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 2010A-2 Bonds and on the Series 2010B-2 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2010A-2 Bonds and the Series 2010B-2 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is such interest included in adjusted current earnings in calculating federal corporate 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. Bond Counsel also observes that interest on the Series 2010A-1 Bonds and the Series 2010B-1 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. 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 Bonds. See "TAX MATTERS" in this Official Statement.

$292,730,000
BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI'I
University Revenue Bonds

Series 2010A-1
(Taxable – Build America Bonds)

Series 2010B-1
(Taxable – Build America Bonds)

Series 2010A-2
(Tax-Exempt)

Series 2010B-2
(Tax-Exempt)

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 2010A-1, Series 2010A-2, Series 2010B-1 and Series 2010B-2 (together, the "*Series 2010 Bonds*"). The Series 2010 Bonds are being issued in the aggregate principal amount of $292,730,000 in order to provide for the financing or refinancing of the costs of certain University Projects in the University System, as more fully described herein.

The Series 2010 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 on August 30, 2010 (collectively, the "*Resolution*"). The Series 2010 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 2010 Bonds are issuable only as fully registered bonds, without coupons, in the denomination of $5,000 or integral multiples thereof 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 2010 Bonds. Purchases of beneficial ownership interests in the Series 2010 Bonds will be made in book-entry form only. Beneficial owners of the Series 2010 Bonds will not receive physical delivery of certificates evidencing their ownership interest in the Series 2010 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2010 Bonds. So long as DTC or its nominee is the registered owner of the Series 2010 Bonds, payments of the principal of and interest on the Series 2010 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 2010 BONDS."

The Series 2010 Bonds will bear interest from the date thereof, payable on April 1 and October 1 of each year, commencing on April 1, 2011, 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 2010 Bonds are subject to redemption prior to maturity under certain circumstances as set forth herein under "THE SERIES 2010 BONDS – Redemption Provisions."

The Series 2010A-1 Bonds and Series 2010B-1 Bonds are expected to be issued as bonds designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009, the interest on which is not excluded from gross income for purposes of federal income taxation. See "TAX MATTERS – Series 2010A-1 Bonds and Series 2010B-1 Bonds." If the Series 2010A-1 Bonds and Series 2010B-1 Bonds are designated as Build America Bonds, the Board would expect to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on such Bonds. Bondholders will not receive a tax credit for the Series 2010A-1 Bonds or the Series 2010B-1 Bonds. See "THE BONDS – Designation of Series 2010A-1 Bonds and Series 2010B-1 Bonds."

Neither the State of Hawai'i (the "*State*") nor any department or political subdivision thereof, including the Board, is obligated to pay the Series 2010 Bonds from any source other than the moneys pledged under the Resolution. The Series 2010 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 2010 Bonds. No holder of any Series 2010 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 2010 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 2010 Bonds are offered when, as and if issued by the Board and received by the Underwriters, subject to approval of legality by Orrick, Herrington & Sutcliffe, LLP, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Series 2010 Bonds will be available for delivery in New York, New York, on or about October 7, 2010.

BofA Merrill Lynch

September 21, 2010

MATURITY SCHEDULE

$111,265,000 University Revenue Bonds
Series 2010A-1 (Taxable – Build America Bonds)

Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)	Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)
2020	$3,655,000	4.161%	4.161%	FC5	2023	$3,985,000	4.711%	4.711%	FF8
2021	3,755,000	4.361	4.361	FD3	2024	4,110,000	4.861	4.861	FG6
2022	3,870,000	4.561	4.561	FE1	2025	4,245,000	5.011	5.011	FH4

$23,765,000 5.834% Term Bonds due October 1, 2030, Price 100.000 CUSIP[†] 91428L FJ0
$63,880,000 6.034% Term Bonds due October 1, 2040, Price 100.000 CUSIP[†] 91428L FK7

$27,375,000 University Revenue Bonds
Series 2010A-2 (Tax-Exempt)

Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)	Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)
2011	$2,640,000	2.500%	0.600%	EJ1	2016	$3,135,000	4.000%	1.930%	EP7
2012	2,710,000	3.000	0.850	EK8	2017	3,260,000	4.000	2.220	EQ5
2013	2,795,000	3.000	1.060	EL6	2018	3,395,000	4.000	2.460	ER3
2014	2,895,000	4.000	1.300	EM4	2019	3,535,000	4.000	2.670	ES1
2015	3,010,000	4.000	1.630	EN2					

$127,535,000 University Revenue Bonds
Series 2010B-1 (Taxable – Build America Bonds)

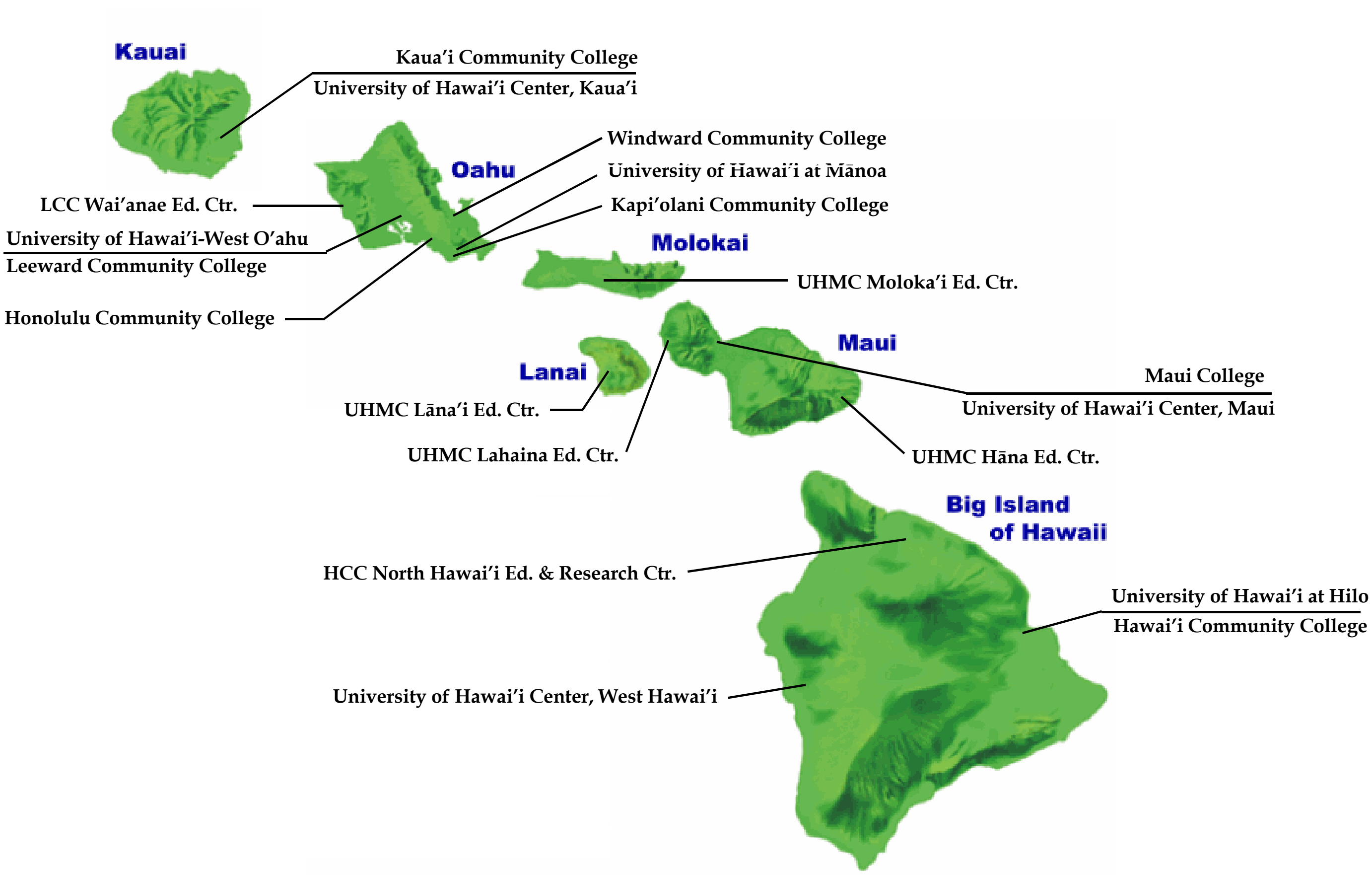
Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)	Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)
2020	$4,190,000	4.161%	4.161%	FL5	2023	$4,570,000	4.711%	4.711%	FP6
2021	4,305,000	4.361	4.361	FM3	2024	4,710,000	4.861	4.861	FQ4
2022	4,430,000	4.561	4.561	FN1	2025	4,865,000	5.011	5.011	FR2

$27,240,000 5.834% Term Bonds due October 1, 2030, Price 100.000 CUSIP[†] 91428L FS0
$73,225,000 6.034% Term Bonds due October 1, 2040, Price 100.000 CUSIP[†] 91428L FT8

$26,555,000 University Revenue Bonds
Series 2010B-2 (Tax-Exempt)

Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)	Due (October 1)	Amount	Rate	Yield	CUSIP[†] (91428L)
2011	$1,975,000	2.500%	0.600%	ET9	2016	$3,495,000	4.000%	1.930%	EY8
2012	2,030,000	3.000	0.850	EU6	2017	3,640,000	4.000	2.220	EZ5
2013	2,090,000	3.000	1.060	EV4	2018	3,810,000	5.000	2.460	FA9
2014	2,165,000	4.000	1.300	EW2	2019	4,010,000	5.000	2.670	FB7
2015	3,340,000	5.000	1.630	EX0					

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 2010 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 2010 Bonds nor the Resolution has been registered or qualified with the Securities and Exchange Commission. The registration or qualification of the Series 2010 Bonds and the Resolution in accordance with applicable provisions of securities laws of the states in which the Series 2010 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 2010 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 HAWAI‘I

Howard H. Karr, Chair
Dennis I. Hirota, Vice Chair

Artemio C. Baxa
Carl A. Carlson, Jr.
Michael A. Dahilig
Ramón S. de la Peña
Clifford C. Dias
Mark H. Fukunaga
Chuck Y. Gee
James J.C. Haynes
John C. Holzman
James H.Q. Lee
Eric K. Martinson
Teena M. Rasmussen
Matthew Williams

ADMINISTRATION

M.R.C. Greenwood, President, University of Hawai‘i
Linda Johnsrud, Vice President for Academic Planning and Policy
John Morton, Vice President for Community Colleges
Virginia Hinshaw, Chancellor, University of Hawai‘i at Mānoa
Donald O. Straney, Chancellor, University of Hawai‘i at Hilo
Gene I. Awakuni, Chancellor, University of Hawai‘i – West O‘ahu
Darolyn Lendio, Vice President for Legal Affairs and University General Counsel
Howard Todo, Vice President for Budget and Finance/Chief Financial Officer
David Lassner, Vice President for Information Technology/Chief Information Officer
James R. Gaines, Vice President for Research
Brian Minaai, Associate Vice President for Capital Improvements
Rockne Freitas, Vice President for Student Affairs and University/Community Relations
Keith Amemiya, Interim Executive Administrator and Secretary of the Board of Regents

Bond Counsel

Orrick, Herrington & Sutcliffe, LLP
San Francisco, California

Auditors

Accuity LLP
Honolulu, Hawai‘i

Paying Agent

U.S. Bank National Association
Seattle, Washington

OFFICIAL STATEMENT
$292,730,000
BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI‘I
University Revenue Bonds

Series 2010A-1 (Taxable – Build America Bonds)	Series 2010B-1 (Taxable – Build America Bonds)
Series 2010A-2 (Tax-Exempt)	**Series 2010B-2 (Tax-Exempt)**

INTRODUCTION

This Official Statement, including the cover page and the appendices, is provided to furnish information regarding the $292,730,000 University Revenue Bonds, Series 2010A-1 (Taxable – Build America Bonds) (the "*Series 2010A-1 Bonds*"), Series 2010A-2 (Tax-Exempt) (the "*Series 2010A-2 Bonds*"), Series 2010B-1 (Taxable – Build America Bonds) (the "*Series 2010B-1 Bonds*"), and Series 2010B-2 (Tax-Exempt) (the "*Series 2010B-2 Bonds*," and together with the Series 2010A-1 Bonds, Series 2010A-2 Bonds, and Series 2010B-1 Bonds, the "*Series 2010 Bonds*"), being issued by the Board of Regents of the University of Hawai‘i (the "*Board*"). See "THE UNIVERSITY OF HAWAI‘I."

The Series 2010 Bonds are issued by the Board pursuant to Chapter 304A, Hawai‘i 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 August 30, 2010 (the "*Supplemental Resolution*"). Act 75, Session Laws of Hawai‘i 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 2010 Bonds and certain other matters related to the Series 2010 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 2010 Bonds and any other series of Bonds outstanding under the Resolution are herein called the "*Bonds.*"

The University of Hawai‘i

The University of Hawai‘i (the "*University*") is the sole public higher education system in Hawai‘i. 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 HAWAI‘I" and APPENDIX A – "THE UNIVERSITY OF HAWAI‘I" herein.

The Series 2010 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 2010 Bonds are being issued for the purpose of financing or refinancing the costs of certain University Projects in the University System, as such University Projects are defined in the Resolution. See "PLAN OF FINANCE" herein. Pursuant to the Resolution, the University issued its University Revenue Bonds, Series 2001A (the "*2001A Bonds*"), Refunding Series 2001B (the "*2001B Bonds*"), Series 2006A (the "*2006A Bonds*"), and Series 2009A (the "*2009A Bonds*"). None of the 2001A Bonds is currently outstanding. There are currently outstanding an aggregate of $208,860,000 principal amount of Bonds under the Resolution. All Bonds issued under the Resolution, including the Series 2010 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 HAWAI'I – 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, 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 Series 2010A-1 Bonds and Series 2010A-2 Bonds" and "THE UNIVERSITY OF HAWAI'I – System Revenues" and "– The University Special and Revolving Funds."

Limited Obligations

The Bonds, including the Series 2010 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 2010 Bonds from any source other than the moneys pledged under the Resolution. The Series 2010 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 2010 Bonds. No holder of any Series 2010 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 2010 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 2010 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 C – "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, New York, New York, is underwriting the Series 2010 Bonds (the "*Underwriter*"). Orrick, Herrington & Sutcliffe, LLP, San Francisco, California, is Bond Counsel, and will submit its approving opinion in the form set forth in Appendix D with regard to the legality of the Series 2010 Bonds. McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawai'i, is serving as counsel to the Underwriter. Accuity LLP has audited the finances of the University appearing in Appendix B, but has not reviewed this Official Statement and has no responsibility for this Official Statement.

PLAN OF FINANCE

The Series 2010A-1 Bonds and Series 2010A-2 Bonds are being issued for the purpose of financing or refinancing the costs of construction and maintenance of the University's Cancer Research Center of Hawai'i. The Series 2010B-1 Bonds and Series 2010B-2 Bonds are being issued for the purpose of financing or refinancing the costs of certain other University Projects in the University System, as such University Projects are defined in the Resolution (the "*Project*"). These University Projects include renovations and additions to the Manoa 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.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds are estimated as follows:

SOURCES OF FUNDS	
Series 2010A Bonds	
Principal Amount of Series 2010A Bonds	$138,640,000.00
Original Issue Premium	2,453,375.95
Series 2010B Bonds	
Principal Amount of Series 2010B Bonds	154,090,000.00
Original Issue Premium	3,267,188.00
Total Sources	$298,450,563.95
USES OF FUNDS	
Series 2010A Bonds	
Project Fund Deposit	$140,000,000.00
Costs of Issuance, including underwriting discount	1,093,375.95
Series 2010B Bonds	
Project Fund Deposit	156,132,000.00
Costs of Issuance, including underwriting discount	1,225,188.00
Total Uses	$298,450,563.95

THE SERIES 2010 BONDS

General Terms of the Series 2010 Bonds

The Series 2010 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 2010 Bond will be payable on April 1 and October 1 of each year, commencing April 1, 2011. The Series 2010 Bonds are issuable in fully registered form in the denomination of $5,000 or any integral multiple thereof. Interest on the Series 2010 Bonds will be calculated on the basis of a 360-day year and twelve 30-day months.

The Series 2010 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 2010 Bonds, and the ownership of one fully registered Series 2010 Bond for each maturity, in the principal amount of such maturity, of the Series 2010 Bonds will be registered in the name of Cede & Co., as nominee of DTC as the sole registered owner of the Series 2010 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. U.S. Bank National Association will serve as the paying agent Series 2010 Bonds (in such capacity, the "*Paying Agent*"). Interest on the Series 2010 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 2010 Bond will be payable at the principal corporate trust office of the Paying Agent.

Designation of Series 2010A-1 Bonds and Series 2010B-1 Bonds as "Build America Bonds"

The America Recovery and Reinvestment Act of 2009 authorizes the Board to issue taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment (a "*Subsidy Payment*") from the federal government equal to the amount of 35% of each interest payment on such taxable bonds. The Board currently intends to elect to treat the Series 2010A-1 Bonds and Series 2010B-1 Bonds as Build America Bonds. The Subsidy Payments will be paid to the Board or to the Paying Agent on the Board's behalf; no holders of Series 2010A-1 Bonds or Series 2010B-1 Bonds will be entitled to a tax credit and interest paid to holders of such Bonds will be subject to federal income tax but will be exempt from certain Hawaiʻi taxes. See "TAX MATTERS" herein. Subsidy Payment are subject to reduction to offset any outstanding amounts an issuer owes the federal government. To the extent such Subsidy Payments are paid by the federal government to the Board, such amounts would constitute Revenues of the Network for purposes of the Resolution, and accordingly, would be pledged as security for all Bonds issued under the Resolution. The Subsidy Payments are not full faith and credit obligations of the United States.

Mandatory Redemption of Bonds

The Series 2010A-1 Bonds maturing on October 1, 2030 are subject to redemption, in part, at a redemption price equal to the principal amount thereof, or portions thereof to be redeemed, together with interest to the redemption date, from sinking fund installments in amounts sufficient to retire such Series 2010A-1 Bonds on October 1 in each of the years and in the principal amounts set forth below:

Series 2010A-1 Bonds due October 1, 2030

Year	Principal Amount
2026	$4,400,000
2027	4,570,000
2028	4,745,000
2029	4,930,000
2030†	5,120,000

† *Final maturity.*

The Series 2010A-1 Bonds maturing on October 1, 2040 are subject to redemption, in part, at a redemption price equal to the principal amount thereof, or portions thereof to be redeemed, together with interest to the redemption date, from sinking fund installments in amounts sufficient to retire such Series 2010A-1 Bonds on October 1 in each of the years and in the principal amounts set forth below:

Series 2010A-1 Bonds due October 1, 2040

Year	Principal Amount
2031	$5,320,000
2032	5,535,000
2033	5,755,000
2034	5,985,000
2035	6,225,000
2036	6,475,000
2037	6,730,000
2038	7,000,000
2039	7,280,000
2040†	7,575,000

† *Final maturity.*

The Series 2010B-1 Bonds maturing on October 1, 2030 are subject to redemption, in part, at a redemption price equal to the principal amount thereof, or portions thereof to be redeemed, together with interest to the redemption date, from sinking fund installments in amounts sufficient to retire such Series 2010B-1 Bonds on October 1 in each of the years and in the principal amounts set forth below:

Series 2010B-1 Bonds due October 1, 2030

Year	Principal Amount
2026	$5,040,000
2027	5,240,000
2028	5,440,000
2029	5,650,000
2030†	5,870,000

† *Final maturity.*

The Series 2010B-1 Bonds maturing on October 1, 2040 are subject to redemption, in part, at a redemption price equal to the principal amount thereof, or portions thereof to be redeemed, together with interest to the redemption date, from sinking fund installments in amounts sufficient to retire such Series 2010B-1 Bonds on October 1 in each of the years and in the principal amounts set forth below:

Series 2010B-1 Bonds due October 1, 2040

Year	Principal Amount
2031	$6,100,000
2032	6,345,000
2033	6,595,000
2034	6,860,000
2035	7,130,000
2036	7,420,000
2037	7,715,000
2038	8,030,000
2039	8,350,000
2040†	8,680,000

† *Final maturity.*

Optional Redemption of Bonds

The Series 2010 Bonds maturing on and after October 1, 2021, shall be subject to redemption prior to the stated maturity thereof at the option of the Board at any time and from time to time on or after October 1, 2020, as a whole or in part (if in part, the maturities or portions thereof to be redeemed to be selected by the Board in its sole discretion), in each case at a redemption price equal to the principal amount of such Series 2010 Bonds or portions thereof to be redeemed, together with accrued interest to the redemption date.

Extraordinary Optional Redemption of Series 2010A-1 Bonds and Series 2010B-1 Bonds

The Series 2010A-1 Bonds and Series 2010B-1 Bonds will be subject to extraordinary redemption prior to their respective maturities, at the option of the Board, upon the occurrence of an Extraordinary Event (defined below), in whole or in part at any time, at a redemption price computed as described below (the "*Extraordinary Make–Whole Premium*").

For purposes of the preceding paragraph, "Extraordinary Event" means: (1) a material adverse change has occurred to Sections 54AA or 6431 of the Internal Revenue Code, (2) there is any guidance published by the

Internal Revenue Service or the United States Treasury with respect to such Sections, or (3) any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of a failure of the Board to satisfy the requirements of the Resolution; and as a result thereof, the cash subsidy payment from the United States Treasury to the Board expected to be received with respect to the Series 2010A-1 Bonds or Series 2010B-1 Bonds is eliminated or reduced, as reasonably determined by the Director of Finance, which determination shall be conclusive.

The "Extraordinary Make–Whole Premium" is the amount calculated by the Calculation Agent (defined in "Certain Definitions") equal to the positive difference, if any, between:

(a) The sum of the present values, calculated as of the date fixed for redemption of:

(i) Each interest payment that, but for the redemption, would have been payable on the Series 2010A-1 Bond or Series 2010B-1 Bond or portion thereof being redeemed on each regularly scheduled interest payment date occurring after the date fixed for redemption through the maturity date of such Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled interest payment date with respect to such Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such Bond to the date fixed for redemption; *plus*

(ii) The principal amount that, but for such redemption, would have been payable on the maturity date of the Bond or portion thereof being redeemed; *minus*

(b) The principal amount of the Series 2010A-1 Bond or Series 2010B-1 Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (a) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360–day year consisting of 12, 30–day months) at a discount rate equal to the Comparable Treasury Yield (defined in "Certain Definitions"), plus 100 basis points.

Certain Definitions

For purposes of calculating the Extraordinary Make–Whole Premium with respect to the extraordinary optional redemption of the Series 2010A-1 Bonds and Series 2010B-1 Bonds:

"*Calculation Agent*" means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities in the United States and designated by the Board (which may be one of the institutions that served as underwriters for the Series 2010 Bonds).

"*Comparable Treasury Issue*" means the United State Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Bond being redeemed.

"*Comparable Treasury Price*" means, with respect to any date on which a Series 2010A-1 Bond or Series 2010B-1 Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time on the third business day preceding the date fixed for redemption.

"*Comparable Treasury Yield*" means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Bond being redeemed. The Comparable Treasury Yield will be determined as of the third business day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest $1/100^{th}$ of 1%, with any figure of $1/200^{th}$ of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

"*Reference Treasury Dealer*" means a primary dealer of United States Government securities in the United States (which may be one of the institutions that served as underwriters for the Series 2010 Bonds) appointed by the Board and reasonably acceptable to the Calculation Agent.

Notice of Redemption

Notice of Redemption. Notice of redemption of any 2010 Bond is required to be mailed not less than 30 days prior to the redemption date to the holder of such Series 2010 Bond at its address as it appears on the registry books kept pursuant to the provisions of the Resolution. Notice of redemption of Series 2010 Bonds will be given by the Paying Agent.

Each notice of redemption is required to state: (i) the title of the Series 2010 Bonds to be redeemed, the series designation thereof, the redemption date, the place or places of redemption and the redemption price payable upon such redemption; (ii) if less than all the Series 2010 Bonds are to be redeemed, the distinctive number of the Series 2010 Bonds to be redeemed, (iii) that the interest on the Series 2010 Bonds, or on the principal amount thereof to be redeemed, designated for redemption in such notice shall cease to accrue from and after such redemption date; and (iv) that on said date there will become due and payable on each said Series 2010 Bond the principal amount thereof to be redeemed at the then applicable redemption price and the interest accrued on such principal amount to the redemption date. Each notice of redemption mailed to the holder of a Series 2010 Bond to be redeemed must, if less than the entire principal sum thereof is to be redeemed, also state the principal amount thereof to be redeemed and, if less than the entire principal sum of a Series 2010 Bond all of the principal of which matures on the same day is called for redemption, that such Series 2010 Bond must be surrendered to the Paying Agent in exchange for the payment of the principal amount thereof to be redeemed and the issuance of a new Series 2010 Bond or Bonds equaling in principal amount that portion of the principal sum not to be redeemed of the Series 2010 Bond to be surrendered.

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the Paying Agent on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Series 2010 Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2010 Bonds proposed to be redeemed shall not be received on or prior to the date fixed for redemption, such notice of redemption shall be null and void and of no force and effect, the Board shall not redeem or be obligated to redeem any Series 2010 Bonds, and the Paying Agent at the Board's direction shall give notice, in the same manner as notice of redemption is given, that moneys sufficient to pay in full the redemption price of the Series 2010 Bonds proposed to be redeemed were not received on or prior to the date fixed for redemption and such redemption did not occur. In the event of the failure to redeem, all Series 2010 Bonds surrendered for redemption shall be promptly returned to the holder or holders by the Paying Agent.

For so long as a book-entry-only system is in effect with respect to the Series 2010 Bonds, notice of redemption, or notice of rescission of any conditional notice of redemption, of Series 2010 Bonds to be redeemed is to be mailed by the Paying Agent to DTC or its nominee or its successor. Any failure of DTC or of its nominee or successor, or of a direct or indirect participant, to notify a beneficial owner of Series 2010 Bonds of any redemption will not affect the sufficiency or validity of the redemption of the Series 2010 Bonds to be redeemed. See "THE SERIES 2010 BONDS – Book-Entry Only System" below for a description of the book-entry only system. Neither the Board nor the Paying Agent can give any assurance that DTC or its successor, or direct or indirect DTC participants, will distribute such redemption notices to the beneficial owners of the Series 2010 Bonds, or that they will do so on a timely basis.

Partial Redemption. If fewer than all of the Series 2010 Bonds of a series shall be called for redemption, the Director of Finance of the State of Hawai'i, as registrar (the "*Registrar*"), shall designate the maturities from which the Series 2010 Bonds of such series are to be redeemed. For so long as the Series 2010 Bonds are registered in book-entry form and DTC or a succesor securities depository is the sole registered owner of such Series 2010 Bonds, if fewer than all of the Series 2010 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2010 Bonds to be redeemed shall be selected (i) by lot, in the case of the Series 2010A-2 Bonds or Series 2010B-2 Bonds, and (ii) on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, in the case of the Series 2010A-1 Bonds and Series 2010B-1 Bonds; provided that, so long as the Series 2010 Bonds are held in book-entry form, the selection for redemption of the Series 2010 Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, all Series 2010 Bonds will be selected for redemption, in accordance with DTC procedures, by lot; provided further that any such redemption must be performed such that all Series 2010 Bonds remaining outstanding will be in authorized denominations. See "THE SERIES 2010 BONDS – Book-Entry Only System" below.

In connection with any repayment of principal, including payments of scheduled mandatory sinking fund payments, the Registrar will direct DTC to make a pass-through distribution of principal to the owners of the Series 2010A-1 Bonds and Series 2010B-1 Bonds. A form of Pro Rata Pass-Through Distribution of Principal Notice will be provided to the Registrar that includes a table of factors reflecting the relevant scheduled redemption payments, based on the current schedule of mandatory sinking fund payments, which is subject to change upon certain optional redemptions, and DTC's currently applicable procedures, which are subject to change.

For purposes of calculating pro rata pass-through distributions of principal, "pro rata" means, for any amount of principal or interest to be paid, the application of a fraction to such amounts where (a) the numerator of which is equal to the amount due to the respective owners of the Series 2010A-1 Bonds or Series 2010B-1 Bonds on a payment date and (b) the denominator of which is equal to the total original par amount of the Series 2010A-1 Bonds or Series 2010B-1 Bonds.

It is the Board's intent that redemption allocations made by DTC with respect to the Series 2010A-1 Bonds and Series 2010B-1 Bonds be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Board nor the Underwriter can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of the Series 2010A-1 Bonds or Series 2010B-1 Bonds on such basis.

If the Series 2010 Bonds are not registered in book-entry form and if fewer than all of such Series 2010 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2010A-1 Bonds or Series 2010B-1 Bonds of such maturity and bearing such interest rate to be redeemed will be selected on a pro rata basis, and the particular Series 2010A-2 Bonds or Series 2010B-2 Bonds of such maturity and bearing such interest rate to be redeemed will be selected by lot, provided that any such redemption must be performed such that all Series 2010 Bonds remaining outstanding will be in authorized denominations.

Transfer or Exchange of the Bonds

Any Series 2010 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 2010 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 2010 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 2010 Bond surrendered, a new duly executed Series 2010 Bond, as appropriate, of the same series, interest rate and maturity for a like aggregate principal sum as the Series 2010 Bond surrendered.

Any Series 2010 Bond may be surrendered for exchange for a new fully registered Series 2010 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 2010 Bond or Bonds delivered in exchange.

The Paying Agent may charge a sum not exceeding the actual cost of each new fully registered Series 2010 Bond and may require the payment by the holder of the Series 2010 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 2010 Bonds. The Series 2010 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 2010 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 has Standard & Poor's highest rating: AAA. The 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 2010 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 2010 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 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 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 2010 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 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 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 2010 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2010 Bonds may wish to ascertain that the nominee holding the Series 2010 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2010 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 2010 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 2010 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 2010 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 2010 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 2010 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 2010 Bonds will be printed and delivered.

SECURITY FOR THE BONDS

Pledge of Revenues

The Bonds, including the Series 2010 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 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 C – "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 2010 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 Series 2010A-1 and Series 2010A-2 Bonds.".

Neither the State nor any department or political subdivision thereof, including the Board, is obligated to pay the Series 2010 Bonds from any source other than the Revenues pledged under the Resolution. The Series 2010 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 2010 Bonds. No holder of any Series 2010 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 2010 Bonds.

Additional Security for Series 2010A-1 Bonds and Series 2010A-2 Bonds

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 established within the State treasury pursuant to Section 304A-2168, Hawai‘i Revised Statutes. So long as any Series 2010A-1 Bonds or Series 2010A-2 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-1 Bonds and Series 2010A-2 Bonds and current expenses and capital expenditures of the Cancer Research Center.

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. Set forth below are the cash balances in the fund as of June 30, 2007, 2008, 2009 and 2010:

Year (June 30)	Cash Balance
2007	$ 7,689,921
2008	22,041,064
2009	38,254,446
2010	50,448,365*

* *Preliminary.*

Outstanding and Additional Parity Bonds

Pursuant to the Resolution, the University has previously issued the 2001A Bonds, 2001B Bonds, 2006A Bonds, and 2009A Bonds. The 2001A Bonds are no longer outstanding. There are currently outstanding an aggregate of $208,860,000 principal amount of Bonds under the Resolution. The Resolution authorizes the issuance of Additional Bonds secured equally and ratably with the Series 2010 Bonds (except for the Series 2010A-1 Bonds and Series 2010A-2 Bonds, which are secured by the additional pledge of amounts on deposit in the Hawai‘i Cancer Research Special Fund), subject to satisfaction of the requirements of the Resolution (See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – THE RESOLUTION – Authorization and Issuance of Additional Bonds" herein).

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 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 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, 2009, $1,312,973 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 C – "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 HAWAI'I

The University of Hawai'i (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 HAWAI'I."

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.

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 HAWAI'I – 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 HAWAI'I – 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, 2005 through 2009 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)

	2005	2006	2007	2008	2009
Revenues	$57,288	$59,184	$62,544	$66,891	$71,514
Expenses	47,762	48,229	52,385	60,070	58,261
Excess Revenues over Expenses	$ 9,526	$10,955	$10,159	$ 6,821	$13,253

Source: University of Hawai'i.

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 HAWAI'I – Outstanding Indebtedness" and APPENDIX C – "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, 2005 through 2009 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)

	2005	2006	2007	2008	2009
Current Year's Revenues	$204,605	$222,685	$244,358	$299,323	$316,126
Prior Year's Funds Balance	49,194	41,187	48,986	79,193	143,487
Total	$253,799	$263,872	$293,344	$378,516	$459,613

Source: University of Hawai'i.

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.

			Series 2010 Bonds				
Year Ending Oct. 1	Outstanding Bonds Debt Service[(1)]	GO Bonds Debt Service	Principal	Interest	Federal Subsidy	Total Debt Service	Total Bonds Debt Service
2010	$13,684,638	$149,839	$ --	$ --	$ --	$ --	$13,834,477
2011	15,255,250	156,354	4,615,000	15,435,020	(4,678,363)	15,371,658	30,783,262
2012	15,229,931	163,209	4,740,000	15,581,256	(4,757,657)	15,563,599	30,956,739
2013	15,246,794	170,507	4,885,000	15,439,056	(4,757,657)	15,566,399	30,983,700
2014	15,265,881	178,163	5,060,000	15,292,506	(4,757,657)	15,594,849	31,038,893
2015	15,262,756	186,347	6,350,000	15,090,105	(4,757,657)	16,682,449	32,131,552
2016	15,261,181	195,132	6,630,000	14,802,705	(4,757,657)	16,675,049	32,131,362
2017	15,265,744	19,755	6,900,000	14,537,506	(4,757,657)	16,679,849	31,965,348
2018	13,915,431	--	7,205,000	14,261,506	(4,757,657)	16,708,849	30,624,280
2019	13,559,781	--	7,545,000	13,935,206	(4,757,657)	16,722,549	30,282,330
2020	13,579,206	--	7,845,000	13,593,306	(4,757,657)	16,680,649	30,259,855
2021	13,589,656	--	8,060,000	13,266,875	(4,643,406)	16,683,469	30,273,125
2022	13,604,644	--	8,300,000	12,915,379	(4,520,383)	16,694,996	30,299,640
2023	13,605,769	--	8,555,000	12,536,816	(4,387,886)	16,703,930	30,309,699
2024	13,617,469	--	8,820,000	12,133,790	(4,246,826)	16,706,963	30,324,432
2025	13,622,769	--	9,110,000	11,705,050	(4,096,767)	16,718,282	30,341,051
2026	12,600,956	--	9,440,000	11,248,547	(3,936,992)	16,751,556	29,352,512
2027	12,470,869	--	9,810,000	10,697,818	(3,744,236)	16,763,582	29,234,450
2028	12,479,025	--	10,185,000	10,125,502	(3,543,926)	16,766,577	29,245,602
2029	12,486,306	--	10,580,000	9,531,310	(3,335,958)	16,775,351	29,261,657
2030	12,490,369	--	10,990,000	8,914,072	(3,119,925)	16,784,147	29,274,516
2031	12,543,994	--	11,420,000	8,272,916	(2,895,521)	16,797,395	29,341,389
2032	12,556,831	--	11,880,000	7,583,833	(2,654,342)	16,809,491	29,366,323
2033	12,571,100	--	12,350,000	6,866,994	(2,403,448)	16,813,546	29,384,646
2034	12,580,494	--	12,845,000	6,121,795	(2,142,628)	16,824,167	29,404,660
2035	12,619,000	--	13,355,000	5,346,727	(1,871,355)	16,830,373	29,449,373
2036	12,634,850	--	13,895,000	4,540,887	(1,589,310)	16,846,576	29,481,426
2037	6,192,800	--	14,445,000	3,702,462	(1,295,862)	16,851,601	23,044,401
2038	6,198,900	--	15,030,000	2,830,851	(990,798)	16,870,053	23,068,953
2039	--	--	15,630,000	1,923,941	(673,379)	16,880,562	16,880,562
2040	--	--	16,255,000	980,827	(343,289)	16,892,537	16,892,537
Total[(2)]	**$379,992,394**	**$1,219,306**	**$292,730,000**	**$309,214,563**	**$(103,933,513)**	**$498,011,051**	**$879,222,750**

(1) *Corresponds to debt service on the outstanding Series 2001B Bonds, 2006A Bonds and 2009A Bonds.*
(2) *Totals may not add up due to independent rounding.*

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, 2009 have been audited by Accuity LLP, independent auditors, and are attached as Appendix B to this Official Statement. See APPENDIX A – "THE UNIVERSITY OF HAWAI‘I – Financial Information" and APPENDIX B – "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.

One lawsuit currently pending against the University relates to the development of the new Cancer Research Center of Hawai‘i facility, but seeks only money damages, not to enjoin or otherwise disrupt the development of the facility. As stated elsewhere in this Official Statement, a portion of the proceeds from the Series 2010A-1 Bonds and Series 2010A-2 Bonds will be used to finance or refinance the costs of construction and maintenance of the Cancer Research Center of Hawai‘i.

There is no pending litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series 2010 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

Series 2010A-2 Bonds and Series 2010B-2 Bonds

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 2010A-2 Bonds and the Series 2010B-2 Bonds (collectively, the "Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is such interest 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 D hereto.

To the extent the issue price of any maturity of the Tax-Exempt Bonds is less than the amount to be paid at maturity of such Tax-Exempt Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds is the first price at which a substantial amount of such maturity of the

Tax-Exempt 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 Tax-Exempt Bonds accrues daily over the term to maturity of such Tax-Exempt 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 Tax-Exempt Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Tax-Exempt Bonds. Beneficial owners of the Tax-Exempt Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Tax-Exempt Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Tax-Exempt Bonds in the original offering to the public at the first price at which a substantial amount of such Tax-Exempt Bonds is sold to the public.

Tax-Exempt 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) ("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 Tax-Exempt Bonds. The Board has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax-Exempt 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 Tax-Exempt Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt 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 Tax-Exempt Bonds may adversely affect the value of, or the tax status of interest on, the Tax-Exempt 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 Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and that the Tax-Exempt 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 Tax-Exempt 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.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt 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. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisers regarding any pending or proposed federal tax 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 Tax-Exempt 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 Tax-Exempt Bonds ends with the issuance of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds, and may cause the Board or the beneficial owners to incur significant expense.

Series 2010A-1 Bonds and 2010B-1 Bonds

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the Series 2010A-1 Bonds and the 2010B-1 Bonds (collectively, the "Taxable Bonds") is exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Taxable Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix D hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Bonds that acquire their Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Taxable Bonds pursuant to this offering for the issue price that is applicable to such Taxable Bonds *(i.e.,* the price at which a substantial amount of the Taxable Bonds are sold to the public) and who will hold their Taxable Bonds as "capital assets" within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "Code").

As used herein, "U.S. Holder" means a beneficial owner of a Taxable Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

The Taxable Bonds are not expected to be treated as issued with original issue discount ("OID") for U.S. federal income tax purposes because the stated redemption price at maturity of the Taxable Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a *de minimis* amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Taxable Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the Board) or other disposition of a Taxable Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable Bond which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted tax basis in the Taxable Bond (generally, the purchase price paid by the U.S. Holder for the Taxable Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Taxable Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal of, and interest on, any Taxable Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Board through stock ownership and (2) a bank which acquires such Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Taxable Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Board) or other disposition of a Taxable Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States, or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Board) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Taxable Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Taxable Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on the Taxable Bonds and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Board) or other disposition of a Taxable Bond, to certain noncorporate holders of Taxable Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Taxable Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trio or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the Taxable Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Taxable Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Taxable Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Board and its tax advisors are (or may be) required to inform prospective investors that:

i. any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

ii. any such advice is written to support the promotion or marketing of the Bonds and the transactions described herein; and

iii. each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and delivery of the Series 2010 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe, LLP, Bond Counsel. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2010 Bonds and will be delivered with the Series 2010 Bonds. The proposed form of the opinion of Bond Counsel is attached as APPENDIX D – "FORM OF OPINION OF BOND COUNSEL." Certain legal matters will be passed upon for the Underwriter by its Counsel, McCorriston Miller Mukai MacKinnon LLP.

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 2010 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 2010 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 E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to purchase the Series 2010 Bonds at a price equal to the par amount of $292,730,000.00, plus original issue premium of $5,720,563.95, and less an underwriting discount of $2,151,533.29, resulting in a purchase price of $296,299,030.66. The Contract of Purchase provides that the Underwriters will purchase all the Series 2010 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 Underwriters. The Underwriters may offer and sell the Series 2010 Bonds to certain dealers (including dealers depositing the Series 2010 Bonds into unit investment trusts certain of which may be sponsored or managed by the Underwriters) 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 HAWAI‘I

By: /s/ Howard H. Karr
Howard H. Karr, Chair

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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 3,974-student 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.

The State of Hawai‘i is located in an area subject to earthquakes, tsunamis, floods, hurricanes and other natural disasters. The occurrence of a natural disaster which results in damage to University campuses or other properties and which necessitates significant repairs or involves significant replacement costs could materially adversely impact the University's financial condition.

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, 114 associate degrees in liberal arts and career and technical education, bachelor's degrees in 134 programs, master's degrees in 90 programs, and doctoral degrees in 56 programs, including M.D., J.D., 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 658 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 90 baccalaureate degrees and 138 graduate and professional degrees, including M.D., J.D., and DArch degrees. Regular credit enrollment for the fall 2009 semester was 20,435, of which 14,726 were full-time students and 5,709 were part-time students, with 13,906 students enrolled as undergraduates and 6,483 as graduates. A total of 4,496 degrees were awarded during fiscal year 2008-2009, of which 1,508 were graduate degrees and 2,988 were bachelor's degrees. The University at Mānoa is situated on approximately 300 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 19,130. At the beginning of the 2009-2010 academic year, the University at Mānoa had 2,411 faculty (6,165 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 2009-2010 academic year, the campus had 265 faculty (624 faculty and staff). Regular credit enrollment for the fall 2009 semester was 3,974, of which 3,180 were full-time and 794 were part-time, with 3,396 students enrolled as undergraduates and 530 as graduates. A total of 614 degrees were awarded during fiscal year 2008-2009, of which 31 were graduate degrees and 583 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 Oʻahu was established to support the region's substantial growth. University of Hawaiʻi–West Oʻahu 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 2009-2010 academic year, the campus had 55 faculty (117 faculty and staff). Regular credit enrollment for the fall 2009 semester was 1,333, of which 409 were full-time and 924 were part-time, with 1,293 as undergraduates. During fiscal year 2008-2009, 221 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 will span several years. When completed, the University of Hawaiʻi–West Oʻahu will 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 2009, the community college system served 32,203 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
2009-2010 Academic Year

College	Island	FTE Enrollment*	Faculty*	Faculty/Staff*	Degrees Awarded**
Hawaiʻi	Big Island	2,075	111	312	386
Honolulu	Oʻahu	2,573	170	394	504
Kapiʻolani	Oʻahu	5,035	251	553	702
Kauaʻi	Kauaʻi	779	81	184	163
Leeward	Oʻahu	4,341	200	427	503
Maui	Maui	2,421	128	371	364
Windward	Oʻahu	1,268	85	202	131
Total:		18,492	1,026	2,443	2,753

* *As of the fall semester of 2009.*
** *In fiscal year 2008-2009.*

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 of the Western Association of Schools and Colleges. 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 was recently ranked 29th 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 2009. 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. 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)
Howard H. Karr, Chair	2011
Dennis I. Hirota, Vice Chair	2012
Artemio C. Baxa	2013
Carl A. Carlson, Jr.	2011
Michael A. Dahilig	2013
Ramón S. de la Peña	2012
Clifford C. Dias	2013
Mark H. Fukunaga	2011
Chuck Y. Gee	2014
James J.C. Haynes	2010*
John C. Holzman	2014
James H.Q. Lee	2014
Eric K. Martinson	2014
Teena M. Rasmussen	2012
Matthew Williams	2012

* *Continues to serve until a successor is appointed.*

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 UC Santa Cruz. She led the campus through a period of great growth, opening the UC 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 UC 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, Vice President for Academic Planning and Policy, 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. She previously served as 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.

A noted microbiologist, Hinshaw's work over the past 25 years has aided in the understanding of the influenza virus, including its hosts, transmission mechanisms and genetic changes, as well as new approaches to vaccines.

Hinshaw has held joint appointments as professor of virology in the UC Davis Schools of Medicine and Veterinary Medicine and research appointments at the Medical College of Virginia, the University of California, Berkeley, St. Jude Children's Research Hospital, Harvard Medical School and the University of Wisconsin–Madison. At Mānoa, she 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 U.C. Irvine, he won a teaching award called My Last Lecture.

Darolyn 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 Hawaiʻi 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 Super Conductive Componants, 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 Hawaiʻi 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 Hawaiʻi real estate development firms Kobayashi Group, LLC, as senior project manager, and Haseko (Hawaiʻi) Inc., as vice president.

Minaai holds a bachelor's and master's of arts in economics and a masters in business administration from the University of Hawaiʻi 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 Oʻahu campus.

As chancellor of Hawaiʻi Community College for the previous six years, Freitas served as the chief executive of the main campus in Hilo and its University of Hawaiʻi Center in West Hawaiʻi. He previously served as Vice President and Executive Director of the Ke Aliʻi 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 Hawaiʻi 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 Hawai‘i 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.

Keith Amemiya, Interim Executive Administrator and Secretary of the Board of Regents. As Interim 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 Hawaii 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 Hawaii Bowl Executive Committee, and the Pro Bowl Ohana Host Committee.

Amemiya received his Bachelors in Business Administration (Finance) from the University of Hawai‘i at Mānoa and holds a Juris Doctor degree from the William S. Richardson School of Law at the University of Hawai‘i 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 2005-06 to 2009-10

Academic Year	Total University System	UH Mānoa	UH Hilo	UH West O'ahu	Community Colleges
2005-2006					
Undergraduate	30,188	12,358	2,738	490	14,602
Graduate	4,391	4,225	166	0	0
Total:	34,579	16,583	2,904	490	14,602
2006-2007					
Undergraduate	29,900	12,058	2,786	476	14,580
Graduate	4,322	4,159	163	0	0
Total:	34,222	16,217	2,949	476	14,580
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	16,295
Graduate	4,702	4,286	416	0	0
Total:	36,265	16,085	3,245	640	16,295
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	3,477	730	18,492

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

Academic Year	Applications Received	Applications Accepted	Percent Accepted	New Enrollments Freshman	New Enrollments Transfer	Total Enrolled
2005-2006	11,578	8,241	71.2%	2,022	2,133	4,155
2006-2007	10,752	7,806	72.6	1,775	2,138	3,913
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

Source: University of Hawai'i Institutional Research Office.

Table A-4
HILO CAMPUS
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

Academic Year	Applications Received	Applications Accepted	Percent Accepted	New Enrollments Freshman	New Enrollments Transfer	Total Enrolled
2005-2006	3,208	2,126	66.3%	444	781	1,225
2006-2007	3,294	2,179	66.2	471	608	1,079
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

Source: University of Hawai'i Institutional Research Office.

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

Academic Year	Applications Received	Applications Accepted	Percent Accepted	New Enrollments Freshman*	New Enrollments Transfer	Total Enrolled
2005-2006	436	388	89.0%	N/A	232	232
2006-2007	493	437	88.6	N/A	280	280
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

* *Until Academic Year 2007-2008, West O'ahu did not accept freshmen.*

Source: University of Hawai'i Institutional Research Office.

Table A-6
COMMUNITY COLLEGES
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

Academic Year	Applications: Received	Accepted	Percent Accepted	New Enrollments: Freshman	Transfer	Total Enrolled
2005-2006	16,095	15,609	97.0%	4,300	2,791	7,091
2006-2007	15,838	15,471	97.7	4,275	2,487	6,762
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

Source: University of Hawai'i Institutional Research Office.

Student Tuition, Housing Costs and Financial Aid

The University seeks to provide affordable education for its students. In the 2008-09 academic year, the University provided approximately $39.6 million in financial aid. The share of first-time freshmen receiving aid in the 2008-09 academic year ranged from 76% (at University of Hawai'i–West O'ahu) to 28% (at Kaua'i Community College). On average, financial aid recipients receive between $4,233 and $2,216 in financial assistance from the University.

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

Academic Year	Tuition and Fees: Resident	Non-resident	Average Room and Board
2005-2006	$3,697	$10,177	$6,717
2006-2007	4,523	12,395	7,185
2007-2008	5,391	14,655	7,335
2008-2009	6,259	16,915	7,564
2009-2010	7,168	19,216	8,493

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
2005-2006	$2,603	$ 8,171	$5,472
2006-2007	3,148	9,700	6,292
2007-2008	3,676	11,212	6,792
2008-2009	4,360	12,880	7,014
2009-2010	4,888	14,392	6,914

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
2005-2006	$2,266	$ 7,402
2006-2007	2,746	8,794
2007-2008	3,226	10,186
2008-2009	3,706	11,578
2009-2010	4,186	12,970

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)]
2005-2006	$1,226	$5,858	$5,962
2006-2007	1,395	6,137	6,530
2007-2008	1,568	6,419	7,246
2008-2009	1,772	6,733	7,478
2009-2010	1,967	7,038	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
2004-2005					
Associate/Certificate	2,671	0	0	0	2,671
Bachelor/Professional Degree	3,413	2,725	494	194	0
Graduate/JD	1,453	1,450	3	0	0
Other	0	0	0	0	0
Total:	7,537	4,175	497	194	2,671
2005-2006					
Associate/Certificate	2,637	0	0	0	2,637
Bachelor/Professional Degree	3,778	2,917	596	265	0
Graduate/JD	1,502	1,484	18	0	0
Other	0	0	0	0	0
Total:	7,917	4,401	614	265	2,637
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

* *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 2009-2010 totals approximately 3,532. Of the total headcount of faculty on the tenure track, approximately 70% are fully tenured. When all faculty are considered, including those that are neither tenure nor tenure-track, approximately 48% 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 Hawai‘i 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 Hawai‘i Faculty), Unit 8 (Administrative, Professional and Technical Employees of the University of Hawai‘i), Unit 9 (Registered Professional Nurses), or Unit 10 (Institutional and Hospital Employees). Employees in executive positions, as well as certain Unit 8 and civil service 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.

All of the collective bargaining agreements (except the agreement for Unit 7) are for a two-year period beginning July 1, 2009 and ending on June 30, 2011. 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 Hawai‘i 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.

Employee and Pension Benefits

For information on employee benefits and pensions see Notes 14 and 15 to the University’s audited financial statements in APPENDIX B – “AUDITED FINANCIAL STATEMENTS.”

Pensions. All regular employees of the University are covered under the Employees’ Retirement System of the State of Hawaii (the “State Retirement System”), which began operation on January 1, 1926. The State Retirement System is a cost-sharing, multiple-employer defined benefit pension plan. The State Retirement System covers all regular employees of the State and each of its counties, including judges and elected officials. On

June 30, 2009, the State Retirement System's membership was comprised of approximately 67,912 active employees, 6,016 inactive vested members and 36,999 pensioners and beneficiaries.

The total assets of the State Retirement System on a market value basis amounted to approximately $10.8 billion as of June 30, 2008, and $8.8 billion as of June 30, 2009. Actuarial certification of assets as of June 30, 2008 was $11.4 billion. The June 30, 2009 actuarial certification of assets was $11.4 billion, and its unfunded actuarial accrued liability was $6.236 billion. The actuarial value of assets is based on a four–year smoothed valuation that recognizes the excess or shortfall of investment income over or under the 8% actuarial investment assumption. In 1998, Act 151, Session Laws of Hawaii 1998, was passed modifying the administration of the State Retirement System, including its actuarial valuation methods and actuarial assumptions. Since the State Retirement 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 statutory provisions of HRS Chapter 88 govern the operation of the State Retirement System. Responsibility for the general administration of the State Retirement 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 State Retirement System (two general employees, one teacher, and one retiree) who are elected by the members and retirees of the State Retirement 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.

The State Retirement System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In recent 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 State Retirement System. Act 327, Session Laws of Hawaii 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the State Retirement System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, Session Laws of Hawaii 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations and provided with respect to these valuations for investment earning in excess of a 10% actuarial return to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122 of HRS Chapter 88, as amended by Act 147, Session Laws of Hawaii 2001), the total actuarially determined employer contribution to the pension accumulation fund is 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 is determined in the aggregate for all employers in the State Retirement 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 is 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 State Retirement System during the 2000-2001 fiscal year. The actuarial cost method used to calculate employer contributions was changed 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 are 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 State Retirement System.

Act 181, Session Laws of Hawaii 2004, established fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers' contribution rates were initially set at 15.75% for their police officers and firefighters and 13.75% for other employees, increasing effective July 1, 2008 to 19.70% for police officers and firefighters and 15.00% for all others pursuant to Act 256, Session Laws of Hawaii 2007. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the State Retirement System who are also covered under Social Security. The noncontributory plan 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 University's share of the State Retirement System costs for the five fiscal years ended June 30, 2005 through June 30, 2009 were: $41.5 million for the fiscal year ended June 30, 2005; $54.2 million for the fiscal year ended June 30, 2006; $58.1 million for the fiscal year ended June 30, 2007; $65.6 million for the fiscal year ended June 30, 2008; and $94.8 million for the fiscal year ended June 30, 2009.

On July 1, 2006, a new defined benefit contributory plan was established pursuant to Act 179, Session Laws of Hawaii 2004. The new plan provides certain current and new employees with the opportunity to participate in a defined benefit contributory plan. It provides portability for shorter-term employees and is expected to improve recruitment for and retention of public sector employees. The State Retirement System's actuary has determined that the new plan is cost neutral, an important factor given the escalating costs of the retirement program.

As of March 31, 2009, the Contributory Plan covered 7,487 active employees or 11.0% of all active members of the State Retirement System, the Noncontributory Plan covered approximately 22,709 active employees or 33.4%, and the Hybrid Plan covered 37,716 active members or 55.5%. 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.

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

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[1]	22.6
2005	13.95[1]	25.7
2006	13.95[1]	35.2
2007	13.95[1]	25.5
2008	15.46[1]	22.6
2009	15.47[1]	28.2

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

In 2005, the funding period increased due to recognition of large actuarial losses. In 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, Session Laws of Hawaii 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increase in 2009 was due to the net asset loss from the significant decline in the financial markets during FY2009.

A summary of the actuarial certification of the State Retirement System as of June 30, 2008 and 2009 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2008 and 2009
(Includes all counties)

ASSETS	**2008**	**2009**
Total current assets	$11,380,961,003	$11,400,116,874
Present value of future employee contributions	1,321,322,095	1,454,290,782
Present value of future employer normal cost contributions	1,567,124,012	1,658,595,716
Unfunded actuarial accrued liability	5,168,108,050	6,236,315,442
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$19,437,515,160	$20,749,318,814
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$ 8,230,338,790	$ 8,584,029,950
Present value of future benefits to active employees and inactive members	11,207,176,371	12,165,288,864
TOTAL LIABILITIES	$19,437,515,161	$20,749,318,814

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2009, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the State Retirement System amounted to approximately $6.236 billion. The State Retirement System's funded ratios-assets divided by the actuarial accrued liability increased during fiscal year 2009 as shown below:

FUNDED RATIOS

June 30, 2008	June 30, 2009
68.8%	64.6%

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. Annual OPEB costs for most governments will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. A government may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the local government's income statement. GASB 45 also establishes disclosure requirements for information about the plans in which a government participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain local governments, the extent to which the plan has been funded over time. Accounting for these benefits – primarily post-retirement medical benefits – can have significant impacts on state and local government financial statements.

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 $1.2 billion and $1.1 billion as of July 1, 2008 and 2007, respectively, and the corresponding annual OPEB costs (annual required contributions) for the fiscal years ended June 30, 2009 and 2008 were approximately $94.8 million and $88.6 million, respectively. Payments totaling approximately $29.7 million and $25.7 million were made to the Trust Fund during the fiscal year ended June 30, 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 2009-2010 is estimated to be approximately $101 million.

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, 2009 are included in Appendix B 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 40% over the past five fiscal years as shown in the table below.

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

	2005	2006	2007	2008	2009
Total Assets	$1,629,733	$1,761,134	$2,106,834	$2,302,047	$2,481,990
Total Liabilities	400,680	395,760	528,564	612,804	761,932
Net Assets					
Invested in capital assets, net of related debt	803,237	843,406	890,877	967,717	1,050,563
Restricted:					
Nonexpendable	104,949	111,428	133,507	152,449	162,483
Expendable	123,274	302,268	399,626	419,005	417,636
Unrestricted	197,593	108,272	154,260	150,072	89,376
Total Net Assets	1,229,053	1,365,374	1,578,270	1,689,243	1,720,058
Total Liabilities and Net Assets	$1,629,733	$1,761,134	$2,106,834	$2,302,047	$2,481,990

Source: University of Hawai'i.

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)

	2005	2006	2007	2008	2009
Revenues:					
Tuition and fees, net	$ 115,505	$ 123,232	$ 136,950	$ 150,969	$ 181,078
State appropriations	488,193	570,747	623,984	690,625	731,394
Grants and contracts	337,728	350,431	373,237	379,364	399,640
Sales and services	97,074	105,753	110,094	122,651	120,899
Investment income	19,176	29,610	46,549	10,662	--
Private gifts	18,560	20,035	40,057	31,543	23,285
Other revenue	1,342	2,698	2,541	3,266	2,921
Revenues Supporting Core Activities	1,077,578	1,202,506	1,333,412	1,389,080	1,459,217
Expenses Associated with Core Activities Before Depreciation	1,033,130	1,147,409	1,227,210	1,372,402[1]	1,525,232
Income (Loss) from Core Activities Before Depreciation	44,448	55,097	106,202	16,678	(66,015)
Depreciation	53,748	59,924	65,387	71,226	79,228
Expenses Associated with Core Activities Including Depreciation	1,086,878	1,207,333	1,292,597	1,443,628	1,604,460
Income (Loss) from Core Activities[1]	(9,300)	(4,827)	40,815	(54,548)	(145,243)
Other Nonoperating Income, net	133,301	141,149	172,081	165,521	176,058
Increase in Net Assets	124,001	136,322	212,896	110,973	30,815
Net Assets, Beginning of Year	1,105,051	1,229,052	1,365,374	1,578,270	1,689,243
Net Assets, End of Year	$1,229,052	$1,365,374	$1,578,270	$1,689,243	$1,720,058

(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 – "THE UNIVERSITY OF HAWAI'I – Employee and Pension Benefits" herein.*

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, etc.). 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 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 in June, allocation notices are transmitted to all State agencies including any restrictions imposed 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 funding 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 recent constitutional amendment, the University enjoys a much greater degree of discretion over its budget and operating priorities than other State departments.

State Appropriations. Historically, State appropriations are the largest source of revenues supporting the University's core activities. State appropriations (including the University's share of various overhead costs that are administered on a statewide basis) comprised 50.1% and 49.7% of the University's revenues in fiscal year 2008-2009 and fiscal year 2007-2008, 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 B – "AUDITED FINANCIAL STATEMENTS."

Table A-14
GENERAL FUND STATE APPROPRIATIONS
FOR THE FISCAL YEAR ENDED JUNE 30
(in thousands of dollars)(1)(2)

	2007	2008	2009	2010	2011(3)
General Fund State Appropriations	$392,163	$449,323	$460,483	$422,591	$360,687

(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) *Amounts are derived from University Budget Office and may differ from financial statements prepared by the accounting office due to recording/classification and adjustments for lapsed funds.*

(3) *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 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 has been reduced by an additional $9.8 million. On a combined basis, these reductions represent 23% of the University's previous 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 allocated $150 million in CIP general obligation bond-funded projects, in addition to the more than $30 million previously appropriated in the biennium budget. This funding includes $20 million for the University's "Renovate to Innovate" initiative, which will be used for much-needed repairs and improvements to University research facilities, and $43 million for repairs, renewals and deferred maintenance, which will be used 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‘elikolani College of Hawaiian Language at UH-Hilo, and $2 million for community college renovations.

Grants and Contracts. Grants and contracts are the second-largest source of revenues supporting the University’s core activities. Grants and contracts comprised 27.4% and 27.3% of the University’s revenues in fiscal years 2008-09 and 2007-08, respectively. From 2005 to 2009, research funding has grown approximately 18% from $337.7 million to $399.6 million. In fiscal year 2008-09, federal grant revenue accounted for 82.5% 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)

	2005	2006	2007	2008	2009
Federal Grants and Contracts	$289,575	$298,375	$316,690	$313,770	$329,646
Other	48,153	52,056	56,547	65,594	69,994
Total Grants and Contracts	$337,728	$350,431	$373,237	$379,364	$399,640

Source: University of Hawai‘i.

Gifts and Fund Development. UHF is a nonprofit organization that was established in 1955, legally separate from the University, to encourage private support for the University. Currently, it is the central fundraising organization for the University, providing a variety of fundraising services and managing more than 4,200 separate donor accounts for the benefit of the University. As of December 31, 2009, UHF’s endowment was valued at $171.6 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 2008-09, UHF distributed $29.2 million to the University, with approximately $7.5 million going into student aid and services. In fiscal year 2007-08, UHF distributed $28.7 million to the University, with approximately $7.7 million going into student aid and services.

On June 30, 2009, UHF successfully completed its seven-year Centennial Campaign after raising $282 million, exceeding the campaign goal of $250 million by $32 million. During the campaign, UHF also secured $54 million through bequest intentions and increased the average annual contribution amount by nearly 71% to $40.3 million per year. The campaign raised more than $65 million for students, which will be used for student aid, student and faculty exchange, student support services, workforce development programs, and campus life programs. The Centennial Campaign was the largest capital campaign in the State’s history, involving more than 90,000 donors, 50,000 of which were new donors.

UHF is currently planning its next fundraising campaign with the goal of raising $400 million to $500 million over seven years. The campaign is expected to begin on July 1, 2011. Planning activities include identifying fundraising priorities with University leadership, conducting wealth analysis and identifying potential prospects, conducting a capacity analysis, developing and testing the case for support, developing a marketing and communications plan, and recruiting and partnering with effective volunteer leaders.

UHF’s results generally are based on two components: investment returns and donor contributions. In the 2009 calendar year, UHF’s investments generated a positive return of 17.6% and donors contributed more than $45 million. As of December 31, 2009, UHF’s endowment was valued at $171.6 million and allocated as follows:

Table A-16
UNIVERSITY OF HAWAI‘I FOUNDATION
ENDOWMENT ASSET ALLOCATION PERCENTAGES
(as of December 31, 2009)

Investment	Percentage
United States Equity	22%
Global Equity	22
Fixed Income	19
Marketable Alternative Assets	17
Cash	6
Private Real Assets	6
Private Equity/Venture Capital	5
Public Real Assets	3
Total	100%

Source: University of Hawai‘i Foundation.

The University also maintains a separate endowment pool. In calendar year 2009, the University's endowment pool generated a positive return of 17.8%. As of December 31, 2009, the University's endowment was valued at approximately $52.9 million and allocated as follows:

Table A-17
UNIVERSITY OF HAWAI‘I
ENDOWMENT ASSET ALLOCATION PERCENTAGES
(as of December 31, 2009)

Investment	Percentage
Equity	48%
Fixed Income	37
International Equity	8
Cash	7
Total	100%

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 B – "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)

	2005	2006	2007	2008	2009
University of Hawai‘i[1]	5.8%	9.9%	6.1%	-21.6%	17.8%
University of Hawai‘i Foundation[2]	7.2%	13.9%	9.4%	-22.8%	17.6%

[1] *Information provided by the University.*
[2] *Information provided by UHF.*

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 24.5% over the past five years.

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 0.77% and -2.24% of the University's revenues in fiscal years 2007-08 and 2008-09, respectively. The University and UHF have no exposure to derivative or other structured products, except that as of July 31, 2010, the University had approximately $89 million invested in interest-bearing auction rate securities. See Note 2 to the University's audited financial statements in APPENDIX B – "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 2007-08 and 2008-09, 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 "—The University of Hawai'i Foundation" below. 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 Consulting. The University's investment program is managed through an investment consulting contract with Morgan Stanley Smith Barney (the "*Investment Consultant*"). The Investment Consultant provides investment consulting services for the program. University funds available for investment are invested in accordance with the University's investment policies.

The University of Hawai'i Foundation. UHF is a not-for-profit organization established to solicit and manage funds for the benefit of 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.

The University and UHF maintain separate investment policies. See "– The University's Investment Policy" above. 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.

The following table summarizes the University's cash and investments as of June 30 of each of the past five years and as of December 31, 2009.

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

	2005	2006	2007	2008	2009
Current Assets:					
Cash and cash equivalents	$115,930	$ 21,784	$ 35,417	$105,545	$ 53,033
Operating investments	131,805	164,224	191,931	75,893	178,621
Noncurrent Assets:					
Restricted cash and cash equivalents	10,040	4,719	2,398	138	1,681
Endowment and other investments	244,063	249,037	379,767	464,723	500,745
Total Cash and Investments	$501,838	$439,764	$609,513	$646,299	$734,080

Source: University of Hawai'i.

The University and UHF have no exposure to derivative or other structured products, except that as of July 31, 2010, the University had approximately $89 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 and in the 2009 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 B – "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, 2009 amounted to $1.275 billion, an increase of 31.6% over the past five fiscal years.

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

	2005	2006	2007	2008	2009
Capital assets not being depreciated:					
Land	$ 11,827	$ 11,827	$ 11,827	$ 12,486	$ 12,486
Construction in progress	183,626	89,963	146,623	211,866	171,701
Total capital assets not being depreciated	$ 195,453	$ 101,790	$ 158,450	$ 224,352	$ 184,187
Capital assets being depreciated:					
Land improvements	$ 56,451	$ 70,575	$ 75,816	$ 79,703	$ 83,353
Infrastructure	45,308	50,900	55,327	74,888	82,890
Buildings	953,791	1,100,813	1,130,857	1,188,899	1,352,529
Equipment	226,677	238,763	255,785	269,778	277,954
Library books	147,008	156,775	153,664	160,337	162,404
Total assets being depreciated	$1,429,235	$1,617,826	$ 1,671,449	$ 1,773,605	$ 1,959,130
Less accumulated depreciation	$ 655,062	$ 704,190	$ 755,869	$ 809,322	$ 867,399
Capital assets, net	$ 969,626	$1,015,426	$ 1,074,030	$ 1,188,635	$ 1,275,918

Source: University of Hawai'i.

The University's capital improvements program for fiscal biennium 2009-2011 includes a total of $713.15 million in Legislative Appropriations and authorizations; this includes $350.97 million in State funded general obligation bonds. The University received a total of $465.08 million in Legislative Appropriations and authorizations for capital improvements for the fiscal biennium 2007-2009, which included $12.5 million in State general funds and $309.48 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 B – "AUDITED FINANCIAL STATEMENTS."

UHF was formed to encourage private support to the University. It is the central fund raising organization for the University System providing a host of fund raising services to all ten University campuses along with managing more than 4,200 separate donor accounts. For the fiscal year ended June 30, 2009, UHF reported in its financial statements revenues of $12.5 million and expenses of $38.9 million.

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, 2009, RCUH reported in its financial statements revenues of $5.5 million and expenses of $5.5 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.

In terms of general fund appropriations, the University's Supplemental Operating Budget Request for fiscal year 2010-2011 was to maintain the level appropriated by the Legislature in 2009 with only an additional request for $2.2 million in funding for the Office of Mauna Kea Management. The executive budget submitted to the Legislature by the Governor, however, did not include the $2.2 million for the Office of Mauna Kea Management and reduced the University's general fund budget by $54.7 million, converting restrictions made to the budget in that amount for salary reductions to a reduction in the general fund budget base.

Unfortunately, even as the economy showed signs of stabilizing, general fund revenues continued to decline and the Council on Revenues projected a further decrease for the year. The Legislature ultimately appropriated an additional reduction of $7.3 million in general funds for fiscal year 2010-2011. The Legislature also transferred $4.9 million from the University's special and revolving funds to the State general fund. On an appropriation base of $422.7 million for fiscal year 2010-2011, this represents more than a 14% decrease in general funds from fiscal year 2009-2010. The University represents approximately 7.3% of the State's general fund operating budget.

At its meeting on May 27, 2010, the Council on Revenues revised upward its forecast for State general fund tax revenue growth in fiscal year 2009-2010 from -2.5% to +4.0%. The Council also revised its revenue growth forecast for fiscal year 2010-2011 from 6.0% to 6.2%. The growth rates for fiscal year 2012 through fiscal year 2016 were largely unchanged from previous forecasts, but were also revised slightly. The Council's revised forecasts of State general fund tax revenues for fiscal year 2009-2010 through fiscal year 2015-2016 are shown below:

Fiscal Year	General Fund Tax Revenues (in Thousands of Dollars)	Growth From Previous Year
2010	$4,370,393	4.0%
2011	4,640,524	6.2
2012	4,909,056	5.8
2013	5,186,599	5.7
2014	5,497,795	6.0
2015	5,772,685	5.0
2016	6,048,119	4.8

The Council's forecast revisions for fiscal year 2009-2010 and fiscal year 2010-2011 largely reflected announced plans to partially delay individual income tax refund payouts from the customary seasonal timetable associated with tax filing. The Council also adopted specific adjustments recommended by the State Department of Taxation reflecting the impacts on general fund tax revenues of recent tax law changes enacted by the Legislature, including many reported before, as well as the following:

- Act 21, Session Laws of Hawai'i (SLH) 2010, providing for a statutory ordering of income tax credits prioritizing refundable credits over nonrefundable credits.
- Act 22, SLH 2010, amending due dates for various taxes from the last to the 20th day of the calendar month and amending periodic insurance premium tax filling and payment dates from quarterly to monthly frequencies.

- Act 59, SLH 2010, repealing the income tax deductibility of political contributions and increasing cigarette and little cigar taxes.
- Act 73, SLH 2010, temporarily raising for five years the environmental response tax on crude petroleum.
- Act 74, SLH 2010, retaining the State's ability to "pick-up" the state death tax credit as it existed in the Internal Revenue Code at the end of 2009.

Subsequent to the May 27, 2010 meeting of the Council on Revenues, the State Department of Taxation issued its report on State general fund tax revenues for fiscal year 2009-2010. This report indicates that actual general fund tax revenues grew by 3.9% (unaudited) over the prior fiscal year. This is consistent with the Council on Revenues' May 27 forecast of 4.0% growth.

However, preliminary estimates of the State's general fund revenues and expenditures for fiscal year 2009-2010, as reported for budgetary and financial planning purposes, reflect a year-end general fund deficit of approximately $22.3 million, due largely to lower than expected non-tax revenue collections. 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.

The patterns of economic recovery are increasingly broad-based in Hawai'i. Payroll employment rose on a seasonally-adjusted basis during the early months of 2010, reversing the declines of 2008 and 2009. Tourism volumes are increasing, primarily from growth in international tourism. However, prospects for domestic tourism, which has been up and down for more than a year-and-a-half, are improving with a rise in scheduled air seats. Though construction spending may continue declining this calendar year as projects are completed, some evidence of stabilization and recovery is coming from the estimated construction value of newly issued building permits. A quickening pace of activity in existing home sales and firming house prices also bode well, at least for a residential construction turnaround. Low inflation, low interest rates, and a strong Japanese yen also help support Hawai'i's economic recovery. Risks to the forecast abound, as always. Still, recent economic uncertainties within the European Union do not to seem to be radiating beyond investor confidence, while the pace of recovery in North America and Asia remains compelling. Increasingly, it appears that the U.S. recession ended sometime after mid-2009. While U.S. real GDP probably will, after mid-2010, exceed its prerecession peak, perceptions of the economic recovery remain fragile.

In the current economic and fiscal downturn, the University's enrollment has increased and reached the highest enrollment of degree-seeking students in its 103-year history. Enrollment at the University's ten campuses increased by 4,400 students in fall 2009 from fall 2008 levels, to over 57,900 students. Preliminary data for fall 2010 indicates continued growth with registrations as of August 11, 2010 at approximately 6% above the prior year. Combined with scheduled tuition increases, tuition and fees are expected to increase by more than $20 million in fiscal year 2011.

Insurance

Act 186 of the 2003 Hawai'i 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 Hawai'i insurance program.

Outstanding Indebtedness

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

Designation	Principal Amount Outstanding as of June 1, 2010
$655,000 Board of Regents of the University of Hawai'i, University Revenue Bonds, Series 2001A (the "*2001A Bonds*")	--
$18,665,000 Board of Regents of the University of Hawai'i, University Revenue Bonds, Refunding Series 2001B (the "*2001B Bonds*")	$11,315,000
$100,000,000 Board of Regents of the University of Hawai'i, University Revenue Bonds, Series 2006A (the "*2006A Bonds*")	98,120,000
$100,000,000 Board of Regents of the University of Hawai'i, University Revenue Bonds, Series 2009A (the "*2009A Bonds*")	99,425,000
Total	$208,860,000

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. The 2001B Bonds are enhanced by a bond insurance policy issued by Financial Security Assurance Inc. 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.

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. Currently, there are $142,740,000 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 Appropriation" 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, 2009, $1,312,973 of principal reimbursements remained outstanding. Annual reimbursement, including semi-annual interest payments, range from $144,051 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 June 30, 2009, such payments under both the leasing agreement and the installment purchase contracts aggregate approximately $337,334 and decline each subsequent year.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

Accuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

University of Hawai‘i
State of Hawai‘i

Consolidated Financial Statements
Required Supplementary Information
and Other Supplementary Information

June 30, 2009 and 2008

Quality *Integrity* *Insight*

Index

June 30, 2009 and 2008

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 accompany index, which collectively comprise the 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, 2009 and 2008, 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 10.6 percent of the total assets and 1.1 percent of the total operating revenues of the University as of and for year ended June 30, 2009. We did not audit the financial statements of the Foundation and the Research Corporation of the University of Hawai‘i (the “Research Corporation”), which collectively represent 14.4 percent of the total assets and 2.0 percent of the total operating revenues of the University as of and for year ended June 30, 2008. 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, 2009 and 2008 and the Research Corporation as of and for the year ended June 30, 2008, 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 financial statements but are supplementary information required by GASB. 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 March 26, 2010, 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, 2009. 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
March 26, 2010

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
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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, 2009 and 2008, with selected information for the year ended June 30, 2007. 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 represented by ten campuses with approximately 58,000 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 also 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, this 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 improved or weakened 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, and 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, 2009, 2008 and 2007 (in thousands of dollars):

	2009				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 345,148	$ 41,747	$ 19,599	$ (33,461)	$ 373,033
Noncurrent assets	1,873,883	890	248,307	(14,123)	2,108,957
Total assets	2,219,031	42,637	267,906	(47,584)	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	$ 1,467,958	$ 8,881	$ 258,278	$ (15,059)	$ 1,720,058

	2008				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 307,692	$ 38,274	$ 27,601	$ (33,341)	$ 340,226
Noncurrent assets	1,699,645	387	268,017	(6,228)	1,961,821
Total assets	2,007,337	38,661	295,618	(39,569)	2,302,047
Current liabilities	219,515	27,466	3,749	(29,397)	221,333
Noncurrent liabilities	383,105	1,408	6,958	-	391,471
Total liabilities	602,620	28,874	10,707	(29,397)	612,804
Net assets	$ 1,404,717	$ 9,787	$ 284,911	$ (10,172)	$ 1,689,243

	2007				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 338,785	$ 39,815	$ 21,656	$ (25,564)	$ 374,692
Noncurrent assets	1,490,869	546	251,670	(10,943)	1,732,142
Total assets	1,829,654	40,361	273,326	(36,507)	2,106,834
Current liabilities	196,705	29,743	2,652	(31,151)	197,949
Noncurrent liabilities	323,195	958	6,462	-	330,615
Total liabilities	519,900	30,701	9,114	(31,151)	528,564
Net assets	$ 1,309,754	$ 9,660	$ 264,212	$ (5,356)	$ 1,578,270

	2009				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 700,153	$ 5,485	$ 7,828	$ (8,928)	$ 704,538
Operating expense	1,424,970	5,545	38,928	(5,124)	1,464,319
Operating income (loss)	(724,817)	(60)	(31,100)	(3,804)	(759,781)
Nonoperating activity	788,058	(846)	4,667	(1,283)	790,596
Increase (decrease) in net assets	63,241	(906)	(26,433)	(5,087)	30,815
Net assets					
Beginning of year	1,404,717	9,787	284,711	(9,972)	1,689,243
End of year	$ 1,467,958	$ 8,881	$ 258,278	$ (15,059)	$ 1,720,058

	2008				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 656,235	$ 5,261	$ 8,053	$ (13,299)	$ 656,250
Operating expense	1,318,400	5,587	38,884	(12,412)	1,350,459
Operating income (loss)	(662,165)	(326)	(30,831)	(887)	(694,209)
Nonoperating activity	757,128	453	51,530	(3,929)	805,182
Increase (decrease) in net assets	94,963	127	20,699	(4,816)	110,973
Net assets					
Beginning of year	1,309,754	9,660	264,212	(5,356)	1,578,270
End of year	$ 1,404,717	$ 9,787	$ 284,911	$ (10,172)	$ 1,689,243

	2007				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 619,558	$ 5,363	$ 6,655	$ (8,754)	$ 622,822
Operating expense	1,159,069	5,107	31,232	(11,314)	1,184,094
Operating income (loss)	(539,511)	256	(24,577)	2,560	(561,272)
Nonoperating activity	691,126	(2,022)	88,094	(3,030)	774,168
Increase (decrease) in net assets	151,615	(1,766)	63,517	(470)	212,896
Net assets					
Beginning of year	1,158,139	11,426	200,695	(4,886)	1,365,374
End of year	$ 1,309,754	$ 9,660	$ 264,212	$ (5,356)	$ 1,578,270

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, 2009, 2008 and 2007 are summarized as follows (in thousands):

	2009	Percentage of Total Assets	2008	Percentage of Total Assets	2007	Percentage of Total Assets	FY 09 vs 08 Change	FY 08 vs 07 Change
Current assets								
Cash and operating investments	$ 231,654	9%	$ 181,014	8%	$ 227,348	11%	$ 50,640	$ (46,334)
Receivables, net	118,990	5%	136,259	6%	128,607	6%	(17,269)	7,652
Other current assets	22,389	1%	22,953	1%	18,737	1%	(564)	4,216
Total current assets	373,033	15%	340,226	15%	374,692	18%	32,807	(34,466)
Noncurrent assets								
Endowment and other investments	502,426	20%	465,285	20%	379,767	18%	37,141	85,518
Capital assets, net	1,275,918	52%	1,188,635	52%	1,074,030	51%	87,283	114,605
Other noncurrent assets	330,613	13%	307,901	13%	278,345	13%	22,712	29,556
Total assets	2,481,990	100%	2,302,047	100%	2,106,834	100%	179,943	195,213
Current liabilities	222,129	9%	221,333	10%	197,949	9%	796	23,384
Noncurrent liabilities								
Long-term debt	351,600	14%	271,990	12%	276,865	13%	79,610	(4,875)
Other noncurrent liabilities	188,203	8%	119,481	5%	53,750	3%	68,722	65,731
Total liabilities	761,932	31%	612,804	27%	528,564	26%	149,128	84,240
Net assets								
Invested in capital assets, net of related debt	1,050,563	42%	967,717	43%	890,877	42%	82,846	76,840
Restricted								
Nonexpendable	162,483	6%	152,449	7%	133,507	6%	10,034	18,942
Expendable	417,636	17%	419,005	18%	399,626	19%	(1,369)	19,379
Unrestricted	89,376	4%	150,072	7%	154,260	7%	(60,696)	(4,188)
Total net assets	$ 1,720,058	69%	$ 1,689,243	73%	$ 1,578,270	74%	$ 30,815	$ 110,973

A review of the University's Consolidated Statements of Net Assets at June 30, 2009, 2008 and 2007 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 its existing assets.

At June 30, 2009, 2008 and 2007, working capital amounted to $150.9 million, $118.9 million and $176.7 million, respectively. 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 increased by $32.8 million, or 9.6 percent, at June 30, 2009 compared to June 30, 2008, primarily due to an increase in operating investments offset by a decrease in cash and cash equivalents and due from the State of Hawai‘i. Operating investments increased by $103.2 million primarily due to investment of $98.0 million excess cash in time certificates of deposits ("TCD") with maturities greater than 90 days and less than one year. Cash and cash equivalents decreased by $52.5 million due to net transfers to TCDs of $57.5 million. Due from State of Hawai‘i, included in net receivables, decreased by $12.4 million. Other receivables, net of allowances, decreased by $2.8 million. Total current assets decreased by $34.5 million, or 9.2 percent, at June 30, 2008 compared to June 30, 2007, primarily due to decreases in operating investments and other receivables offset by increases in cash and cash equivalents, due from State of Hawai‘i and other current assets. Other receivables decreased due to the establishment of a $6.3 million allowance against a receivable from the University Clinical, Education & Research Associates ("UCERA"). Operating investments decreased by $116 million primarily due to the reclassification of $117 million in auction rate securities to noncurrent assets discussed below. Cash and cash equivalents increased by $70.1 million primarily due to expanded investment in certificates of deposit. Due from State of Hawai‘i, included in net receivables, increased by $14.7 million as a result of additional State support received for fiscal year 2008. Other receivables, net of allowances, decreased by $7.1 million while other current assets increased by $4.2 million.

- Current liabilities consist primarily of accounts payable, accrued compensation, 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 increased by $0.8 million, or 0.4 percent, at June 30, 2009 as compared to June 30, 2008, due primarily to increases in accrued payroll and fringe benefits and current portion of long-term liabilities decreases in advances from sponsors, deferred revenue and due to State of Hawai‘i. Total current liabilities increased by $23.4 million, or 11.8 percent, at June 30, 2008 as compared to June 30, 2007, due primarily to increases in accounts payable, accrued compensation, advances from sponsors, deferred revenue and current portion of long-term liabilities offset by decreases in other current liabilities.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by $37.1 million to $502.4 million at June 30, 2009. Endowments and other investments held with the Foundation amounted to $201.1 million at June 30, 2009. Increase was primarily due to unspent bond proceeds in 2009.

At June 30, 2009, endowments and other investments include $108.5 million in auction rate securities. In 2008, the University reclassified auction rate securities from operating investments as a result of uncertainties surrounding the timing of liquidation of the University's auction rate securities portfolio. While the University's ability to liquidate the carrying value of its auction rate securities in the near term may be limited, management believes it is appropriate to report the University’s auction rate securities at par value since the University continues to receive its contractual interest payments in a timely manner, recent successful auctions have been executed at par value, and the University has no intention of settling its auction rate securities at less than par value. In 2009, the University’s auction rate securities portfolio decreased $8.6 million due to maturities in accordance with contractual terms.

The University’s endowment and other investments, including endowments held with the Foundation, increased by $85.5 million to $465.3 million at June 30, 2008. Endowments and other investments held with the Foundation amounted to $224 million at June 30, 2008. Endowments and other investments included $117.1 million in auction rate securities. The increase was primarily attributable to additional endowment gifts, an increase in market value and an investment for the construction of the New Frear Hall Student Housing Complex.

The University’s endowment funds consist of both permanent endowments and funds functioning as endowment (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 year 2009, the University instituted a four percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distribution available to the University for 2009 amounted to $1.1 million. The distribution rate for fiscal year 2008 was also four percent and amounted to $1.9 million.

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, 2009, 2008 and 2007, total capital assets, net of accumulated depreciation amounted to $1.3 billion, $1.2 billion and $1.1 billion, respectively, which represented 51 percent and 52 percent and 51 percent, respectively, of the University’s total assets. Capital asset additions totaled $177.9 million, $195.2, and $138.8 million in fiscal years 2009, 2008 and 2007, respectively, while depreciable capital asset disposals, net of accumulated depreciation amounted to $11.4 million, $9.4 million and $14.8 million, respectively. Of the total capital asset additions, $17.7 million, $16.3 million and $7.3 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 2009, 2008 and 2007, respectively. Purchases of equipment, including information technology, amounted to approximately $16.6 million,

$18.6 million and $22.3 million and purchases of library materials amounted to approximately $4.0 million, $6.9 million and $8.1 million during fiscal years 2009, 2008, and 2007, 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 2009, 2008, and 2007 or in progress as of June 30, 2009, 2008, and 2007 included:

- **New Frear Hall Student Housing Complex** – Student Housing Services newest residence hall on the Mānoa campus was completed in August 2008 in time for the start of the Fall 2008 semester. The $69 million project is comprised of two interconnected 12-story towers which can accommodate 810 students in four different unit types that provide a housing option that combines community and independent living. Amenities in Frear include private study rooms, bike, moped and surfboard storage area, electronic security and cameras; all within minutes of the main Mānoa campus. Frear Hall is also LEED ("Leadership in Energy and Environmental Design") silver certified, meeting standards for environmentally sustainable construction.

- **Komohana Research and Extension Complex** − The College of Tropical Agriculture and Human Resources ("CTAHR") at the Mānoa campus dedicated the renovations and new construction of the Komohana Research and Extension Complex in Hilo in November 2009. The $14.5 million project included renovations of faculty offices and the newly constructed John H Beaumont Research Wing. The administration wing has been named the Todashi Higaki Administrative Wing. The newly renovated office space and new laboratories for faculty and staff will enhance CTAHR's outreach to support, sustain and enhance Hawai‘i's agriculture, environment, communities and families, and serve Hawai‘i's people for years to come.

- **University of Hawai‘i Student Life Complex** – The $14 million University of Hawai‘i at Hilo Student Life Center was opened in September 2008. The facility consists of nearly 23,000 square feet of indoor fitness/recreation rooms, a cardio and weight room, dance and aerobics rooms, a lounge with wireless internet, an indoor café, locker rooms, an Olympic-sized swimming pool, and an open deck by the swimming pool. The goal for the Student Life Center facility is to expose as many as possible of the University of Hawai‘i Hilo community to activities that will improve their quality of life.

- **Kaua‘i Community College One-Stop Center** – The $14 million first phase of the One-Stop Center project was completed in August 2008. The new 33,000 square foot facility brings together in one place a range of services for students. Admissions and records, student advising, placement testing, career counseling, cashiering, and business office functions, as well as the University Center, are now conveniently located at the front of the campus. Construction of Phase II began in October 2008. The 19,000 square foot facility will house the college's Apprenticeship program, the Office of Continuing Education and Training program classrooms and offices, a computer lab and a new bookstore.

- **University of Hawai‘i West O‘ahu –** Ground blessing for the new campus in the City of Kapolei took place in January 2009. Electrical, water, and sewer infrastructure is currently in progress. When completed, University of Hawai‘i West O‘ahu's new campus will accommodate an estimated 7,600 students and 1,000 faculty and staff.

The State of Hawai‘i, at times issues general obligation bonds on behalf of the University to finance certain capital projects. At June 30, 2009, 2008, and 2007, amounts due to the State of Hawai‘i for general obligation bonds payable amounted to $1.3 million, $2.9 million and $4.6 million, respectively. 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. For fiscal year 2008 and 2007, debt service paid by the University amounted to $1.9 million consisting of $1.7 million in principal and $0.2 million in interest. General obligation bonds have also been issued by the State of Hawai‘i on behalf of the University and are carried as a liability of the State of Hawai‘i. Debt service on these general obligation bonds amounted to $87.7 million, $83.9 million, and $80.3 million in fiscal years 2009, 2008, and 2007, respectively, and were paid for by the State of Hawai‘i on behalf of the University using state appropriations. These amounts are 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 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, 2009, 2008 and 2007, revenue bonds payable amounted to $358.6 million, $263.0 million, and $264.1 million, respectively. Debt service in fiscal year 2009 amounted to $16.1 million, consisting of $4.4 million of principal and $11.7 million of interest. Debt service in fiscal year 2008 amounted to $12.8 million, consisting of $1.0 million of principal and $11.8 million of interest. Debt service in fiscal year 2007 amounted to $11.1 million, consisting of $3.7 million of principal and $7.4 million of interest. Principal reductions during fiscal year 2009, 2008, and 2007 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 $14.8 million and $21.3 million in 2009 and 2008, 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.

At June 30, 2009, the University had no capital lease obligations. At June 30, 2008 and 2007, capital lease obligations amounted to $13.8 million and $14.3 million, respectively. Debt service in fiscal years 2008 and 2007 amounted to $1.2 million consisting of $0.4 million for principal and $0.8 million for interest.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. At June 30, 2009, 2008 and 2007, total net assets amounted to $1.7 billion, $1.7 billion, and $1.6 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 $1.1 billion, $967.7 million, and $890.9 million at June 30, 2009, 2008, and 2007, respectively, an increase of $82.8 million and $76.8 million in fiscal years 2009 and 2008, respectively. The fiscal year 2009 increase largely represents $177.9 million of capital asset additions and $79.2 million of depreciation expense. The fiscal year 2008 increase largely represents $195.2 million of capital asset additions and $71.2 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 $162.5 million, $152.4 million and $133.5 million at June 30, 2009, 2008 and 2007, respectively. The increases of $10.0 million and $18.9 million in fiscal years 2009 and 2008, 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, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Plant facilities	$ 263,082	$ 241,019	$ 217,679
Donor-restricted activities	125,469	148,968	151,002
Loan activities	28,197	27,853	28,163
External sponsor activities	888	1,165	2,782
	$ 417,636	$ 419,005	$ 399,626

In 2009, the overall decrease of $1.4 million in restricted expendable net assets was mainly attributable to an increase of $22.1 million in plant facilities and a $23.5 million decrease in donor-restricted activities. In 2008, the overall increase of $19.4 million in restricted expendable net assets was attributable to $23.3 million increase in plant facilities offset by decreases in donor-restricted, loan and external sponsor activities of $2.0 million, $0.3 million, and $1.6 million, respectively.

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 $19.3 million, $42.2 million and $43.1 million were designated for endowment activities at June 30, 2009, 2008 and 2007, respectively. In 2009, the $22.9 million, or 54.3 percent, decrease in quasi-endowments from 2008, was largely due to net realized and unrealized losses on endowments held by the Foundation. Unrestricted net assets were comprised of the following at June 30, 2009, 2008 and 2007 (in thousands of dollars):

	2009	2008	2007
Designated			
Research and training	$ 44,755	$ 55,428	$ 49,922
Contract commitments	49,010	43,007	24,189
Quasi-endowment	19,264	42,184	43,140
Capital projects	30,717	29,751	28,551
Bond System	17,833	14,346	20,175
Other designated net assets	8,403	8,413	8,059
	169,982	193,129	174,036
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, other postemployment benefits, payroll, etc).	(80,606)	(43,057)	(19,776)
	$ 89,376	$ 150,072	$ 154,260

Results of Operations

The Consolidated Statement 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, 2009, 2008 and 2007, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2009		2008		2007		Change	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 09-08 Inc (Dec)	FY 08-07 Inc (Dec)
Revenues								
Operating								
Tuition and fees, net	$ 181,078	12.7%	$ 150,969	10.9%	$ 136,950	10.3%	$ 30,109	$ 14,019
Grants and contracts	399,640	28.0%	379,364	27.3%	373,237	28.0%	20,276	6,127
Sales and services	120,899	8.5%	122,651	8.8%	110,094	8.3%	(1,752)	12,557
Other revenue	2,921	0.2%	3,266	0.2%	2,541	0.2%	(345)	725
Total operating revenues	704,538	49.4%	656,250	47.2%	622,822	46.7%	48,288	33,428
Non-operating								
State appropriations	731,394	51.2%	690,625	49.7%	623,984	46.8%	40,769	66,641
Net Investment income (expense)	(31,928)	-2.2%	10,662	0.8%	46,549	3.5%	(42,590)	(35,887)
Private gifts	23,285	1.6%	31,543	2.3%	40,057	3.0%	(8,258)	(8,514)
Total non-operating revenues	722,751	50.6%	732,830	52.8%	710,590	53.3%	(10,079)	22,240
Total revenues supporting core activities	1,427,289	100.0%	1,389,080	100.0%	1,333,412	100.0%	38,209	55,668
Expenses								
Operating								
Compensation and benefits	995,777	63.3%	901,678	62.5%	767,285	59.4%	94,099	134,393
Supplies and materials	201,618	12.8%	185,216	12.8%	185,582	14.4%	16,402	(366)
Telecom and utilities	57,959	3.7%	58,553	4.1%	46,681	3.6%	(594)	11,872
Scholarships and fellowships	36,297	2.4%	30,162	2.1%	31,593	2.4%	6,135	(1,431)
Other expense	93,440	5.9%	103,624	7.2%	87,566	6.8%	(10,184)	16,058
Total operating expenses	1,385,091	88.1%	1,279,233	88.6%	1,118,707	86.5%	105,858	160,526
Non-operating								
Transfers to State, net	97,038	6.2%	82,540	5.7%	104,584	8.1%	14,498	(22,044)
Interest expense	11,175	0.7%	10,629	0.7%	3,919	0.3%	546	6,710
Total non-operating expenses	108,213	6.9%	93,169	6.5%	108,503	8.4%	15,044	(15,334)
Expenses associated with core activities before depreciation	1,493,304	-	1,372,402	-	1,227,210	-	120,902	145,192
Income (loss) from core activities before depreciation	(66,015)	-	16,678	-	106,202	-	(82,693)	(89,524)
Depreciation	79,228	5.0%	71,226	4.9%	65,387	5.1%	8,002	5,839
Expenses associated with core activities including depreciation	1,572,532	100.0%	1,443,628	100.0%	1,292,597	100.0%	128,904	151,031
Income (loss) from core activities	(145,243)	-	(54,548)	-	40,815	-	(90,695)	(95,363)
Other nonoperating activity								
Capital gifts and grants	172,118		148,496		150,290			
Permanent endowment	13,479		19,284		21,548			
Other revenue/expense, net	(9,539)		(2,259)		243			
Other nonoperating income, net	176,058		165,521		172,081			
Increase in net assets	30,815		110,973		212,896			
Net assets								
Beginning of year	1,689,243		1,578,270		1,365,374			
End of year	$ 1,720,058		$ 1,689,243		$ 1,578,270			

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 2009 was the third year in the University’s six-year plan to increase tuition and fee rates. Tuition and fees revenue, net of scholarship allowances, increased by $30.1 million or 19.9 percent to $181.1 million in fiscal year 2009, and increased by $14.0 million, or 10.2 percent, to $151.0 million in fiscal year 2008 when compared to $136.9 million in fiscal year 2007. Scholarship allowances amounted to $61.3 million, $52.3 million, and $36.2 million in fiscal year 2009, 2008 and 2007, respectively. For fiscal year 2009, the increase is primarily attributable to an increase in enrollment in the UH Mānoa, UH Hilo and community college campuses. In addition, undergraduate tuition and fee rates for all campuses increased between 11.7 percent and 18.6 percent. For fiscal year 2008, the increase is primarily attributable to an increase in enrollment in the UH Hilo, West O‘ahu and community college campuses. and undergraduate tuition and fee rates for all campuses increased between 11.4 percent and 21.7 percent.

General state appropriations increased by $40.8 million or 5.9 percent to $731.4 million in fiscal year 2009 and increased by $66.6 million, or 10.7 percent, to $690.6 million in fiscal year 2008 when compared to $624.0 million in fiscal year 2007. A $57.3 million increase in general state appropriation support, a $5.4 million increase in collective bargaining appropriations offset by $7.9 million in executive restrictions, absence of a $14.5 million flood appropriation in the prior year and appropriations that lapsed accounted for the net increase in fiscal year 2009. A $57.1 million increase in general state appropriation support, a $3.3 million decrease in collective bargaining appropriations and a $12.8 million increase in flood appropriation and appropriations that lapsed accounted for the net increase in fiscal year 2008.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by $20.3 million, or 5.3 percent, to $399.6 million in fiscal year 2009, and increased by $6.1 million, or 1.6 percent, to $379.4 million in fiscal year 2008 when compared to $373.2 million in fiscal year 2007. The fiscal year 2009 increase was attributable to a $15.9 million increase in federal grants and contracts and $4.4 million increases in state and local grants and contracts and nongovernmental sponsored programs. The fiscal year 2008 net increase was attributable to a $2.9 million decrease in federal grants and contracts offset by increases in state and local grants and contracts and nongovernmental sponsored programs of $5.8 million and $3.2 million, respectively.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, decreased by $1.8 million, or 1.4 percent, to $120.9 million in fiscal year 2009 when compared to $122.7 million in fiscal year 2008. The decrease was largely due to a $6.2 million decrease in Mānoa athletics and other auxiliary enterprise revenues offset by a $4.2 million increases in student housing revenue attributable to higher enrollment levels. In fiscal year 2008, sales and services increased by $12.2 million, or 11.1 percent, to $122.3 million when compared to $110.1 million in fiscal year 2007. In fiscal year 2008, the increase was largely due to increases in bookstore and Mānoa athletics revenues attributable to the successful football season and Allstate Sugar Bowl participation.

The University’s net investment income for fiscal year 2009 decreased by $42.6 million resulting in a net investment loss of $31.9 million compared to $10.6 million net investment income in fiscal year 2008. The fiscal year 2009 decrease was mainly due to a $17.6 million increase in net unrealized losses compounded by a $16.6 million increase in net realized losses over the prior year. Net investment income for fiscal year 2008 decreased by $35.9 million, or 77.1 percent, compared to $46.5 million in fiscal year 2007. The fiscal year 2008 decrease was mainly due to a $39.0 million decrease in net unrealized gain offset by a $4.2 million increase in net realized gain from the prior year.

The components of net investment income for the years ended June 30, 2009, 2008 and 2007 were as follows (in thousands):

				Increase (Decrease)	
	2009	**2008**	**2007**	**FY 09-08**	**FY 08-07**
Interest and dividend income	$ 16,521	$ 23,023	$ 22,689	$ (6,502)	$ 334
Net realized gains (losses)	(3,140)	13,499	9,303	(16,639)	4,196
Net unrealized gains (losses)	(40,582)	(23,001)	15,969	(17,581)	(38,970)
Other, net	(4,727)	(2,859)	(1,412)	(1,868)	(1,447)
	$ (31,928)	$ 10,662	$ 46,549	$ (42,590)	$ (35,887)

For fiscal year 2009, private gifts, most of which are restricted as to use, decreased by $8.3 million, or 26.2 percent, to $23.3 million in fiscal year 2009 when compared to $31.5 million in fiscal year 2008. The fiscal year 2009 decrease was primarily attributable to the effects of the downturn in the economy. This was seen by a decrease in the number of real estate and stock gifts received in 2009. Additionally, the Foundation’s operating revenues were negatively impacted by the economy and resulted in an approximate 17 percent reduction in staff, of which over 60 percent were fundraising staff. For fiscal year 2008, private gifts, most of which are restricted as to use, decreased by $8.5 million, or 21.2 percent, to $31.5 million in fiscal year 2008 when compared to $40.1 million in fiscal year 2007. The fiscal year 2008 decrease was primarily attributable to the successful Centennial Campaign in 2007 which brought the Foundation and the University closer to reaching its $250 million goal. For fiscal year 2007, private gifts, most of which were restricted as to use, increased by $20 million, or 100 percent, to $40.1 million when compared to $20.0 million in fiscal year 2006. The fiscal year 2007 increase was primarily attributable to the Foundation’s dedication to raise private funds to support all ten campuses of the University. 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. Approximately 63 percent of the University’s expenses were related to compensation and benefits during fiscal year 2009 and 2008 and 59 percent in 2007. Compensation and benefits increased by $94.1 million, or 10.4 percent, to $995.8 million in fiscal year 2009, and increased by $134.4 million, or 17.5 percent, to $901.7 million in fiscal year 2008 when compared to $767.3 million in fiscal year 2007. The increases for fiscal years 2009, 2008, and 2007 were attributable to scheduled pay rate increases under collective bargaining agreements. Additionally, the increases in fiscal years 2009 and 2008 included the impact of GASB Statement No. 45 on fringe benefit expense. The adoption of GASB Statement No. 45 resulted in the University recognizing $94.8 million and $88.6 million in expense related to postretirement health and life insurance benefits in 2009 and 2008, respectively.

Supplies and materials expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions and other miscellaneous operating costs. In fiscal year 2009, supplies and material expense increased by $16.4 million, or 8.9 percent, to $201.6 million when compared to $185.2 million in fiscal year 2008. The increase was primarily attributable to increases in supplies and material expense in fiscal year 2009. In fiscal year 2008, supplies and materials expense decreased by $0.4 million, or 0.2 percent, to $185.2 million when compared to $185.5 million in fiscal year 2007. The decrease was primarily attributable to the $10.5 million reclassification of library electronic database expense in 2007 from the capitalized expense category offset by increases in supplies and material expense in fiscal year 2008.

The University is committed to providing an affordable yet quality education to its students. Scholarships and fellowships, primarily comprised of academic and athletic scholarships and fellowships, are payments of financial aid made directly to students. Scholarships and fellowships increased by $6.1 million, or 20.3 percent, to $36.3 million in fiscal year 2009 and decreased by $1.4 million, or 4.5 percent, to $30.2 million in fiscal year 2008 when compared to $31.6 million in fiscal year 2007. The increase for fiscal year 2009 was primarily due to a change in the relative amounts of financial aid payments made to offset scheduled tuition increases. Additionally, increased scholarships totaling $1.5 million were awarded for the new Second Century Scholarship initiated in Fall 2008 and increased amounts awarded for Centennial Scholarships and B Plus Scholarships. The decrease in 2008 was primarily attributable to fewer awards from the U.S. Department of Education for the Gaining Early Awareness and Readiness for Undergraduate Programs (“GEAR-UP”).

The University continues its commitment to improve and maintain its facilities that service the diverse social needs of students, faculty, families and persons with disabilities. For fiscal year 2009, repairs and maintenance increased by $5.0 million, or 23.8 percent, to $26.2 million compared to $21.1 million in fiscal year 2008. For fiscal year 2008, repairs and maintenance increased by $2.3 million, or 10.9 percent, compared to $20.6 million in fiscal year 2007. The majority of repair and maintenance increases was in buildings and structures such as facilities management projects, accessibility modifications, capital renewal and deferred maintenance on all of the University’s campuses.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense, which represents the estimated utilization of the University’s capital assets each year, increased by $8.0 million, or 11.2 percent, to $79.2 million during fiscal year 2009 when compared to $71.2 million in fiscal year 2008. In fiscal year 2008, depreciation expense increased by $5.8 million, or 8.9 percent, to $71.2 million when compared to fiscal year 2007. The increase in fiscal year 2009 and 2008 was primarily attributable to land improvements, building and equipment additions and reclassifications from construction in progress to building and infrastructure.

Transfers to state are primarily attributable to the return of general state appropriations for debt service on general obligation debt, excess fringe benefit appropriations and assessments, and executive restrictions, offset by transfers from the state to cover debt service on the University’s Series 2002A revenue bonds and the Hawai‘i Cancer Research Special fund.

Transfers to state increased by $8.0 million, or 7.7 percent, to $111.8 million in fiscal year 2009 when compared to $103.8 million in fiscal year 2008. For fiscal year 2009, increases in transfers to the state in the amount of $12.6 million for debt service on general obligation bonds, fringe benefit expense, and executive restrictions, were offset with an increase in Hawai‘i Cancer Research cigarette stamp tax collections and decrease on interest paid on Tobacco settlement funds and for “Bridge to Hope”. Transfers to state decreased by $22 million, or 21.1 percent, to $82.5 million in fiscal year 2008 when compared to $104.6 million in fiscal year 2007. For fiscal year 2008, increases in transfers to the state in the amount of $7.2 million for debt service on general obligation bonds, fringe benefit expense and interest paid on Tobacco settlement funds offset by increases in transfers from the state in the amount of $29.2 million for “Bridge to Hope”, Hawai‘i Cancer Research cigarette stamp tax and Tobacco settlement accounted for the overall change.

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, state capital appropriations and transfers, may only be used for the purchase or construction of specified capital assets. Additions to permanent endowments must be retained in perpetuity; however investment earnings thereon may be available in future years to support specified programs.

Capital gifts and grants, state capital appropriations and transfers, increased by $23.6 million, or 15.9 percent, to $172.1 million in fiscal year 2009 compared to $148.5 million in fiscal year 2008. During fiscal 2009, the State of Hawai‘i transferred $16.9 million in completed construction projects to the University. In addition to the completed construction projects, the State of Hawai‘i appropriated $142.7 million to the University for building renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2009 were primarily attributable to federal capital grants of $10.9 million and private capital gifts and grants of $1.6 million.

In fiscal year 2008, capital gifts and grants, including state capital appropriations and transfers, decreased by $1.8 million, or 1.2 percent, to $148.5 million compared to $150.3 million in fiscal year 2007. During fiscal 2008, the State of Hawai‘i transferred $15.6 million in completed construction projects to the University. In addition to the completed projects, the State of Hawai‘i appropriated $116.9 million to the University for building renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2008 were primarily attributable to federal capital grants of $11.1 million and private capital gifts and grants of $4.9 million.

Cash Flows

The statement 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, 2009, 2008, and 2007 is as follows (in thousands):

	2009	2008	2007	FY 09 vs. 08 Change	FY 08 vs. 07 Change
Cash received from operations	$ 696,631	$ 726,537	$ 668,382	$ (29,906)	$ 58,155
Cash payments for operations	(1,310,933)	(1,259,097)	(1,156,276)	(51,836)	(102,821)
Net cash used in operating activities	(614,302)	(532,560)	(487,894)	(81,742)	(44,666)
Net cash provided by noncapital financing activities	765,192	704,867	627,457	60,325	77,410
Net cash provided by (used in) capital and related financing activities	(34,852)	(148,583)	(36,407)	113,731	(112,176)
Net cash provided by (used in) investing activities	(168,550)	44,006	(91,844)	(212,556)	135,850
Net increase (decrease) in cash	(52,512)	67,730	11,312	(120,242)	56,418
Cash					
Beginning of year	105,545	37,815	26,503	67,730	11,312
End of year	$ 53,033	$ 105,545	$ 37,815	$ (52,512)	$ 67,730

The University’s cash and cash equivalents decreased by $52.5 million, or 49.8 percent, from $105.5 million at June 30, 2008 to $53.0 million at June 30, 2009. During fiscal year 2009, $614.3 million in cash was used for operating activities, offset by $765.2 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. The University’s cash and cash equivalents increased by $67.7 million, or 179.1 percent, from $37.8 million at June 30, 2007 to $105.5 million at June 30, 2008. During fiscal year 2008, $532.6 million in cash was used for operating activities, offset by $704.9 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities amounted to $34.9 million in fiscal year 2009, $148.6 million in fiscal year 2008 and $36.4 million in fiscal year 2007. The significant decrease in net cash used in capital and related financing activities in fiscal years 2009 as compared to fiscal year 2008 was primarily attributable to a $100.0 million in Series A revenue bonds issued by the University Bond System in April 2009 to finance the costs of certain University projects, $24.9 million increase cash provided by capital appropriations, and a $17.0 million decrease in purchases of capital assets, offset by a $16.7 million increase in principal paid on capital debt and leases, $3.8 million increase in transfers to the State of Hawai‘i for debt service, and $6.5 million decrease in transfers from the State of Hawai‘i associated with the Tobacco settlement. The significant increase in net cash used in capital and related financing activities in fiscal years 2008 as compared to fiscal year 2007 was primarily attributable to a $25.6 million increase cash provided by capital appropriations, gifts and grants and a $17.7 million net transfer from the State of Hawai‘i, and a decrease of $133.8 million in principal paid on capital debt and leases, offset by a $235.4 million decrease in proceeds from issuance of capital debt and a $53.9 million increase in purchases of capital assets.

Correspondingly, net cash used in investing activities amounted to $168.6 million in fiscal year 2009, while net cash provided by investing activities amounted to $44.0 million in fiscal year 2008. The decrease in net cash provided by investing activities of $212.6 million in fiscal year 2009 is attributable to an $8.5 million decrease in net income from interest and dividends on investments and a $114.0 million decrease from proceeds from the sales and maturities of investments and a $90.2 million increase in investment purchases. The increase in net cash provided by investing activities of $135.8 million in fiscal year 2008 is attributable to a $2 million increase in net income from interest and dividends on investments and a $26 million decrease from proceeds from the sales and maturities of investments offset by a $107.8 million decrease in investment purchases.

Net cash used in capital and related financing activities amount to $148.6 million in fiscal year 2008, $36.4 million in fiscal year 2007 and $125.9 million in fiscal year 2006. The significant increase in net cash used in capital and related financing activities in fiscal years 2008 as compared to fiscal year 2007 was primarily attributable to a $25.8 million increase cash provided by capital appropriations, gifts and grants and a $17.7 million net transfer from the State of Hawai‘i and a decrease of $128.8 million in principal paid on capital debt and leases, offset by a $235.4 million decrease in proceeds from issuance of capital debt and a $53.9 million increase in purchases of capital assets.

Correspondingly, net cash provided by investing activities amounted to $44 million in fiscal year 2008, while net cash used in investing activities amounted to $91.8 million in fiscal year 2007 and $4.5 million in fiscal year 2006. The increase in net cash provided by investing activities of $135.8 million in fiscal year 2008 is attributable to a $2 million increase in net investment income and a $26 million decrease from proceeds from the sales and maturities of investments offset by a $107.8 million decrease in investment purchases.

Looking Forward

Looking toward the future, despite the challenges presented by the current state and national economies, 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.

At June 30, 2009, the University concluded its Centennial Campaign, which was the most ambitious fund-raising campaign in the State's history. The campaign attracted 90,000 donors, 50,000 of whom were new contributors, and raised $336 million, far surpassing the initial goal of $250 million. The University of Hawai‘i Foundation is now planning for the next major fundraising effort. In the meantime, the level of fundraising has been maintained, even in these difficult economic times, with over $21 million having been raised in the first half of fiscal year 2010 toward a goal of $40 million.

In fiscal year 2009, extramural research and training awards totaled $414 million, more than twice as much as awards in fiscal year 2000. In fiscal year 2010, this pace has continued, with more than $270 million in contract and grant awards having been obtained through December 31, 2009.

At the same time, enrollment has been at record levels. Fall 2008 headcount was over 53,000 and Fall 2009 was almost 58,000 — both all-time records in the history of the University.

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, the State Legislature reduced the University's general fund appropriations for fiscal year 2010 by $46 million. In addition, the Governor has further restricted the University's general funds by $52 million for fiscal year 2010. While the Legislature is currently in session considering the budget for fiscal year 2011, funding reductions approximating these levels is likely to be maintained and further reductions are possible.

The University’s campuses have been planning for and implementing measures to deal with the above level of reductions in general funds, including salary reductions, hiring restrictions, operational consolidations and savings, and the use of federal stabilization and other non-general fund sources of revenue. The University remains committed to revenue diversification and cost containment, in order to provide the necessary resources to support and fuel its operations and enrollment growth.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University’s operations from market volatility.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Net Assets
June 30, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 53,033	$ 105,545
Operating investments	178,621	75,469
Due From State of Hawai‘i	15,899	28,277
Accounts receivable, net	88,580	91,390
Current portion of notes and contributions receivable, net	13,019	14,523
Accrued interest receivable	1,492	2,069
Inventories	14,271	13,416
Prepaid expenses, deferred charges and other current assets	8,118	9,537
Total current assets	373,033	340,226
Noncurrent assets		
Due from State of Hawai‘i	272,907	246,663
Endowment and other investments	502,426	465,285
Notes and contributions receivable, net	31,979	32,831
Capital assets, net	1,275,918	1,188,635
Other noncurrent assets	25,727	28,407
Total noncurrent assets	2,108,957	1,961,821
Total assets	$ 2,481,990	$ 2,302,047
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 51,082	$ 52,786
Accrued payroll and fringe benefits	36,150	29,654
Advances from sponsors	55,053	59,840
Deferred revenue	30,094	32,560
Due to State of Hawai‘i	6,438	8,292
Current portion of long-term liabilities	36,936	33,271
Other current liabilities	6,376	4,930
Total current liabilities	222,129	221,333
Noncurrent liabilities		
Accrued vacation	42,340	37,832
Accrued workers’ compensation liability	8,257	8,265
Other postemployment benefits	127,911	62,851
Due to State of Hawai‘i	1,176	1,313
Capital lease obligation	-	13,360
Bonds payable	351,600	258,630
Premium on bonds payable	1,729	1,864
Other noncurrent liabilities	6,790	7,356
Total noncurrent liabilities	539,803	391,471
Total liabilities	761,932	612,804
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	1,050,563	967,717
Restricted		
Nonexpendable	162,483	152,449
Expendable	417,636	419,005
Unrestricted	89,376	150,072
Total net assets	1,720,058	1,689,243
Total liabilities and net assets	$ 2,481,990	$ 2,302,047

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, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Operating revenues		
Student tuition and fees	$ 242,418	$ 203,243
Less: Scholarship allowances	61,340	52,274
Net student tuition and fees	181,078	150,969
Federal appropriations, grants and contracts	329,646	313,770
State and local grants and contracts	32,038	30,587
Nongovernmental sponsored programs	37,956	35,007
Sales and services of educational departments, other	36,699	36,018
Auxiliary enterprises		
Bookstores	31,090	31,521
Student housing (net of scholarship allowances of $1,005 and $856)	21,181	16,994
Other auxiliary enterprises revenues	31,929	38,118
Other operating revenues	2,921	3,266
Total operating revenues	704,538	656,250
Operating expenses		
Compensation and benefits	995,777	901,678
Supplies, services and cost of goods sold	201,618	185,216
Depreciation	79,228	71,226
Telephone and utilities	57,959	58,553
Scholarships and fellowships	36,297	30,162
Travel expenses	29,493	31,543
Repairs and maintenance	26,156	21,125
Other operating expenses	37,791	50,956
Total operating expenses	1,464,319	1,350,459
Operating loss	(759,781)	(694,209)
Nonoperating revenues (expenses)		
State appropriations	731,394	690,625
Private gifts	23,285	31,543
Net investment income (loss)	(31,928)	10,662
Interest expense	(11,175)	(10,629)
Transfers (to) from State of Hawai‘i for		
Debt service	(87,675)	(83,869)
Fringe benefits	(38,208)	(34,491)
Interest on Tobacco settlement	(75)	(1,190)
Restrictions	(5,100)	-
Bridge to Hope	116	781
Hawaii Cancer Research	19,117	14,957
Loss on disposal of capital assets	(5,975)	(1,973)
Other, net	(3,564)	(286)
Net nonoperating revenues before capital and endowment additions	590,212	616,130
Capital - state appropriations	142,716	116,910
Capital - federal grants/subsidies	10,887	11,059
Capital - gifts and grants	1,628	4,884
Net transfers from State of Hawai‘i for capital assets	16,887	15,643
Transfers from State of Hawai‘i, Tobacco settlement	14,787	21,272
Additions to permanent endowments	13,479	19,284
Total other revenues	200,384	189,052
Net nonoperating revenues	790,596	805,182
Change in net assets	30,815	110,973
Net assets		
Beginning of year	1,689,243	1,578,270
End of year	$ 1,720,058	$ 1,689,243

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, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Cash flows from operating activities		
Student tuition and fees	$ 184,909	$ 164,921
Grants and contracts	396,150	442,800
Other revenues	115,572	118,816
Payments to employees	(917,752)	(845,961)
Payments to suppliers and other	(356,068)	(373,410)
Payments for scholarships and fellowships	(37,113)	(39,726)
Net cash used in operating activities	(614,302)	(532,560)
Cash flows from noncapital financing activities		
State appropriations	743,686	661,474
Recoveries received from State for Mānoa flood	-	21,679
Gifts and grants for other than capital purposes	43,862	41,117
Transfer from State of Hawai‘I for		
Bridge for Hope	116	782
Hawaii Cancer Center	19,117	14,957
Transfers to State of Hawai‘I for		
Fringe benefits	(38,207)	(34,491)
Restrictions	(5,100)	-
Interest on Tobacco Settlement	(75)	(1,190)
Other receipts	1,793	539
Net cash provided by noncapital financing activities	765,192	704,867
Cash flows from capital and related financing activities		
Capital appropriations	116,473	91,580
Capital gifts and grants	11,024	12,378
Proceeds from issuance of capital debt	100,000	-
Purchases of capital assets	(158,869)	(175,830)
Principal paid on capital debt and leases	(20,155)	(3,498)
Interest paid on capital debt and leases (net of amounts capitalized)	(10,437)	(10,616)
Transfers to State of Hawai‘i for debt service	(87,675)	(83,869)
Transfer from State of Hawai‘i, Tobacco settlement	14,787	21,272
Net cash used in capital and related financing activities	(34,852)	(148,583)
Cash flows from investing activities		
Interest and dividends on investments, net	14,176	22,703
Proceeds from sales and maturities of investments	505,122	618,985
Purchase of investments	(687,848)	(597,682)
Net cash provided by (used in) investing activities	(168,550)	44,006
Net increase (decrease) in cash and cash equivalents	(52,512)	67,730
Cash and cash equivalents		
Beginning of year	105,545	37,815
End of year	$ 53,033	$ 105,545

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, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (759,781)	$ (694,209)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	79,228	71,226
Bad debt (recoveries) expense	(3,110)	8,056
Payments included in other nonoperating expenses for		
Clean-up efforts from Mānoa flood	(617)	(976)
Clean-up efforts form UH Lab school fire	(14)	(89)
Changes in operating assets and liabilities		
Accounts receivable	6,300	1,761
Notes and contributions receivable	(2,372)	(1,534)
Inventories	(856)	(3,678)
Prepaid expenses and other assets	(603)	656
Accounts payable	(1,321)	2,933
Accrued payroll and benefits	12,576	6,649
Accrued workers’ compensation liability	199	1,442
Advances from sponsors	(4,787)	8,398
Other postemployment benefits	65,060	62,851
Other, net	(4,204)	3,954
Net cash used in operating activities	$ (614,302)	$ (532,560)
Supplemental information of noncash transactions		
Noncash contributions	$ 2,101	$ 8,769
Net transfers from State of Hawai‘i for capital assets	17,696	16,256
Accounts payable for capital assets	13,171	13,377

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. The Research Corporation’s financial information has been converted to conform to the University’s presentation.

Cash and Cash Equivalents
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.

Restricted Cash, Cash Equivalents and Investments
The University considers 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 to be restricted.

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. Investments in 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 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 remains 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.

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 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 non-expendable personal property having an estimated useful life of more than one year. Interest incurred on construction financing net of investment income on any unspent financing proceeds is capitalized as a cost of construction. 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 charged to 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 future years.

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, 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. The University’s OPEB expense for the years ended June 30, 2009 and 2008 was $94,396 and $88,560, respectively. The University’s OPEB obligation liability at June 30, 2009 and 2008 was $127,991 and $62,851, respectively. The University remitted $47,372 and $41,217 in State assessed OPEB contributions for the years ended June 30, 2009 and 2008, which exceeded the University’s actuarially determined minimum OPEB contribution of $29,710, and $25,709, respectively. The $17,662 and $15,508 excess remittance was reported with Transfers to State for Fringe Benefits in the accompanying consolidated Statements of Changes in Net Assets.

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**:

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

  - Expendable – 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 are 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, 2009 and 2008 amounted to $580,119 and $571,454, respectively, of which $395,771 and $237,263 was 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 uncollectible receivables, the useful lives of capital assets, the valuation of investments and the current versus noncurrent classification of assets and liabilities.

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 at June 30, 2009 and 2008 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 healthcare and life insurance benefit obligation. 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. Estimates for uncollectible accounts are based on the age of the receivable and likelihood of payment.

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 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications have no impact on the 2008 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, 2009 and 2008, classified as cash and cash equivalents and operating investments, were $133,526 and $90,219, with corresponding bank balances of $153,766 and $115,401, respectively. The portion of such bank balances covered by federal deposit insurance or by collateral held by the State Director of Finance in the name of the University totaled $153,602 as of June 30, 2009 and $113,983 as of June 30, 2008. Additional cash equivalent balances of $16,568 as of June 30, 2009 and $11,270 as of June 30, 2008 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

The University’s investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit. 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 are not represented by the contract or notional amounts of the instruments.

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 $988 and $500 at June 30, 2009 and 2008, 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 of Regents (“Board”). Use of the income is either restricted by the donor or unrestricted and designated by the Board.

State law allows spending of net appreciation, realized and unrealized in the fair value of the assets, of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by Hawai‘i Revised Statute §517D-4. The University distributes its endowment fund income in accordance with its Board approved spending rate policy, which is consistent with state law. In fiscal years 2009 and 2008, the University’s spending rate policy provided for annual distributions ranging from three percent to five percent of the five-year moving average of the endowment fair value.

(All dollars reported in thousands)

Investment management fees paid by the University during fiscal years 2009 and 2008 approximated $1,354 and $1,640, respectively.

At June 30, 2009 and 2008, the University's investments were comprised of the following:

	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 26,283	$ 26,283	$ 19,418	$ 19,418
Fixed income securities	285,046	281,168	147,297	145,093
Equity securities	24,143	26,687	30,660	29,690
Mutual funds	39,398	43,449	57,903	55,430
Time certificates of deposit	104,979	104,979	3,968	3,968
Student loan auction rate securities	108,500	108,500	117,050	117,050
Investment agreements	-	-	48,273	48,273
Limited partnerships	37,874	51,471	33,840	37,299
Absolute return	17,436	18,494	24,869	23,140
Real assets	9,182	10,241	28,637	16,357
Other investments	28,206	34,462	28,839	29,141
Total investments	681,047	705,734	540,754	524,859
Less: Current portion	178,621	177,855	75,469	75,047
Total noncurrent investments	$ 502,426	$ 527,879	$ 465,285	$ 449,812

Due to uncertainties surrounding the timing of liquidation of our 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. On an industry-wide basis, many auctions have failed, and there is, as yet, no meaningful secondary market for these instruments. 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. While the University's ability to liquidate the carrying value of its auction rate securities in the near term may be limited, management believes it is appropriate to report the University's auction rate securities at par value since the University continues to receive its contractual interest payments in a timely manner, recent successful auctions have been executed at par value, and the University has no intention of settling its auction rate securities at less than par value. Management also believes that the current lack of liquidity of auction rate securities will not have a material adverse effect upon the University's operational capabilities.

Subsequent to June 30, 2009, the University has redeemed $15,000 of its holdings in auction rate securities.

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2009 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 49,936	$ 53,857	$ (3,921)	
Beginning of year	56,732	56,530	202	
Net change	(6,796)	(2,673)	(4,123)	$ (4,633)
Foundation Endowment Pool				
End of year	146,214	166,861	(20,647)	
Beginning of year	182,338	167,308	15,030	
Net change	(36,124)	(447)	(35,677)	1,883
Associated Students of the University of Hawai‘i				
End of year	5,583	5,816	(233)	
Beginning of year	6,718	6,856	(138)	
Net change	(1,135)	(1,040)	(95)	(1,073)
School of Medicine				
End of year	11,936	11,920	16	
Beginning of year	11,788	11,769	19	
Net change	148	151	(3)	-
University Bond System				
End of year	124,619	124,489	130	
Beginning of year	48,273	48,273	-	
Net change	76,346	76,216	130	-
Operating investments				
End of year	178,621	177,855	766	
Beginning of year	75,469	75,047	422	
Net change	103,152	102,808	344	269
Auction rate securities				
End of year	108,500	108,500	-	
Beginning of year	117,050	117,050	-	
Net change	(8,550)	(8,550)	-	-
Other				
End of year	55,638	56,436	(798)	
Beginning of year	42,386	42,026	360	
Net change	13,252	14,410	(1,158)	414
Total investments				
End of year	681,047	705,734	(24,687)	
Beginning of year	540,754	524,859	15,895	
Net change	$ 140,293	$ 180,875	$ (40,582)	$ (3,140)

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2008 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 56,732	$ 56,530	$ 202	
Beginning of year	60,882	55,251	5,631	
Net change	(4,150)	1,279	(5,429)	$ 1,050
Foundation Endowment Pool				
End of year	182,338	167,308	15,030	
Beginning of year	176,388	144,123	32,265	
Net change	5,950	23,185	(17,235)	11,733
Associated Students of the University of Hawai‘i				
End of year	6,718	6,856	(138)	
Beginning of year	7,284	6,475	809	
Net change	(566)	381	(947)	325
School of Medicine				
End of year	11,788	11,769	19	
Beginning of year	14,548	14,532	16	
Net change	(2,760)	(2,763)	3	-
University Bond System				
End of year	48,273	48,273	-	
Beginning of year	89,871	89,871	-	
Net change	(41,598)	(41,598)	-	-
Operating investments				
End of year	75,469	75,047	422	
Beginning of year	127,931	128,063	(132)	
Net change	(52,462)	(53,016)	554	257
Auction rate securities				
End of year	117,050	117,050	-	
Beginning of year	64,000	64,000	-	
Net change	53,050	53,050	-	-
Other				
End of year	42,386	42,026	360	
Beginning of year	33,192	32,885	307	
Net change	9,194	9,141	53	134
Total investments				
End of year	540,754	524,859	15,895	
Beginning of year	574,096	535,200	38,896	
Net change	$ (33,342)	$ (10,341)	$ (23,001)	$ 13,499

(All dollars reported in thousands)

	2009	2008
Summary of net investment income		
Change in unrealized net loss	$ (40,582)	$ (23,001)
Net realized gain (loss)	(3,140)	13,499
	(43,722)	(9,502)
Interest in perpetual trusts	(1,916)	(1,003)
Split interest agreements	(1,736)	262
Amounts held for others	419	40
Investment income used to finance construction costs	(140)	(518)
Interest and dividend income	16,521	23,023
Investment income (loss) before management fees	(30,574)	12,302
Less: Management fees	(1,354)	(1,640)
Net investment income (loss)	$ (31,928)	$ 10,662

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 by or collateralized by securities guaranteed 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.

Investment Risk Factors

There are many factors that affect the value of investments. Some, such as custodial credit risk, concentration of credit 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.

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, 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 that 15 percent of the fixed income investments may be graded with an S&P quality rating below “A”.

(All dollars reported in thousands)

The composition of fixed income securities at June 30, 2009 and 2008, along with credit quality ratings is summarized below:

		Credit Quality Rating				
2009	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB
U.S. Treasury	$ 6,492	$ 6,492	$ -	$ -	$ -	$ -
U.S. government agencies	254,495	357	254,138	-	-	-
Corporate bonds	24,059	258	3,367	11,581	6,099	2,754
Total fixed income securities	$ 285,046	$ 7,107	$ 257,505	$ 11,581	$ 6,099	$ 2,754

		Credit Quality Rating				
2008	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB
U.S. Treasury	$ 3,994	$ 3,994	$ -	$ -	$ -	$ -
U.S. government agencies	126,423	1,993	124,430	-	-	-
Corporate bonds	16,880	314	8,332	2,074	4,468	1,692
Total fixed income securities	$ 147,297	$ 6,301	$ 132,762	$ 2,074	$ 4,468	$ 1,692

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, more volatile than those with shorter maturities.

At June 30, 2009, the composition of the University’s fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
2009	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	$ 6,492	$ 790	$ 4,714	$ 944	$ 44
U.S. government agencies	254,495	107,226	143,217	2,032	2,020
Corporate bonds	24,059	523	11,268	12,163	105
Total fixed income securities	$ 285,046	$ 108,539	$ 159,199	$ 15,139	$ 2,169

Concentration of Credit Risk
Concentration of credit 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)

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 investment in publicly-traded foreign securities.

At June 30, 2009 and 2008, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2009	2008
Equity securities		
Australian dollar	$ 867	$ 265
Bermudian dollar	424	571
Brazilian real	1,231	1,357
British pound	6,631	9,398
Euro	13,846	16,503
Hong Kong dollar	1,237	1,373
Japanese yen	12,189	16,382
Korean won	1,405	1,614
Mexican peso	969	1,133
Polish zloty	567	-
Singapore dollar	1,247	1,405
Swedish krona	715	839
Swiss franc	1,493	1,731
Taiwanese dollar	512	880
Other (20 countries)	1,791	2,073
Total exposure to foreign currency risk	$ 45,124	$ 55,524

3. Accounts Receivable

The composition of accounts receivable at June 30, 2009 and 2008 is summarized as follows:

	2009	2008
U.S. government	$ 55,878	$ 51,273
State and local government	7,869	12,211
Private agencies	10,310	17,532
Other	28,496	28,041
	102,553	109,057
Less: Allowance for doubtful accounts	13,973	17,667
	$ 88,580	$ 91,390

(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 $39,589 in 2009 and $38,369 in fiscal year 2008. During fiscal year 2009, the University expended 98.11 percent and 1.89 percent of this cost recovery on research and training programs and discovery and inventions, respectively. During fiscal year 2008, the University expended 98.92 percent and 1.08 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, 2009 and 2008 is summarized as follows:

	2009	2008
Student notes		
Federal loan programs	$ 20,614	$ 19,658
State loan programs	7,536	6,098
University loan funds	61	58
Other notes receivable	125	149
Total student and other notes outstanding	28,336	25,963
Less: Allowance for doubtful accounts	5,912	5,955
Total student and other notes receivable, net	22,424	20,008
Contributions receivable	23,983	28,698
Less: Allowance for uncollectible pledges	1,062	1,001
Less: Discount to present value	347	351
Total contributions receivable, net	22,574	27,346
Total student notes and contributions receivable, net	44,998	47,354
Less: Current portion, net	13,019	14,523
	$ 31,979	$ 32,831

(All dollars reported in thousands)

The allowance for doubtful accounts at June 30, 2009 and 2008 is comprised of:

	2009	2008
Federal Perkins loan program	$ 3,352	$ 3,564
State of Hawai‘i Higher Education loans	2,471	2,268
Nursing/Health Profession loans	30	66
Short-term loans	59	57
	$ 5,912	$ 5,955

Payments on contributions receivable at June 30, 2009 are expected to be collected in:

Less than one year	$ 9,782
One year to five years	14,201
	$ 23,983

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 professions 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 and University short-term loans may be written-off with the approval of the University's General Counsel.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $5,337 and $5,072 at June 30, 2009 and 2008, 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.

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.

(All dollars reported in thousands)

6. Inventories

The inventories and the methods of valuation at June 30, 2009 and 2008 are comprised of:

		2009	2008
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method	$ 11,700	$ 10,722
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,202	1,222
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.	905	922
University of Hawai‘i other cost of goods sold	Cost applied on the first-in, first-out basis.	464	550
		$ 14,271	$ 13,416

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2009 and 2008 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2009					
Nondepreciable capital assets					
Land	$ 12,486	$ -	$ -	$ -	$ 12,486
Construction in progress	211,866	136,798	4,478	(172,485)	171,701
Total capital assets not being depreciated	224,352	136,798	4,478	(172,485)	184,187
Depreciable capital assets					
Land improvements	79,703	191	1,672	5,131	83,353
Infrastructure	74,888	368	-	7,634	82,890
Buildings	1,188,899	19,918	8,839	152,551	1,352,529
Equipment	269,778	16,588	15,581	7,169	277,954
Library materials	160,337	4,036	1,969	-	162,404
Total capital assets being depreciated	1,773,605	41,101	28,061	172,485	1,959,130
Less: Accumulated depreciation	809,322	79,228	21,151	-	867,399
Capital assets, net	$ 1,188,635	$ 98,671	$ 11,388	$ -	$ 1,275,918

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2008					
Nondepreciable capital assets					
Land	$ 11,827	$ 659	$ -	$ -	$ 12,486
Construction in progress	146,623	151,988	1,490	(85,255)	211,866
Total capital assets not being depreciated	158,450	152,647	1,490	(85,255)	224,352
Depreciable capital assets					
Land improvements	75,816	49	676	4,514	79,703
Infrastructure	55,327	139	-	19,422	74,888
Buildings	1,130,857	16,889	16,186	57,339	1,188,899
Equipment	255,785	18,573	8,560	3,980	269,778
Library materials	153,664	6,942	269	-	160,337
Total capital assets being depreciated	1,671,449	42,592	25,691	85,255	1,773,605
Less: Accumulated depreciation	755,869	71,226	17,773	-	809,322
Capital assets, net	$ 1,074,030	$ 124,013	$ 9,408	$ -	$ 1,188,635

(All dollars reported in thousands)

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. 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 is 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") administer a few 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 $17,696 and $16,256 in 2009 and 2008, respectively.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2009 and 2008 were comprised of:

	2009	2008
Interest in beneficial trusts held by others	$ 17,108	$ 19,201
Deferred bond refunding and issuance costs (Note 11)	8,619	9,206
	$ 25,727	$ 28,407

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, 2009 and 2008 were as follows:

	2009		2008	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 15,899		$ 28,192	
Employer fringe adjustments	-		85	
Due from State of Hawai‘i – current	15,899		28,277	
State capital appropriations-noncurrent	272,907		246,663	
Total due from State of Hawai‘i	$ 288,806		$ 274,940	
Imprest/petty cash advances		$ 264		$ 278
Advance		6,000		6,000
General obligation bonds – current		137		1,603
Employee fringe adjustments		37		-
Other		-		411
Due to State of Hawai‘i – current		6,438		8,292
General obligation bonds – noncurrent		1,176		1,313
Total due to State of Hawai‘i		$ 7,614		$ 9,605

(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, 2009 was as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series CS (interest rate, 5.00% to 5.25%)				
Student Housing				
Mānoa	$ 5,019	$ 829	$ 829	$ -
Hilo	979	162	162	-
Parking Structure Phase I	2,915	481	481	-
	8,913	1,472	1,472	-
Series DB (interest rate 2.80% to 5.25%)				
Student Housing				
Mānoa	731	731	67	664
Hilo	143	143	13	130
Parking Structure Phase I	425	425	39	386
	1,299	1,299	119	1,180
Series DG (interest rate 5.00%)				
Student Housing				
Mānoa	82	82	7	75
Hilo	16	16	1	15
Parking Structure Phase I	47	47	4	43
	145	145	12	133
	$ 10,357	$ 2,916	$ 1,603	$ 1,313

(All dollars reported in thousands)

Activity related to amounts due to the State of Hawai‘i for general obligation bonds for the year ended June 30, 2008 was as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series X (interest rate, 4.00% to 5.00%)				
Mānoa Student Housing Phase II	$ 3,000	$ 185	$ 185	$ -
Mānoa Campus Center	2,125	130	130	-
	5,125	315	315	-
Series CS (interest rate, 5.00% to 5.25%)				
Student Housing				
Mānoa	5,019	1,618	789	829
Hilo	979	316	154	162
Parking Structure Phase I	2,915	939	458	481
	8,913	2,873	1,401	1,472
Series DB (interest rate 2.80% to 5.25%)				
Student Housing				
Mānoa	731	731	-	731
Hilo	143	143	-	143
Parking Structure Phase I	425	425	-	425
	1,299	1,299	-	1,299
Series DG (interest rate 5.00%)				
Student Housing				
Mānoa	82	82	-	82
Hilo	16	16	-	16
Parking Structure Phase I	47	47	-	47
	145	145	-	145
	$ 15,482	$ 4,632	$ 1,716	$ 2,916

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 first principal payment on Series DB and DG were due on September 1, 2008 and July 1, 2009, respectively. The interest and principal payments are due as follows:

	Principal	**Interest**
Series CS	April 1	April 1 and October 1
Series DB	Sept 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

(All dollars reported in thousands)

At June 30, 2009, 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:

Year ending June 30,	Principal	Interest
2010	$ 137	$ 7
2011	144	6
2012	151	6
2013	159	5
2014	167	4
2015–2018	555	5
	$ 1,313	$ 33

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of 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.

Act 158-SLH 2008, Section 4, provided general fund appropriation to pay for debt service on general obligation bonds issued for the University and transferred to the financial administration program of the Department of Budget and Finance. Appropriation for debt service amounted to $87,675 and $83,869 for the years ended June 30, 2009 and 2008, respectively.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2009 and 2008 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2009					
Leases and bonds payable					
Revenue bonds payable	$ 263,045	$ 100,000	$ 4,415	$ 358,630	$ 7,030
Capital lease payable	13,820	-	13,820	-	-
Total leases and bonds payable	276,865	100,000	18,235	358,630	7,030
Other liabilities					
Workers' compensation	12,579	5,157	4,959	12,777	4,520
Accrued vacation	61,598	26,439	20,358	67,679	25,339
Postretirement healthcare / life insurance benefits (Note 15)	62,851	94,770	29,710	127,911	-
Installment contract payable (Note 16)	364	-	317	47	47
Total other liabilities	137,392	126,366	55,344	208,414	29,906
Total long-term liabilities	$ 414,257	$ 226,366	$ 73,579	$ 567,044	$ 36,936
2008					
Leases and bonds payable					
Revenue bonds payable	$ 264,065	$ -	$ 1,020	$ 263,045	$ 4,415
Capital lease payable	14,255	-	435	13,820	460
Total leases and bonds payable	278,320	-	1,455	276,865	4,875
Other liabilities					
Workers' compensation	11,137	3,567	2,125	12,579	4,314
Accrued vacation	56,030	23,699	18,131	61,598	23,766
Notes payable – RCUH	89	-	89	-	-
Postretirement healthcare / life insurance benefits (Note 15)	-	88,560	25,709	62,851	-
Installment contract payable (Note 16)	249	352	237	364	316
Total other liabilities	67,505	116,178	46,291	137,392	28,396
Total long-term liabilities	$ 345,825	$ 116,178	$ 47,746	$ 414,257	$ 33,271

(All dollars reported in thousands)

Revenue Bonds Payable
The University's revenue bonds payable at June 30, 2009 and 2008 are as follows:

	Series	Date Issued	Authorized	2009	2008
Student Housing System at Mānoa and Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	$ 18,665	$ 12,425	$ 13,500
University Health & Wellness Center (interest rate 2.70% to 5.59%)	2002A	June 27, 2002	150,000	12,820	15,735
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	100,000	100,000
University Health & Wellness Center (interest rate. 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	133,385	133,810
Various acquisition and construction projects (interest rate. 2.5% to 6.0%)	2009A	April 15, 2009	100,000	100,000	-
			$ 502,475	$ 358,630	$ 263,045

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 Oahu for conversion to faculty housing, the development of new faculty housing units on Oahu, 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 Oahu 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.

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 $14,787 in 2009 and $21,272 in 2008.

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 moneys on deposit in any special fund or revolving fund of the University, excluding moneys 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.

(All dollars reported in thousands)

At June 30, 2009, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2010	$ 7,030	$ 16,336
2011	7,285	16,257
2012	9,140	15,930
2013	9,485	15,568
2014	9,880	15,180
2015–2019	55,035	68,713
2020–2024	61,715	55,055
2025–2029	75,155	38,389
2030–2034	80,280	21,027
2035–2039	43,625	5,401
	$ 358,630	$ 267,856

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2009 and 2008 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2009					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 141	$ -	$ 33	$ 108
John A. Burns School of Medicine	Ref 2006A	1,667	-	90	1,577
General obligation	DB	47	-	9	38
General obligation	DG	9	-	3	6
Total bond premiums		$ 1,864	$ -	$ 135	$ 1,729
2008					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 122	$ 19	$ -	$ 141
John A. Burns School of Medicine	Ref 2006A	1,724	-	57	1,667
General obligation	DB	57	-	10	47
General obligation	DG	10	-	1	9
Total bond premiums		$ 1,913	$ 19	$ 68	$ 1,864

(All dollars reported in thousands)

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2009 and 2008 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2009					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 457	$ -	$ 108	$ 349
John A. Burns School of Medicine	Ref 2006A	8,706	-	471	8,235
General obligation	DB	36	-	7	29
General obligation	DG	7	-	1	6
Total bond issuance costs		$ 9,206	$ -	$ 587	$ 8,619
2008					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 395	$ 62	$ -	$ 457
John A. Burns School of Medicine	Ref 2006A	9,004	-	298	8,706
General obligation	DB	44	-	8	36
General obligation	DG	8	-	1	7
Total bond issuance costs		$ 9,451	$ 62	$ 307	$ 9,206

Capital Lease Obligation

On November 1, 1995, the Housing Finance and Development Corporation (“HFDC”) issued $17,680 in revenue bonds to provide permanent financing for the University of Hawai‘i Kau‘iokahaloa Nui Faculty Housing Project. At the time of issuance, HFDC entered into a Lease and Sublease Agreement (“Agreement) with the University.

Pursuant to the Agreement, the University Bond System operates the Kau‘iokahaloa Nui Faculty Housing Project and made lease rental payments to HFDC sufficient to pay the HFDC debt service. Upon retirement of the HFDC revenue bonds, HFDC’s rights, title and interest in the Kau‘iokahaloa Nui Faculty Housing Project would transfer to the University Bond System. The lease agreement was accounted for as a capital lease by the University Bond System. The amount capitalized was $20,130. The net book value of the capital assets included in capital assets as of June 30, 2008 approximated $13,549.

In connection with the issuance of the Series 2009A revenue bonds, approximately $13,360 of the bond proceeds was used to repay the 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 $13,033 and $13,549 at transfer date and June 30, 2008, respectively. At transfer date, the original basis of the capital lease asset of $20,130 and accumulated amortization of $7,097 was reversed and a new cost basis of $13,032 was established for the Kau‘iokahaloa Nui Faculty Project.

(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, 2011. 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 accounts receivable. The rate of interest on borrowings was 3.28 percent and 3.75 percent at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, 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
2010	$ 1,577
2011	1,346
2012	386
2013	108
2014	106
2015–2019	334
2020–2024	334
Thereafter	2,123
	$ 6,314

Rent expense for outside space for the years ended June 30, 2009 and 2008 approximated $5,296 and $4,598, 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 of only 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.

(All dollars reported in thousands)

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 retirement 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 Hawaii Revised Statues (“HRS”) Chapter 88 and amended by the Hawaii 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, 2009, 2008, and 2007 were $79,724, $65,570 and $58,141, respectively, which represented 13.75 percent of payroll for each year. Effective July 1, 2008, the employer contribution rate increased 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

The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2008 is as follows:

Number of employers as of March 31, 2008 was:

State	1
Counties	4
Total employers	5

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. The University receives a State appropriation for these fringe benefit costs. Fringe benefit costs included in total revenue and total expenditures amounted to $156,203 and $135,059 for fiscal years 2009 and 2008, 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, 2009 and 2008, accumulated sick leave approximated $421,568 and $ 378,309, 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 2009 and 2008 were $1,949 and $1,627, respectively. Temporary wage loss payments for fiscal years 2009 and 2008 amounted to $452 and $278, 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.

Plan Description
The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”), an agent multiple-employer defined benefit plan that replaced the Hawaii 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:

Hawaii 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. A retiree can elect 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 can elect 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 can 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 table presents the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2009 (amounts in thousands):

Projected June 30, 2009 Net OPEB Obligation ("NOO")

July 1, 2008 net OPEB obligation	$ 62,851
Plus: Annual OPEB cost	94,770
Less: Employer contributions (estimated "pay as you go" method)	29,710
Equals: Expected June 30, 2009 net OPEB obligation	$ 127,911

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$94,770	31.3%	$127,911
June 30, 2008	$88,560	29.0%	$62,851

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.

Funding Status as of July 1, 2008

Actuarial value of assets	$ -
Actuarial accrued liability	1,206,264
Unfunded actuarial accrued liability ("UAAL")	$ 1,206,264
Funded ratio	0%
Covered payroll (active plan members)	534,667
UAAL as a percentage of covered payroll	225.6%

(All dollars reported in thousands)

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.

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:

Actuarial valuation date	July 1, 2007
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	5%
Projected salary increases	3.5%
Healthcare inflation rate	
Medical and Rx Pre-65	9.5% initial, 5% ultimate
Medical and Rx Post-65	10.0% initial, 5% ultimate

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2009 and 2008 are comprised of:

	2009	2008
Liabilities under split interest agreements	$ 4,204	$ 4,599
Amounts held for others	1,838	2,359
Other	748	398
	$ 6,790	$ 7,356

(All dollars reported in thousands)

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 of 2007, 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 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.

The net amount of the University’s State general and capital appropriations for the years ended June 30, 2009 and 2008 were $731,394 and $142,716, and $690,625 and $116,910, respectively.

Net general and capital appropriations for the year ended June 30, 2009 were as follows:

General appropriations	
Act 158, SLH 2008, Appropriation Warrant No. 38	$ 728,300
Act 111, SLH 2007, Appropriation Warrant No. 24 (G 302)	1,402
Act 111, SLH 2007, Appropriation Warrant No. 24 (G 303)	175
Act 11, SLH 2007, Appropriation Warrant No. 84 (G 322)	150
	730,027
Others	
Allotments for salary increases and other adjustment	
Act 136, 137, & 138, SLH 2007	9,909
	739,936
Total funds lapsed	(258)
G 09 302 Lapse adjustment	(376)
Executive restrictions	(7,908)
Total general appropriations	$ 731,394
Capital appropriations	
Act 158, SLH 2008	$ 62,717
Act 213, SLH 2007 as amended by Act 158, SLH 2008	80,779
Section 125 & 160, Act 213, SLH 2007 as amended by Act 158, SLH2008	(682)
Total funds lapsed	(98)
Total capital appropriations	$ 142,716

(All dollars reported in thousands)

Net general and capital appropriations for the year ended June 30, 2008 were as follows:

General appropriations	
Act 213, SLH 2007, Appropriation Warrant No. 18	$ 670,485
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 301)	261
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 302)	1,402
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 303)	175
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 304)	175
Act 254, SLH 2007, Appropriation Warrant No. 94 (G 308)	50
Act 11, SLH2007, Appropriation Warrant No. 127 (G 322)	150
	672,698
Others	
Allotments for salary increases and other adjustment	
Act 94, 97, & 98, SLH 2005	4,496
	677,194
Total funds lapsed	(916)
G-08-020	(160)
G 319 (Flood) net encumbrance remaining	14,507
Total general appropriations	$ 690,625
Capital appropriations	
Section 125, Act 213, SLH 2007	$ 106,910
Section 85 & 114, Act 178, SLH 2005	250
Section 85 & 114, Act 178, SLH 2005 as amended by Act 160, SLH 2006	11,296
Section 85 & 122, Act 178 SLH 2005 as amended by Act 160, SLH 2006	(1,033)
Total funds lapsed	(513)
Total capital appropriations	$ 116,910

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.

(All dollars reported in thousands)

The unrestricted net assets at June 30, 2009 and 2008 were as follows:

	2009	2008
Unrestricted net assets		
Designated		
Research and training	$ 44,755	$ 55,428
Contract commitments	49,010	43,007
Quasi-endowment	19,264	42,184
Capital projects	30,717	29,751
Bond System	17,833	14,346
Other designated net assets	8,403	8,413
Total designated	169,982	193,129
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, payroll, etc.)	(80,606)	(43,057)
Total unrestricted net assets	$ 89,376	$ 150,072

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 services 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 should be used to support the Network (which includes the University projects of the University Bond System) and bond related expenses.

(All dollars reported in thousands)

The following summary financial information as of June 30, 2009 and 2008 is presented before elimination of certain intra-University transactions.

	2009	2008
Condensed statements of net assets		
Assets		
Current assets	$ 57,537	$ 58,206
Capital assets, net	165,717	135,004
Other assets	125,003	48,773
Total assets	$ 348,257	$ 241,983
Liabilities		
Current liabilities	$ 19,229	$ 21,054
Noncurrent liabilities	211,308	128,327
Total liabilities	230,537	149,381
Net assets		
Invested in capital assets, net of related debt	74,678	52,206
Restricted expendable	1,037	4,081
Unrestricted	42,005	36,315
Total net assets	117,720	92,602
Total liabilities and net assets	$ 348,257	$ 241,983

	2009	2008
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	$ 31,105	$ 31,510
Room and other rentals	21,111	18,385
Parking	5,188	4,785
Telecommunications	3,783	3,433
Other operating revenues	6,094	4,785
Total operating revenues	67,281	62,898
Operating expenses (including $7,724 and $5,479 in depreciation expense in 2009 and 2008, respectively)	(68,193)	(69,008)
Operating loss	(912)	(6,110)
Nonoperating revenues	31,182	6,680
Nonoperating expenses	(5,152)	(3,782)
Change in net assets	25,118	(3,212)
Net assets		
Beginning of year	92,602	95,814
End of year	$ 117,720	$ 92,602

(All dollars reported in thousands)

	2009	2008
Condensed statements of cash flows		
Net cash flows provided by (used in) operating activities	$ 2,403	$ (3,104)
Net cash flows provided by non-capital financing activities	1,322	2,411
Net cash flows provided by (used in) capital and related financing activities	68,207	(48,038)
Net cash flows provided by investing activities	5,873	7,741
Net increase (decrease) in cash and cash equivalents	77,805	(40,990)
Cash and cash equivalents		
Beginning of year	89,347	130,337
End of year	$ 167,152	$ 89,347

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 Hawaii to the United States which were reconveyed to the State upon Hawaii’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 Hawaii Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawai‘i 96813

Although the ultimate outcome and financial impact to the University of the 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. The University assumes the risk of loss and administers unpaid claims on behalf of the entire University.

With respect to workers' compensation insurance, the University is self-insured for the first $500,000 per occurrence and annual aggregate and obtains excess insurance of $50,000,000 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 $114,955 and $181,873 as of June 30, 2009 and 2008.

Collective Bargaining Agreements

Personnel costs are a significant component of the University's expenses. The University 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. The University's collective bargaining agreements with the unions expired at June 30, 2009 and negotiations were ongoing at year end regarding new agreements.

In October 2009, the University's employees represented by the Hawaii Government Employees Association ("HGEA") entered into an agreement for temporary salary reductions of five percent per year for the fiscal years ending June 30, 2010 and 2011.

In January 2010, faculty members ratified a new six-year collective bargaining agreement between the University of Hawaii Professional Assembly ("UHPA") which represents the faculty, and the University, to temporarily reduce faculty salaries by 6.67 percent for 18 months beginning January 1, 2010. After June 30, 2011, faculty salaries will revert back to original salaries at December 31, 2009. One-time stipends will be paid in fiscal years 2013, 2014 and 2015 to those faculty who took reductions as a result of this agreement and are still employed at the University, totaling the amount of their reduction. There will be three percent salary increases on July 1, 2013 and July 1, 2014.

In March 2010 the United Public Workers Union (“UPW”), which represents the University's blue-collar workers, reached a settlement with the State of Hawaii and its counties. The agreement, certain aspects of which have not yet been resolved, calls for furloughs for fiscal years ending June 30, 2010 and 2011. The University plans to implement the settlement in such manner as to obtain a five percent annualized reduction in salary cost for those fiscal years.

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 any unionized work group, it may be subject to future work interruptions and/or stoppages, which may hamper or halt operations.

21. New Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the University’s fiscal year beginning July 1, 2009. Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The University believes that Statement No. 51 will not have a material effect on its financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the University’s fiscal year beginning July 1, 2009. Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The University believes that Statement No. 53 will not have a material effect on its 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, 2008
(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, 2008	$0	$1,206,264	$1,206,264	0%	$534,667	225.6%
July 1, 2007	$0	$1,135,855	$1,135,855	0%	$478,812	237.2%

Other Supplementary Information

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

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

The report on our audits of the consolidated financial statements of the University of Hawai‘i as of June 30, 2009 and 2008, 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 through V) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the consolidated financial statements taken as a whole.

Accuity LLP

Honolulu, Hawai‘i
March 26, 2010

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 Revenue, 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, 2009 and 2008
(All dollars reported in thousands) Schedule I

	2009	2008
Condensed statements of net assets		
Assets		
Current assets	$ 282,028	$ 247,706
Total assets	$ 282,028	$ 247,706
Liabilities		
Current liabilities	$ 79,957	$ 76,600
Noncurrent liabilities	3,654	2,776
Total liabilities	83,611	79,376
Net assets		
Unrestricted	198,417	168,330
Total net assets	198,417	168,330
Total liabilities and net assets	$ 282,028	$ 247,706
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 276,801	$ 252,687
Operating expenses	278,771	229,111
Operating income	(1,970)	23,576
Nonoperating revenues	39,325	46,636
Nonoperating expenses and transfers	7,268	2,044
Change in net assets	30,087	68,168
Net assets		
Beginning of year	168,330	100,162
End of year	$ 198,417	$ 168,330

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.

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, 2009 and 2008
(All dollars reported in thousands) Schedule II

	2009	2008
Beginning balance	$ 11,788	$ 13,277
Additions		
Interest and investment income	157	549
Total additions	157	549
Deductions		
Payments – building, construction in progress, other	-	2,027
Management fees	9	11
Total deductions	9	2,038
Ending balance	$ 11,936	$ 11,788

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.

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 Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Year Ended June 30, 2009 and 2008
(All dollars reported in thousands) Schedule III

	2009	2008
Condensed statements of net assets		
Assets		
Current assets	$ 313,330	$ 278,365
Total assets	$ 313,330	$ 278,365
Liabilities		
Current liabilities	$ 93,190	$ 92,036
Noncurrent liabilities	4,605	3,610
Total liabilities	97,795	95,646
Net assets		
Unrestricted	215,535	182,719
Total net assets	215,535	182,719
Total liabilities and net assets	$ 313,330	$ 278,365
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 344,082	$ 315,025
Operating expenses	335,153	287,163
Operating income	8,929	27,862
Nonoperating revenues	40,378	48,440
Nonoperating expenses and transfers	16,491	14,323
Change in net assets	32,816	61,979
Net assets		
Beginning of year	182,719	120,740
End of year	$ 215,535	$ 182,719

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.

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 2006A Revenue Bond Proceeds Activity
Year Ended June 30, 2009 and 2008
(All dollars reported in thousands) Schedule IV

	2009	2008
Beginning balance	$ 48,273	$ 89,871
Additions		
Investment income	1,721	3,511
Total additions	1,721	3,511
Deductions		
Payments – building, construction in progress, other	12,091	42,509
Transfers – retire indebtedness	1,300	2,600
Management fees	2	-
Total deductions	13,393	45,109
Ending balance	$ 36,601	$ 48,273

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity presents 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.

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

	2009
Beginning balance	$ -
Additions	
Bond proceeds	101,556
Investment income	13
Total additions	101,569
Deductions	
Repayment of capital lease	13,392
Payments – building, construction in progress, other	150
Management fees	9
Total deductions	13,551
Ending balance	$ 88,018

1. **Basis of Presentation**

The accompanying schedule of Series 2009A revenue bond proceeds activity presents the sources and uses of Series 2009A revenue bond proceeds associated with the financing of costs of certain University projects.

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APPENDIX C

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 by the resolution adopted by the Board on November 16, 2006, entitled "A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $100,000,000 PRINCIPAL AMOUNT OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI'I, UNIVERSITY REVENUE BONDS, SERIES 2006A ; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; MAKING CERTAIN AMENDMENTS TO THE RESOLUTION; AND PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS; AND ADDING CERTAIN UNIVERSITY PROJECTS TO THE UNIVERSITY SYSTEM," and as further supplemented by the resolution adopted by the Board on February 20, 2009 entitled: "A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $100,000,000 PRINCIPAL AMOUNT OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI'I, UNIVERSITY REVENUE BONDS, SERIES 2010 ; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS; AND ADDING CERTAIN UNIVERSITY PROJECTS TO THE UNIVERSITY SYSTEM" (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, Hawaiʻi 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 Hawaiʻi 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; (b) and 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.

"Legislative Appropriations" 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.

<u>Adoption of Supplemental Resolution</u>
<u>(Sections 8.01 and 8.02)</u>

(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 D

FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

Board of Regents of the University
of Hawaii
Honolulu, Hawaii

Re: Board of Regents of the University of Hawaii University Revenue Bonds, Series 2010A-1 (Build America Bonds), Series 2010A-2, Series 2010B-1 (Build America Bonds) and Series 2010B-2
(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 $111,265,000 aggregate principal amount of the Issuer's University Revenue Bonds, Series 2010A-1 (Build America Bonds) (the "Series 2010A-1 Bonds"), $27,375,000 aggregate principal amount of the Issuer's University Revenue Bonds, Series 2010A-2 (the "Series 2010A-2 Bonds"), $127,535,000 aggregate principal amount of the Issuer's University Revenue Bonds, Series 2010B-1 (Build America Bonds) (the "Series 2010B-1 Bonds") and $26,555,000 aggregate principal amount of the Issuer's University Revenue Bonds, Series 2010B-2 (the "Series 2010-B-2 Bonds" and, together with the Series 2010A-1 Bonds, the Series 2010A-2 Bonds and the Series 2010B-1 Bonds, 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 August 30, 2010 (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 September 21, 2010 (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 opinion speaks only as of its date and is not intended to, and may not, be relied upon 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 ensure that future actions, omissions or events will not cause interest on the Series 2010A-2 Bonds and the Series 2010B-2 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, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinions 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 to the remedies available to enforce liens on, any such assets. 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 Series 2010A-2 Bonds and the Series 2010B-2 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Series 2010A-2 Bonds and the Series 2010B-2 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it 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. Interest on the Series 2010A-1 Bonds and the 2010B-1 Bonds is not excludable from gross income for federal income tax purposes. 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.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties that may be imposed under the Code, or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated October 7, 2010

BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI‘I
University Revenue Bonds

Series 2010A-1 **(Taxable – Build America Bonds)**	**Series 2010B-1** **(Taxable – Build America Bonds)**
Series 2010A-2 **(Tax-Exempt)**	**Series 2010B-2** **(Tax-Exempt)**

This Continuing Disclosure Certificate (this "*Disclosure Certificate*") is provided in connection with the issuance by the Board of Regents of the University of Hawai‘i (the "*Board*") of $292,730,000 University Revenue Bonds, Series 2010A-1 (Taxable – Build America Bonds), Series 2010A-2 (Tax-Exempt), Series 2010B-1 (Taxable – Build America Bonds), and Series 2010B-2 (Tax-Exempt) (collectively, the "*Bonds*"). The Bonds are being issued pursuant to Chapter 304A, Hawai‘i Revised Statutes, and a resolution of the Board adopted November 16, 2001 (the "*Resolution*"), as amended, including a Supplemental Resolution of the Board adopted August 30, 2010 (the "*Supplemental Resolution*"). Pursuant to Section 303 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 the power, directly or indirectly, to vote or consent with respect to, or to dispose of 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 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, 2010, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and 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) In a timely manner 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 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 September 21, 2010, 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 B – 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 of such information may be included by specific reference to other documents, including official statements of debt issues of the Board, which have been 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) Pursuant to the provisions of this Section 5, the Board shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;

2. nonpayment related defaults, if material;

3. unscheduled draws on the debt service reserves reflecting financial difficulties;

4. unscheduled draws on credit enhancements reflecting financial difficulties;

5. substitution of credit or liquidity providers or their failure to perform;

6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. modifications to rights of bondholders, if material;

8. bond calls, if material, and tender offers;

9. defeasances;

10. release, substitution or sale of property securing repayment of the Bonds, if material;

11. rating changes;

12. bankruptcy, insolvency, receivership or similar event of the obligated person;

13. consummation of a merger, consolidation, or acquisition involving an obligated person of 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, if material; and

14. appointment of a successor or additional trustee or the change of name of a trustee.

(b) Upon occurrence of a Listed Event with respect to the Bonds, the Board shall, in a timely manner not in excess of ten business days after the occurrence of the event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

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 the same manner as for a Listed Event under subsection 5(c).

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 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 subsection 5(a), 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 the same manner as for a Listed Event under subsection 5(c), 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, 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.

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 Hawai‘i
Names of Bond Issues:	University of Hawai‘i Revenue Bonds, Series 2010A-1 (Taxable – Build America Bonds), Series 2010A-2 (Tax-Exempt), Series 2010B-1 (Taxable – Build America Bonds), and Series 2010B-2 (Tax-Exempt)
Date of Issuance:	October 7, 2010

NOTICE IS HEREBY GIVEN that the Board of Regents of the University of Hawai‘i has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated October 7, 2010. [The Board anticipates that the Annual Report will be filed by _______________.]

Dated:

UNIVERSITY OF HAWAI‘I

By ____

Title ____

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BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI'I • UNIVERSITY REVENUE BONDS, SERIES 2010A-1, SERIES 2010A-2, SERIES 2010B-1 AND SERIES 2010B-2

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