuance of the Bonds of such series to be on credit to this Subaccount on each such date, or, if so determined in the Supplemental Resolution or Certificate of Determination authorizing the Bonds of such series, semi-annually on both such due dates and the day six months prior to such due date, in the respective principal amounts on credit to this Subaccount on such days for the Bonds of such series, so that the aggregate amount so applied in each calendar year will equal the respective principal amount required by the respective Supplemental Resolution or Certificate of Determination authorizing the issuance thereof to be credited to this Subaccount on such sinking fund installment dates. The Designated Financial Officer may also apply the moneys credited to this Subaccount for the retirement of Bonds of a particular series issued in term form to the purchase of those Bonds, in which event the principal amount of said Bonds required to be redeemed on the next respective ensuing sinking fund installment date shall be reduced by the principal amount of the Bonds so purchased; *provided, however*, that no Bonds shall be purchased during the interval between the date on which notice of redemption of said Bonds from such sinking fund installment is given and the date of redemption set forth in such notice, unless the Bonds so purchased are Bonds called for redemption in such notice or are purchased from moneys other than those credited to this Subaccount; and *provided further*, that no purchase of Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Term Bond Principal Subaccount unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Bonds pursuant to this paragraph (iii) may be made with or without tenders of Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable redemption price of such Bonds, plus accrued interest. All Bonds purchased or redeemed pursuant to this paragraph shall be canceled and not reissued.

In any event there shall be credited to the University Network Bond Account such amount as shall be necessary to permit the retirement of Bonds on the next succeeding on the next sinking fund installment date.

The moneys on credit in the University Network Bond Account on further credit to any Interest Subaccount, Serial Bond Principal Subaccount and Term Bond Principal Subaccount shall be transferred to the Director of Finance or the respective Paying Agents for said Bonds in such amounts and at such times as shall be necessary to pay the principal of, premium, if any, and interest on said Bonds as the same become due and payable, whether upon their maturity or upon the redemption or the purchase thereof from the moneys credited to any Term Bond Principal Subaccount or upon declaration, as hereinafter provided, or otherwise.

Whenever the total of the moneys on credit in the University Network Bond Account (regardless of the Subaccount therein to which such moneys are credited) with respect to a particular series of Bonds which are not required for the payment of principal and interest and premium, if any, which has theretofore become due (whether by maturity or upon redemption or by purchase or by declaration, as hereinafter provided, or otherwise) with respect to such series of Bonds, but is unpaid, is sufficient to retire at maturity, or to redeem prior to maturity in accordance with their respective terms, all of the Bonds of such series then Outstanding, together with interest thereon to their maturity date or the date fixed for the redemption thereof, no further deposits need be made to the University Network Bond Account with respect to such series of Bonds, and without further authorization or direction of the Board, the proper officers of the Board shall call for redemption all Bonds of such series which may be redeemed by their terms, on the next succeeding redemption date for which the required redemption notice may practicably be given, and shall apply such total to such retirement or redemption.

(d) After providing for the credits described in (a) through (c) above, there shall be credited to such accounts and subaccounts as may be established for the payment of bonds, notes, certificates, warrants or other evidences of indebtedness issued as permitted in Section 6.08 of the Resolution.

University Network Repair and Replacement Account (Section 5.04)

There shall be established a University Network Repair and Replacement Account for the Network. There shall be established two separate subaccounts in the University Network Repair and Replacement Account, one such subaccount to be designated "Major Repair and Maintenance Subaccount" and the other such subaccount to be designated "Sinking Fund and Ordinary Repair and Maintenance Subaccount."

There shall be credited to the University Network Repair and Replacement Account and further credited to the Major Repair and Maintenance Subaccount therein at the times specified in the Resolution, such amount as the Board or the Designated Financial Officer shall specify; *provided* that the amount on credit thereto shall at all times be at least $1,000,000. In the event that any moneys are withdrawn from the Major Repair and Replacement Subaccount in the University Network Repair and Replacement Account, the Board or the Designated Financial Officer may provide for annual credits thereto in such amounts and at such times as they shall determine until there shall be on credit to the University Network Repair and Replacement Account the minimum amount specified in the preceding sentence.

Moneys on credit to the Major Repair and Replacement Subaccount in the University Network Repair and Replacement Account may be drawn on and used by for the purpose of paying the costs of unusual or extraordinary maintenance and repair, renewals or replacements, and the renovating and replacement of furniture and equipment not annually recurring, of the Network, including additions, improvements or betterments thereto, not paid as part of the ordinary and normal Current Expenses of the Network.

There shall be credited to the University Network Repair and Replacement Account and further credited to the Sinking Fund and Ordinary Repair and Maintenance Subaccount therein at the times specified in the Resolution, such amount as the Board or the Designated Financial Officer shall specify.

Moneys on credit to the Sinking Fund and Ordinary Repair and Maintenance Subaccount in the University Network Repair and Replacement Account may be drawn on and used for the purpose of paying the costs not annually recurring or paid as part of the ordinary and normal Current Expenses of the Network including without limitations, maintenance and repair, renewal or replacement, and renovation and replacement of furniture and equipment, of the Network; additions, improvements or betterments to the Network; any expenditures in improving or restoring any existing University Project and/or University Purpose in the Network; providing additional University Projects and/or University Purposes, which additional University Projects and/or University Purposes shall constitute part of the Network; or completing the restoration of University Projects and/or University Purposes included in the Network which are damaged or destroyed if the proceeds of insurance received with respect thereto are insufficient for such restoration.

University Network Reimbursable General Obligation Bond Account (Section 5.05)

There shall be established a University Network Reimbursable General Obligation Bond Account. There shall be credited to the University Network Reimbursable General Obligation Bond Account at the times and in the amounts and for the purposes specified in the Resolution.

Investment of Moneys in Accounts (Section 5.06)

Moneys on deposit in the University Revenue-Undertakings Fund for credit to the several accounts and subaccount therein established by this Article (other than a Construction Account) shall be invested in Investment Securities maturing as follows: (i) moneys on credit to the University Network Revenue Account shall, to the extent reasonable and practicable, be invested so as to mature in the amounts and at the times so that the payments and credits to be made from said account may be made as and when the same become due; (ii) moneys on credit to any Subaccount in the University Network Bond Account shall be invested so as to mature in the amounts and at the times so that the payment of the principal of and interest on the Bonds (including any required redemptions from sinking fund installments) may be made as and when the same become due; and (iii) moneys on credit to the University Network Repair and Replacement Account shall be invested so as to mature by no later than the earlier of five (5) years from the date of such investment or the last stated maturity date of any Bond then outstanding. Unless otherwise required by the Supplemental Resolution or Certificate of Determination authorizing Bonds, the earnings on all such investments shall be credited to the University Network Revenue Account.

Construction Account (Section 5.07)

There shall be established a separate account in the University Revenue-Undertakings Fund, to be known as the "Construction Account." In the event of the issuance of a series of Bonds hereunder for the purposes of paying cost of construction of University Projects to be included in the Network, the Board or the Designated Financial Officer shall in the Supplemental Resolution or Certificate of Determination authorizing such series of Bonds create a Construction Subaccount in the Construction Account from which such cost of construction shall be paid, and shall provide for a credit to such Account of that amount of the proceeds of such Bonds which are to be applied to the payment of such cost of construction. In the event that the interest on such series of Bonds is to be provided from the proceeds of such Bonds, the Supplemental Resolution or Certificate of Determination authorizing such series of Bonds shall specify the amount of such proceeds to be applied to the payment of such interest or the formula for determining such amount, and shall establish a Construction Interest Subaccount in the Construction Account, to which shall be credited the amount of the proceeds so specified.

The moneys on credit from time to time in a Construction Subaccount or Construction Interest Subaccount in the Construction Account shall be held under and subject to the Resolution; shall be subject to the liens, pledges, charges, assignments and trusts created hereby for the security and benefit of the Holders of the series of Bonds for which such Subaccounts were established; and shall be used and applied solely to the payment of cost of construction of the Network, in accordance with law.

Proceeds of any series of Bonds may be credited in the Construction Account to be used to pay costs allocable to any portion of such series of Bonds the proceeds of which will be used to refund bonds, notes or other evidences of indebtedness or to reimburse the Board for cost paid from the University Network Repair and Replacement Account.

Moneys in the Construction Account on credit to a Construction Interest Subaccount therein shall be applied by the Board as follows: on each Interest Payment Date until the moneys in such Construction Interest Subaccount are exhausted there shall be withdrawn from the moneys credited to such account and credited to the University Network Bond Account for credit to the Interest Account established for the series of Bonds the interest on which is to be provided from the moneys on credit to such Construction Interest Subaccount an amount, together with accrued interest received upon the sale of the series of Bonds with respect to which such Construction Interest Subaccount was established, equal to the interest to become due on the next ensuing Interest Payment Date, on the series of Bonds, the interest on which is to be provided from the moneys on credit to such Construction Interest Subaccount.

Covenants to Secure Bonds (Article VI)

The Board covenants with the purchasers and holders of the Bonds that so long as the Bonds remain outstanding, the Board will (i) warrant and defend title to all property constituting a part of the Network (ii) complete construction of any University Project or University Purpose included or to be included in the Network as planned and provide the furnishings and moveable equipment necessary to the full enjoyment and occupancy of each University Project or University Purpose; (iii) operate and maintain the Network and manage the same in the most efficient manner consistent with sound economy, public advantage and the protection of bondholders; and (iv) keep the University Network in good repair and to make additions and improvements thereto in conformity with standards customarily followed for programs of like size and character.

In addition, with respect to University Projects or University Purposes included in the Network capable of producing revenue sufficient to make all such University Projects or University Purposes self-sustaining, the Board covenants to impose and collect rates, rents, fees and charges for the use or enjoyment and services of the facilities of such University Projects or University Purposes, and shall revise such rates, rents, fees and charges from time to time whenever necessary, so that portion of the Network shall be and always remain self-sustaining.

With respect to University Projects or University Purposes included in the Network not capable of producing any revenue or revenue sufficient to make such University Project or University Purpose self-sustaining, the Board shall allocate Legislative Appropriations so that portion of the Network (with such Legislative Appropriations) shall be and always remain self-sufficient.

The rates, rents, fees and charges prescribed and collected and Legislative Appropriations so allocated shall be such as will produce Revenues at least sufficient: (1) to pay the Current Expenses of the Network; (2) to pay when due all Bonds and interest thereon; to make all sinking fund installment payments or credits which may be required with respect to Bonds issued in the form customarily known as “term Bonds” in the amounts and at the times required by any Supplemental Resolution or Certificate of Determination; and to establish and maintain the Debt Service Reserve Subaccounts; (3) to establish and maintain the University Network Repair and Replacement Account; (4) to pay when due all other bonds, notes (including bond anticipation notes), certificates or other evidences of indebtedness and interest thereon, including reserves therefor, for the payment of which the Revenues shall be pledged, charged or otherwise encumbered or which are otherwise payable from the Revenues or from a special fund or account maintained or to be maintained from the Revenues; (5) if and to the extent then required by law, to reimburse the general fund of the State for any bond requirements on general obligation bonds of the State issued for the Network or any University Project or University Purpose therein; and (6) to carry out all the covenants and provisions of the Resolution.

In addition, the Board covenants (i) to pay all taxes, assessments and other governmental charges or surcharges imposed upon the Board, the Network, the Revenues, the University Revenue-Undertakings Fund or any account created by the Resolution; (ii) to pay and discharge all lawful claims for labor, materials, supplies, rents and royalties which may become a lien on the properties included in the Network, the Revenues, the University Revenue-Undertakings Fund or any account created by the Resolution, or may in any way impair the security of the Bonds; (iii) to keep proper books of accounts and financial records relating to the operation of the Network, which shall be open to inspection by the Bondholders and their agents and representatives; (iv) within 120 days after the end of each Fiscal Year, to furnish to the Director of Finance, the original purchaser of each series of Bonds and any Bondholders who request the same 90 days prior to the end of the Fiscal Year, copies of a detailed report covering the operations of the Network for such Fiscal Year; and (v) not create or permit any mortgage, lien, pledge, charge or other encumbrance upon any real or personal property comprising the Network or the Revenues and the moneys in the University Revenue-Undertakings Fund, other than as permitted under the Resolution.

The Board also covenants (i) not to issue any bonds (other than the Bonds), notes, warrants or other obligations or evidences of indebtedness which will be payable from the Revenues prior to or on a parity with the Bonds or which will be secured by or be a lien and charge on the Revenues prior to or on a parity with the lien and charge on the Revenues pursuant to the Resolution; (ii) not to sell, convey, dispose of or lease any properties constituting the Network, except upon compliance with the conditions set forth in the Resolution relating to property that is no longer economical or that is to be replaced by a facility of substantially equal revenue-producing capabilities; (iii) to insure the properties included in the Network against risks of physical loss, damage or destruction, at least to the extent that similar insurance is carried by colleges and universities operating properties similar to the Network; and (iv) to pay solely out of Revenues principal of and premium, if any, and interest on each Bond in the manner provided therein.

The Board covenants (i) not to use the proceeds of the Bonds if such use would have caused such Bonds to be "arbitrage bonds" within the meaning of the Internal Revenue Code, and agrees to comply with the requirements of said section and all applicable regulations so long as any Bond is outstanding; (ii) to comply with the provisions of the Resolution and the Bonds, all laws and regulations, and all contractual obligations contained in any agreement with respect to the Bonds or the Network or any University Project or University Purpose; and (iii) to take all actions required to preserve the lien created by the Resolution and to carry out the provisions of the Resolution.

Adoption of Supplemental Resolution
(Sections 8.01 and 8.02)

(b) Without the consent or concurrence of any Bondholder, the Board may adopt a supplemental resolution (i) for the purpose of providing for the issuance of Additional Bonds; (ii) to make any changes, modifications, amendments or deletions to the Resolution which may be required to permit the Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America; and (iii) if the provisions of the supplemental resolution shall not adversely affect the rights of the holder of the Bonds then outstanding, for any one or more of the following purposes:

(1) to make any changes or corrections in the Resolution or any supplemental resolution as to which the Board shall have been advised by its counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Resolution or any supplemental resolution, or to insert in the Resolution such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable;

(2) to add additional covenants and agreements of the Board for the purpose of further securing the payment of the Bonds;

(3) to surrender any right, power or privilege reserved to or conferred upon the Board by the terms of the Resolution or any supplemental resolution;

(4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Resolution or any supplemental resolution;

(5) to grant to or confer upon the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them;

(6) to prescribe further limitations and restrictions upon the issuance of the Bonds and the incurring of other indebtedness payable from or secured by the Revenues; and

(7) to modify in any other respect any of the provisions of the Resolution or any supplemental resolution, provided that such modifications shall have no effect as to any Bond or Bonds which are outstanding as of the time of effectiveness of such supplemental resolution.

(c) With the consent of the holders of not less than 51% of the Bonds then outstanding, the Board may adopt a supplemental resolution amending or supplementing the provisions of the Resolution, for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Resolution or any supplemental resolution, or modifying or amending the rights of the holders of the Bonds; provided that, without the specific consent of the holders of each Bond which would be affected thereby, no supplemental resolution shall: (a) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; or (b) reduce the amounts of any required sinking fund installment or extend the date on which such installment is required to be made, or reduce the amount of Bonds required to be redeemed from such installment or extend the date on which such redemption is required to be made; or (c) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any supplemental resolution amending or supplementing the provisions of the Resolution; or (d) give to any Bond any preference over any other Bond; or (e) permit the creation of any mortgage or lien upon any of the University Projects included in the Network; or (f) authorize the creation of any pledge of the Revenues, or any lien thereon, prior or superior or equal to the pledge of and lien and charge thereon created in the Resolution for the payment of the Bonds; or (g) deprive any holder of the Bonds of the security afforded by the Resolution. A modification or amendment of the provisions of the Resolution with respect to the University Revenue-Undertakings Fund or the University Network Revenue Account, the University Network Bond Account or the University Network Repair and Replacement Account shall not be deemed a change in the terms of payment; provided that no such modification or amendment shall, except upon the consent of the holders of all Bonds then outstanding affected thereby, reduce the amount or amounts of the Revenues required to be credited to the University Network Bond Account.

Events of Default and Remedies (Article IX)

(a) The following constitute "Events of Default":

(1) If payment of the principal and premium (if any) of any Bond is not made after the same becomes due and payable, whether at maturity or by proceedings for redemption or by declaration;

(2) If payment of any installment of interest on any Bond is not made within 30 days after the same becomes due and payable;

(3) If the credits to the University Network Bond Account are not made or satisfied in any year ending June 30 in the amounts required and such failure continues for 60 days after the expiration of such year;

(4) The Board fails to perform any of the other provisions or obligations contained in the Bonds, the Resolution or any supplemental resolution on the part of the Board to be performed, and such failure continues for 90 days after written notice is given to the Board and the Director of Finance by the holders of not less than 25% in principal amount of the Bonds then outstanding;

(5) If any proceedings shall be instituted, with the consent of the Board or the State, for the purpose of effecting a composition between the Board or the State and the creditors thereof and if the claims of the creditors are payable from the Revenues or any other moneys pledged under the Resolution or any supplemental resolution, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or State statute;

(6) If any order or decree is entered with or without the consent of the Board or the State, appointing a receiver for the University System or any building thereof and such order or decree is not vacated or discharged or stayed on appeal within 60 days after entry;

(7) If, under any laws for the relief of debtors, any court assumes custody of the Network or any building thereof and such custody is not terminated with 90 days after the date of assumption; or

(8) If the Board is incapable of fulfilling its obligations under the Resolution.

(b) The Director of Finance must mail to all Bondholders whose names appear on the books of registry written notice of the occurrence of an Event of Default described in paragraphs (1), (2) and (3) above within 30 days after its occurrence.

(c) If any Event of Default shall occur and be continuing, the holders of not less than 25% in principal amounts of the Bonds then outstanding (i) may, by written notice to the Board filed in the office of the Board and with the Director of Finance, declare the principal of and accrued interest on all the Bonds then outstanding (if not then due and payable) to be due and payable immediately, as provided in the Resolution; and (ii) shall be entitled to the appointment of a receiver, who may take possession of the Network and apply all Revenues in the same manner as the Board might do, as provided in the Resolution.

If any Event of Default shall occur and be continuing, the holder of any Bond outstanding shall have the right, for the equal benefit and protection of all holders similarly situated, and subject to the provisions of the Resolution relating to the appointment of a receiver or the acceleration of the principal of all Outstanding Bonds, to bring an action at law or in equity to enforce the Resolution or to bring suit upon the Bonds, as provided in the Resolution.

Nothing in the Resolution shall be construed to limit the rights or remedies of any holders of the Bonds under any applicable statute.

Defeasance (Article XI)

(a) The obligations of the Board under the Resolution and any supplemental resolution, and the liens, pledges, covenants and agreements of the Board therein, shall be fully discharged and satisfied and the Bonds shall no longer be deemed outstanding when:

(1) the Bonds have been purchased by the Board and surrendered to the Director of Finance for cancellation or otherwise surrendered to the Director of Finance or other paying agent, transfer agent or registrar and be canceled or subject to cancellation by him or them; or

(2) payment of the principal of and applicable redemption premium (if any) of the Bonds, plus interest, either (i) has been made or (ii) has been provided by depositing with the Director of Finance or other paying agent for such Bonds, in trust and irrevocably set aside exclusively for such payment (a) moneys sufficient to make such payment or (b) Governmental Obligations, maturing as to principal and interest at such time as will insure the availability of sufficient moneys to make such payment. Governmental Obligations are defined in the Original Resolution as securities listed in clauses (1) through (iv) of the definition of Investment Securities.

(b) If any Bond is not presented for payment when it becomes due, whether at maturity or upon redemption or by declaration or otherwise, and if sufficient moneys or Government Obligations have been deposited with any paying agent therefor other than the Director of Finance, to pay the principal, interest and premium (if any) on the Bonds, then all liability of the Board for such payment shall terminate, and it will be the duty of the paying agent to hold said moneys or Government Obligations without liability for interest, in trust for the benefit of the holders.

(c) Two (2) years after the Bonds or any portion thereof become due and payable (whether at maturity or upon redemption or declaration or otherwise), any moneys or Government Obligations held by the paying agent (other than the Director of Finance) and not applied to the payment of Bonds shall, upon the written request of the Board or the Director of Finance, be paid to the Director of Finance. Thereafter, the holders of Bonds shall be entitled to look only to the Board and the Director of Finance for payment.

No Personal Liability (Section 12.02)

No officer, member, agent or employee of the Board shall be individually or personally liable for the payment of the principal of or interest or premium, if any, on the Bonds.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

February 22, 2012

Board of Regents of the University
of Hawaii
Honolulu, Hawaii

Re: Board of Regents of the University of Hawaii University Revenue Bonds, Series 2012A (R)

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Board of Regents of the University of Hawaii (the "*Issuer*") in connection with the issuance of $8,575,000 aggregate principal amount of the Issuer's University Revenue Bonds, Series 2012A (the "*Bonds*"), pursuant to a Resolution adopted by the Board on November 16, 2001 (the "*Original Resolution*"), as heretofore amended and supplemented, including by the Supplemental Resolution adopted by the Board on January 19, 2012 (the "*Supplemental Resolution*" and, collectively with the Original Resolution, as heretofore supplemented, the "*Resolution*"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Certificate of Determination of the Issuer, dated February __, 2012 (the "*Certificate of Determination*", the Tax Certificate of the Issuer, dated the date hereof (the "*Tax Certificate*"), an opinion of counsel of the Issuer, certificates of the Issuer and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Certificate of Determination and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Resolution, the Certificate of Determination and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against public entities like the Issuer in the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding general obligations of the Issuer.

2. The Resolution has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer, and the Certificate of Determination has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. The Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F
FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated February 22, 2012

BOARD OF REGENTS OF THE UNIVERSITY OF HAWAIʻI
University Revenue Bonds, Series 2012A (R)

This Continuing Disclosure Certificate (this "*Disclosure Certificate*") is provided in connection with the issuance by the Board of Regents of the University of Hawaiʻi (the "*Board*") of $8,575,000 University Revenue Bonds, Series 2012A (R) (the "*Bonds*"). The Series 2012A Bonds are being issued pursuant to Chapter 304A, Hawaiʻi Revised Statutes, and a resolution of the Board adopted November 16, 2001 (the "*Resolution*"), as amended, including a Supplemental Resolution of the Board adopted January 19, 2012 (the "*Supplemental Resolution*"). Pursuant to Section 203(b)(5) of the Supplemental Resolution, the Board covenants and agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered on behalf of the Board for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the Board pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean initially the Vice President of Budget and Finance/Chief Financial Officer of the University, or any successor Dissemination Agent designated in writing by the Board and which has filed with the Board a written acceptance of such designation.

"*Holder*" shall mean the person in whose name any Bond shall be registered.

"*Listed Events*" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org.

"*Participating Underwriters*" shall mean any original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. *Provision of Annual Reports*. (a) The Board shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the University's Fiscal Year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2012, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the University may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the University's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than fifteen (15) business days prior to the date set forth in subsection (a) above, the Board shall provide the Annual Report to the Dissemination Agent. If the Board is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the Board shall send or cause to be sent, in a timely manner, a notice to the MSRB in substantially the form attached as Exhibit A.

Section 4. Contents of Annual Reports. The University's Annual Report shall contain or include by reference information of the type included in the final Official Statement (the "*Official Statement*") dated February __, 2012, relating to the Bonds, as set forth under the following headings or in the following tables or appendices: "THE UNIVERSITY OF HAWAI‘I — Tables 1 and 2", APPENDIX A – "THE UNIVERSITY OF HAWAI‘I – Tables A-1 through A-20", and APPENDIX C – AUDITED FINANCIAL STATEMENTS".

The audited financial statements of the University for the prior Fiscal Year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the University's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the Board or related public entities, which have been made available to the public on the MSRB's website. The Board shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. (a) The Board shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten (1) business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Board shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten (10) business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Board obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Board shall determine if such event would be material under applicable federal securities laws.

(d) If the Board learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Board shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The Board's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Board shall give notice of such termination in a filing with the MSRB.

Section 7. Dissemination Agent. The Board may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Board pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Board may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsections 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders or (ii) does not materially impair the interests of the Holders or Beneficial Owners of the Bonds, as determined in good faith by the Board.

In the event of any amendment or Waiver of a provision of this Disclosure Certificate, the Board shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Board. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event or of any other notice required to be filed hereunder, in addition to that which is required by this Disclosure Certificate. If the Board chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Board shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event, or any other event required to be reported.

Section 10. Default. In the event of a failure of the Board to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Board to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Board, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawai‘i, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawai‘i; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

UNIVERSITY OF HAWAI‘I

By: ______________________________
HOWARD TODO
Vice President for Budget and Finance
Chief Financial Officer

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Board of Regents of the University of Hawaiʻi
Names of Bond Issues:	University of Hawaiʻi Revenue Bonds, Series 2012A (R)
Date of Issuance:	February __, 2012

NOTICE IS HEREBY GIVEN that the Board of Regents of the University of Hawaiʻi has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated February __, 2012. [The Board anticipates that the Annual Report will be filed by _______________.]

Dated:

UNIVERSITY OF HAWAIʻI

By ________[to be signed only if filed]________
Title ____

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BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI'I • UNIVERSITY REVENUE BONDS, SERIES 2012A (R)

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