NEW ISSUE - BOOK ENTRY ONLY

RATINGS:
<u>Insured</u>
Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA

In the opinion of Bond Counsel, (i) under existing statutes and court decisions, interest on the Series 2006A Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) under the Code, interest on the Series 2006A Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by the Code. See "TAX MATTERS" herein for a description of certain provisions of law which may affect the federal tax treatment of interest on the Series 2006A Bonds. In addition, in the opinion of Bond Counsel, under the existing laws of the State of Hawaii, the Series 2006A Bonds and the income therefrom are exempt from all State, county and municipal taxation thereof, except inheritance, transfer, and estate taxes and except to the extent such income may be included in the measure of the franchise tax imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii.

$133,810,000
BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII
University Bonds
Refunding Series 2006A

Dated: Date of Delivery **Due: July 15, as shown on the inside cover**

This Official Statement relates to the issuance and sale by the Board of Regents of the University of Hawaii (the "Board") of its University Bonds, Refunding Series 2006A (the "Series 2006A Bonds"). The Series 2006A Bonds are being issued in the aggregate principal amount of $133,810,000 in order to provide funds to refund certain outstanding University Bonds of the Board.

The Series 2006A Bonds are authorized to be issued under a resolution of the Board adopted on May 17, 2002 and a supplemental resolution of the Board adopted on September 21, 2006 (collectively, the "Resolution"). The Series 2006A Bonds are payable from and secured by a lien on Available Moneys, consisting of moneys from time to time on deposit in special and revolving funds of the University derived from its ownership or operation of the University, and the funds and accounts under the Resolution, in each case, with certain exceptions described herein. The Series 2006A Bonds are additionally payable from and secured by a lien on certain Auxiliary Moneys, 2006A, consisting of a portion of the receipts paid to the State of Hawaii (the "State") from the settlement of certain tobacco litigation. See "SECURITY FOR THE BONDS".

The Series 2006A 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 2006A Bonds. Purchases of beneficial ownership interests in the Series 2006A Bonds will be made in book-entry form only. Beneficial owners of the Series 2006A Bonds will not receive physical delivery of certificates evidencing their ownership interest in the Series 2006A Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2006A Bonds. So long as DTC or its nominee is the registered owner of the Series 2006A Bonds, payments of the principal of and interest on the Series 2006A Bonds will be made at the principal office of the Director of Finance of the State of Hawaii, as Paying Agent, 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 2006A BONDS".

The Series 2006A Bonds will bear interest from the date thereof, payable on January 15 and July 15 of each year, commencing on January 15, 2007, at the rates per annum, and will mature on July 15 of the years and in the principal amounts, as set forth on the inside cover. The Series 2006A Bonds are subject to redemption prior to maturity under certain circumstances as set forth herein under "THE SERIES 2006A BONDS-REDEMPTION PROVISIONS."

This scheduled payment of principal of and interest on the Series 2006A Bonds when due will be guaranteed under an insurance policy to be issued by concurrently with the delivery of the Series 2006A Bonds by MBIA Insurance Corporation.

MBIA

Neither the State nor any department or political subdivision thereof, including the Board, is obligated to pay the Series 2006A Bonds from any source other than the moneys pledged under the Resolution. The Series 2006A 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 2006A Bonds. No holder of any Series 2006A 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 2006A 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 2006A Bonds are offered when, as and if issued by the Board and received by the Underwriters, subject to approval of legality by Hawkins Delafield & Wood LLP., New York, New York, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, San Francisco, California. It is expected that the Series 2006A Bonds will be available for delivery in New York, New York, on or about October 25, 2006.

UBS Investment Bank

September 28, 2006

MATURITY SCHEDULE FOR THE SERIES 2006A BONDS
$133,810,000 University Bonds
Refunding Series 2006A

$104,950,000 Serial Bonds

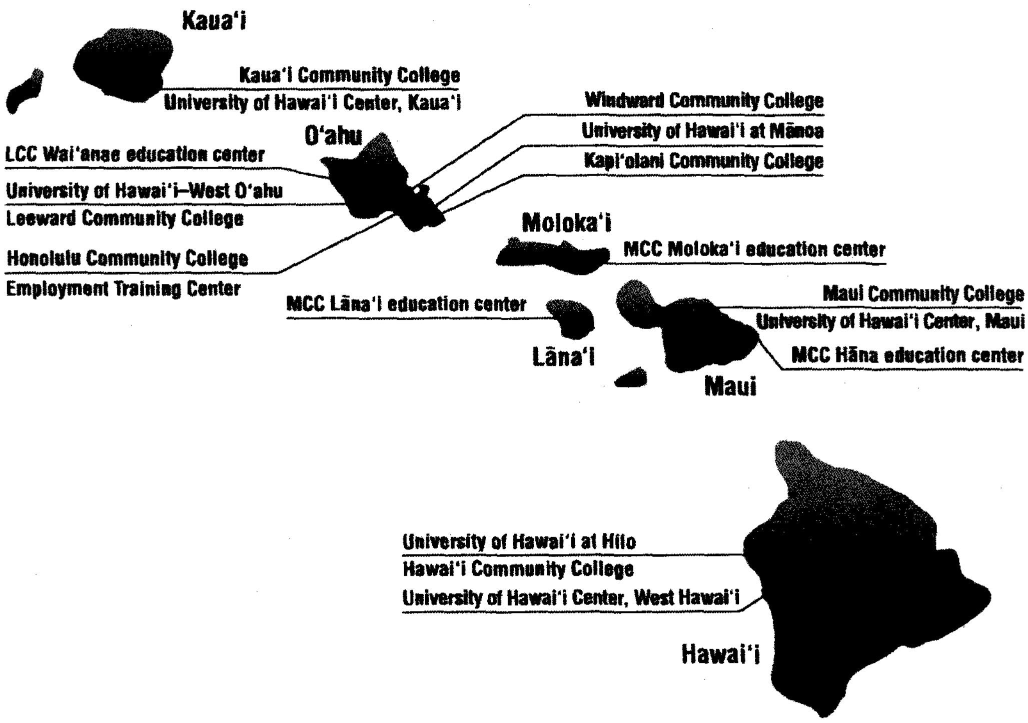
Maturity (July 15)	Principal Amount	Interest Rate	Yield	Maturity (July 15)	Principal Amount	Interest Rate	Yield
2008	$ 425,000	4.00%	3.45%	2018	$5,140,000	5.00%	3.94c%
2009	445,000	4.00	3.49	2019	5,410,000	5.00	3.98c
2010	465,000	4.00	3.52	2020	5,685,000	5.00	4.02c
2011	480,000	4.00	3.54	2021	5,975,000	5.00	4.05c
2012	500,000	4.00	3.55	2022	6,280,000	5.00	4.08c
2013	760,000	4.00	3.63	2023	6,585,000	4.50	4.33c
2013	3,315,000	5.00	3.63	2024	6,905,000	5.00	4.14c
2014	4,280,000	5.00	3.68	2025	7,240,000	4.50	4.38c
2015	550,000	4.00	3.72	2026	7,575,000	4.50	4.40c
2015	3,945,000	5.00	3.72	2027	7,880,000	3.50	4.46
2016	4,545,000	4.00	3.75	2028	8,165,000	3.50	4.48
2017	1,535,000	3.75	3.86	2029	2,500,000	5.00	4.24c
2017	3,365,000	5.00	3.86c	2031	5,000,000	4.625	4.50c

$14,875,000 4.25% Term Bonds due July 15, 2030, Yield 4.52%

$13,985,000 4.50% Term Bonds due July 15, 2032, Yield 4.55%

c = priced to call at par on July 15, 2016.

The University of Hawaii 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 2006A 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 estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

Other than with respect to information concerning MBIA Insurance Corporation (*"MBIA"* or the *"Insurer"*) contained under the caption "BOND INSURANCE" and APPENDIX E - "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the Board and the Board makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2006A Bonds; or (iii) the tax- exempt status of the interest on the Series 2006A Bonds.

Neither the Series 2006A Bonds nor the Resolution have been registered or qualified with the Securities and Exchange Commission. The registration or qualification of the Series 2006A Bonds and the Resolution in accordance with applicable provisions of securities laws of the states in which the Series 2006A 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 Underwriters have provided the following paragraphs for inclusion in this Official Statement.

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

In connection with this offering, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Series 2006A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

TABLE OF CONTENTS

BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII

Kitty Lagareta, Chair
Ronald K. Migita, Vice Chair

Andres Albano, Jr.
Byron W. Bender
Michael A. Dahilig
Ramón de la Peña
Marlene M. Hapai

James J.C. Haynes II
Allan R. Landon
Alvin A. Tanaka
Jane B. Tatibouet

ADMINISTRATION

David McClain, President, University of Hawaii
Darolyn Lendio, Vice President for Legal Affairs and University General Counsel
Denise Konan Interim Chancellor, University of Hawaii at Manoa
Rose Y. Tseng, Chancellor, University of Hawaii at Hilo
Gene Awakuni, Chancellor, University of Hawaii - West Oahu
John Morton, Interim Vice President for Community Colleges
Howard Todo, Vice President for Budget and Finance/Chief Financial Officer
Sam Callejo, Vice President for Administration
Linda Johnsrud, Vice President for Academic Planning and Policy
Karen C. Lee, Interim Associate Vice President for Student Affairs
Carolyn Tanaka, Associate Vice President for External Affairs and University Relations
James R. Gaines, Interim Vice President for Research

Bond Counsel

Hawkins Delafield & Wood LLP
New York, New York

Auditors

PricewaterhouseCoopers LLP
Honolulu, Hawaii

Paying Agent

Director of Finance of the State of Hawaii
Honolulu, Hawaii

Refunding Trustee

The Bank of New York Trust Company, N.A.
San Francisco, California

OFFICIAL STATEMENT

$133,810,000
BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII
UNIVERSITY BONDS
REFUNDING SERIES 2006A

This Official Statement, including the cover page and the appendices, is provided to furnish information regarding the $133,810,000 University Bonds, Refunding Series 2006A, dated as of the date of delivery thereof and payment therefor (the *"Series 2006A Bonds"*), being issued by the Board of Regents of the University of Hawaii (the *"Board"*). See "BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII".

INTRODUCTION

The Series 2006A Bonds are issued by the Board pursuant to Chapter 306, Hawaii Revised Statutes, as amended, and Act 14, Third Special Session Laws of Hawaii 2001 (collectively, the *"Act"*), a resolution of the Board adopted May 17, 2002 (the *"Original Resolution"*) and a Supplemental Resolution of the Board adopted September 21, 2006 (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 2006A Bonds and any Additional Bonds issued under the Resolution are herein called the *"Bonds"*.

The Series 2006A Bonds; Purpose and Security

The Original Resolution authorized the initial issuance of one or more series of bonds for the purposes of financing the cost of construction of a University Project (as defined in the Resolution) constituting Phase I of the University's Health and Wellness Center (the *"Project"*) and to provide for the planning and design of Phase II of the Project. Phase I consists of two separate buildings, together with approximately 879 parking stalls at grade. See "THE PROJECT". In 2002, the Board issued its University Bonds, Series 2002A (the *"Series 2002A Bonds"*) to finance the Project and the Project is now complete. The Original Resolution also authorizes the issuance of Additional Bonds, among other things, to refund at any time only part of the Bonds, provided (with certain exceptions not applicable at this time) that the Aggregate Debt Service of all Bonds outstanding after such refunding shall not be greater in any year after such refunding in which the Bonds not refunded shall be outstanding than would have been the Aggregate Debt Service of the Bonds for such year were such refunding not to occur. The Series 2006A Bonds are being issued under this provision and the Board will meet this test at issuance. All Bonds issued under the Resolution, including the Series 2006A Bonds, will be 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, with certain exceptions described herein. Under the Supplemental Resolution, the Series 2006A Bonds are additionally payable from and secured by a lien on certain "Auxiliary Moneys, 2006A" consisting of a portion of the moneys in the Hawaii Tobacco Settlement Special Fund. See "SECURITY FOR THE BONDS - PLEDGE", "THE UNIVERSITY SPECIAL AND REVOLVING FUNDS", and "RECEIPTS FROM TOBACCO SETTLEMENT". The Series 2006A Bonds are entitled to the benefits of a policy of insurance covering the principal of and interest on the Series 2006A Bonds to be issued by MBIA Insurance Corporation. See "BOND INSURANCE".

Limited Obligations

The Bonds, including the Series 2006A 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 of Hawaii (the "*State*") nor any department or political subdivision thereof, including the Board, is obligated to pay the Series 2006A Bonds from any source other than the moneys pledged under the Resolution. The Series 2006A 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 2006A Bonds. No holder of any Series 2006A 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 2006A 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 2006A 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

UBS Securities, LLC, New York, New York is underwriting the Series 2006A Bonds (the *"Underwriter"*). Hawkins Delafield & Wood LLP, New York, New York, is Bond Counsel, and will submit its approving opinion with regard to the legality of the Series 2006A Bonds. Orrick, Herrington & Sutcliffe LLP, San Francisco, California, is serving as counsel to the Underwriters. PriceWaterhouseCoopers LLP is the auditor for the University, but has not reviewed this Official Statement and has no responsibility for this Official Statement.

PLAN OF REFUNDING

Refunding

Pursuant to the Resolution, a portion of the proceeds of the Series 2006A Bonds, together with other available moneys, will be deposited with The Bank of New York Trust Company, N.A., San Francisco, California, as refunding trustee (the *"Refunding Trustee"*), in a separate account in a trust fund (the *"Trust Fund"*) held by the Refunding Trustee pursuant to a refunding trust agreement (the *"Refunding Trust Agreement"*) dated as of the closing date, by and between the Board and the Refunding Trustee. Upon deposit with the Refunding Trustee, such moneys shall immediately be invested in non-callable direct obligations of the United States of America (the *"Federal Securities"*). Principal of and interest on the Federal Securities, together with any cash balances in the separate account in the Trust Fund, shall be applied in accordance with the Refunding Trust Agreement and will be sufficient to pay the interest on the Bonds to be refunded (the *"Refunded Bonds"*) on each interest payment date to and including the maturity or call date, and to pay the principal of and redemption premium, if any, on the Refunded Bonds at maturity on the call date. The following table sets forth the series, maturity dates, principal amounts outstanding, principal amounts to be refunded, interest rates, redemption date and redemption price of the Refunded Bonds.

Table 1

REFUNDED BONDS

Series	Maturity Date	Amount Outstanding	Amount to be Refunded	Interest Rate	Redemption Date	Redemption Price
Series 2002A	07/15/2007	$2,815,000	$2,815,000	3.250%	N/A	N/A
Series 2002A	07/15/2013	1,695,000	1,695,000	4.300	7/15/2012	100
Series 2002A	07/15/2013	1,860,000	1,860,000	5.500	7/15/2012	100
Series 2002A	07/15/2014	935,000	935,000	4.400	7/15/2012	100
Series 2002A	07/15/2014	2,805,000	2,805,000	5.500	7/15/2012	100
Series 2002A	07/15/2015	1,650,000	1,650,000	4.500	7/15/2012	100
Series 2002A	07/15/2015	2,285,000	2,285,000	5.500	7/15/2012	100
Series 2002A	07/15/2016	160,000	160,000	4.500	7/15/2012	100
Series 2002A	07/15/2016	3,990,000	3,990,000	5.500	7/15/2012	100
Series 2002A	07/15/2017	1,520,000	1,520,000	4.650	7/15/2012	100
Series 2002A	07/15/2017	2,855,000	2,855,000	5.500	7/15/2012	100
Series 2002A	07/15/2018	4,615,000	4,615,000	5.500	7/15/2012	100
Series 2002A	07/15/2019	50,000	50,000	4.800	7/15/2012	100
Series 2002A	07/15/2019	4,830,000	4,830,000	5.500	7/15/2012	100
Series 2002A	07/15/2020	1,645,000	1,645,000	4.900	7/15/2012	100
Series 2002A	07/15/2020	3,505,000	3,505,000	5.500	7/15/2012	100
Series 2002A	07/15/2021	540,000	540,000	5.000	7/15/2012	100
Series 2002A	07/15/2021	4,895,000	4,895,000	5.500	7/15/2012	100
Series 2002A	07/15/2022	2,445,000	2,445,000	5.000	7/15/2012	100
Series 2002A	07/15/2022	3,285,000	3,285,000	5.500	7/15/2012	100
Series 2002A	07/15/2023	6,035,000	6,035,000	5.000	7/15/2012	100
Series 2002A	07/15/2029	43,980,000	43,980,000	5.500	7/15/2012	100
Series 2002A	07/15/2032	27,910,000	27,910,000	5.125	7/15/2012	100

Discharge of Board's Obligation upon Refunding

Upon such deposit to the Trust Fund and the investment as aforesaid, the obligation of the Board under the Resolution and the liens, pledges, charges and trusts and covenants of the Board made therein shall be fully discharged and satisfied as to the Refunded Bonds and the Refunded Bonds shall no longer be deemed outstanding under the Resolution. See Appendix C-"SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - DEFEASANCE". At the time of such deposit, the Board will give the Refunding Trustee irrevocable instructions to give timely notice of redemption of the Refunded Bonds and to apply the moneys on deposit in the Trust Fund to the payment of the principal of, redemption premium, if any, and interest on, the Refunded Bonds on the interest payment dates, redemption date or maturity date, as applicable.

The accuracy of the mathematical computations concerning the adequacy of the Trust Fund, including earnings derived from the investment of moneys therein in Federal Securities, to refund the Refunded Bonds will be evidenced by a report of the independent certified public accountant firm of Causey Demgen & Moore Inc. prior to or at the time of delivery of the Series 2006A Bonds. See "VERIFICATION".

SECURITY FOR THE BONDS

Pledge

The Bonds, including the Series 2006A Bonds, are limited obligations of the Board payable from and secured by the moneys pledged under the Resolution. Under the Original Resolution, the Board has pledged Available Moneys of the University and, except as provided below, the funds and accounts under the Resolution 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 Original Resolution, and such pledge constitutes a lien on the Available Moneys and such funds and accounts. The term *"Available Moneys"* is defined in the Resolution to mean all moneys from time to time on deposit in any special or revolving fund of the University derived from its ownership or operation of the University, but does not include moneys deposited in the University Revenue-Undertaking Fund derived from the "Network" as defined in that certain resolution of the Board adopted on November 16, 2001, providing for the issuance of revenue bonds to finance certain revenue generating facilities, such as dormitories, and pledged to the payment of bonds issued and secured by such resolution. See "THE UNIVERSITY SPECIAL AND REVOLVING FUNDS".

Under the Original Resolution, the Board may, in the proceedings authorizing a particular series of Bonds, establish a separate account in the Debt Service Reserve Fund as a reserve solely for such series. No separate account is established in the Debt Service Reserve Fund for the Series 2006A Bonds. Pending the application of moneys in any special or revolving fund under the jurisdiction of the University or the Board, the University and the Board reserve the right to apply such moneys to the purposes for which such funds are established.

In addition, under the Original Resolution the Board may, by supplemental resolution authorizing a particular series of Bonds, grant as supplemental security for such series of Bonds, a pledge of and lien on, and a security interest in, (i) all or a portion of the moneys appropriated by the Legislature of the State for deposit in the University Revenue-Undertakings Fund for the purpose of paying all or a portion of the principal of, and interest on, such series of Bonds, or (ii) all or any portion of the proceeds of such series of Bonds, or (iii) both.

Pursuant to the above provision of the Original Resolution, the Supplemental Resolution grants as supplemental security for the Series 2006A Bonds a pledge of and a lien on, and a security interest in, Auxiliary Moneys, 2006A, *pari passu,* and equally and ratably without priority by reason of series, number, date, or maturity, or date of sale, date of issuance, date of execution, or delivery with the Series 2002A Bonds and the moneys paid into the Auxiliary Account, 2002A created by the supplemental resolution authorizing the Series 2002A Bonds. The term *"Auxiliary Moneys, 2006A"* is defined in the Supplemental Resolution as any moneys on credit to the Auxiliary Account, 2006A in the University Revenue-Undertakings Fund appropriated by the Legislature of the State for the purpose of the payment of the principal of and interest on the Bonds, including the Series 2006A Bonds. Pursuant to Act 14, Third Special Session Laws of Hawaii 2001, the Legislature of the State has indicated its intention to allocate and appropriate each year, for the purpose of paying debt service on the Bonds, a portion of the moneys received under a settlement with certain tobacco companies. In preparation of the budget for the University, the Board will budget the payment of the principal of and interest on the Bonds, including the Series 2006A Bonds, from such moneys. See "RECEIPTS FROM TOBACCO SETTLEMENT".

Limited Obligations

The Bonds, including the Series 2006A Bonds, are limited obligations of the Board payable from and secured by a lien on and security interest in the moneys pledged therefor under the Resolution. Neither the State nor any department or political subdivision thereof, including the

Board, is obligated to pay the Series 2006A Bonds from any source other than the moneys pledged under the Resolution. The Series 2006A 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 2006A Bonds. No holder of any Series 2006A 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 2006A Bonds.

Debt Service Fund

The Original Resolution provides that separate accounts shall be established in the Debt Service Fund for each series of Bonds issued thereunder. Pursuant to such provision, the Supplemental Resolution and the proceedings providing for the issuance of the Series 2006A Bonds, there is established an Interest Account, 2006A, a Serial Bond Principal Account, 2006A, and a Term Bond Principal Account, 2006A, for the payment of the principal of and interest on the Series 2006A Bonds.

The Supplemental Resolution and the proceedings providing for the issuance of the Series 2006A Bonds provide that upon each date on which Available Moneys are required to be transferred to the Interest Account, 2006A, the Serial Bond Principal Account, 2006A, or the Term Bond Principal Account, 2006A, in the event and to the extent there are any Auxiliary Moneys, 2006A, on deposit in the University Revenue-Undertakings Fund and on credit to the Auxiliary Account, 2006A, therein, there shall be transferred to the Paying Agent for the Series 2006A Bonds, all Auxiliary Moneys, 2006A, on deposit in the University Revenue-Undertakings Fund and on credit to the Auxiliary Account, 2006A, therein, but not in excess of the payment due on the next Interest Payment Date, in lieu of and in substitution for the transfer to the Paying Agent for the Series 2006A Bonds of such amount from the Available Moneys. To the extent Auxiliary Moneys, 2006A, are not sufficient to provide for the payment due on the next Interest Payment Date, Available Moneys shall be transferred to the Paying Agent for the Series 2006A Bonds, as required by the Resolution. In the preparation of the budget for the University, the Board will budget the payment of the principal of and interest on the Series 2006A Bonds from Auxiliary Moneys, 2006A.

The Bonds, including the Series 2006A Bonds and any Additional Bonds, are and will be equally and ratably secured by the lien on and pledge of Available Moneys, without priority by reason of series, number, date, maturity of Bonds, date of sale, issuance and execution, or delivery thereof.

Subordinated Indebtedness

The Original 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 Available Moneys subordinate to the payment from and lien and charge on the Available Moneys for payment of the principal of and interest on the Bonds.

Covenants of the Board

In the Resolution, the Board makes certain covenants and agreements. Among other things, the Board covenants and agrees with the Bondholders to complete construction of University Projects, to operate and maintain the University, and to manage the University in the most efficient manner consistent with sound economy and public advantage, against certain encumbrances, and certain sale or other disposition. In addition, the Board has covenanted as to the imposition of certain rates, rents and charges. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

BOND INSURANCE

There follows below certain information concerning MBIA Insurance Corporation ("MBIA" or the "Insurer") and payment pursuant to the Municipal Bond Insurance Policy (the "2006 Policy") referred to below. Information with respect to the Insurer and the 2006 Policy has been supplied by the Insurer. No representation is made by the Board as to the accuracy or adequacy of such information. The 2006 Policy does not constitute a part of the contract between the Board and the holders of the particular Series 2006A Bonds evidenced by the Resolution and such Bonds. Except for the payment of the premium on the 2006 Policy, the Board has no responsibility with respect to such insurance in any way, including maintenance, enforcement or collection thereof.

The MBIA Insurance Corporation Insurance Policy

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the 2006 Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Series 2006A Bonds or the advisability of investing in the Series 2006A Bonds. Reference is made to Appendix E for a specimen of MBIA's policy.

The 2006 Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Board to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2006A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the 2006 Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2006A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The 2006 Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2006A Bonds. The 2006 Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2006A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The 2006 Policy also does not insure against nonpayment of principal of or interest on the Series 2006A Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2006A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series 2006A Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2006A Bonds or presentment of such other proof of ownership of the Series 2006A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2006A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2006A Bonds in any legal proceeding related to payment of insured amounts on the Series 2006A Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2006A Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The 2006 Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2006A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2006A

Bonds. MBIA does not guaranty the market price of the Series 2006A Bonds nor does it guaranty that the ratings on the Series 2006A Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of $11.0 billion (audited), total liabilities of $7.2 billion (audited), and total capital and surplus of $3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2006, MBIA had admitted assets of $11.3 billion (unaudited), total liabilities of $6.9 billion (unaudited), and total capital and surplus of $4.3 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2006 and for the six month periods ended June 30, 2006 and June 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2006A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 are available (i) over the Internet at the SEC's web site at ; (ii) at the SEC's public reference room in Washington, D.C. (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

THE UNIVERSITY SPECIAL AND REVOLVING FUNDS

The Bonds are payable from Available Moneys. *"Available Moneys"* is defined in the Resolution to mean all moneys from time to time on deposit in any special or revolving fund of the University derived from its ownership or operation of the University, but does not include moneys deposited in the University Revenue-Undertaking Fund derived from the "Network" as defined in that certain resolution of the Board adopted on November 16, 2001, providing for the issuance of revenue bonds to finance certain revenue generating facilities, such as dormitories, and pledged to the payment of bonds issued and secured by such resolution. See APPENDIX A - "Other Indebtedness". Pending the application of moneys in any special or revolving fund under the jurisdiction of the University or the Board, the University and the Board reserve the right to apply such moneys to the purposes for which such funds are established.

Under the laws of the State, the Legislature creates various special and revolving funds. For the University there exist over thirty special or revolving funds. Act 14, Third Special Session Laws of Hawaii 2001, expressly provides that "[n]otwithstanding any other law to the contrary," the Board is authorized to pledge all or any portion of moneys on deposit in one or more special or revolving funds of the University. Pursuant to such authorization the Board has pledged Available Moneys, as provided herein.

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 amount of Available Moneys for the fiscal years ended June 30, 2005 and 2006, respectively, is set forth below:

Table 2

SUMMARY OF AVAILABLE MONEYS
FOR THE FISCAL YEAR ENDED JUNE 30,
(in thousands of dollars)

Special and Revolving Funds	2006*	2005
Current Year's Revenues	$212,796	$204,605
Prior Year's Funds Balance	41,187	49,194
Total Available Moneys	$253,983	$253,799

* Note: Amounts reflect unaudited, preliminary balances based on initial closing and does not include all year end entries.

Sources: University of Hawaii

RECEIPTS FROM TOBACCO SETTLEMENT

Pursuant to a so-called Master Settlement Agreement (the "MSA"), an industry-wide settlement of litigation between certain states, including the State, and certain tobacco companies entered into on November 23, 1998, the State will annually receive a share of settlement payments thereunder. Under Chapter 328L, Hawaii Revised Statutes, as originally enacted, the State's receipts from that settlement are deposited into the "Hawaii Tobacco Settlement Special Fund" of the State and moneys therein are allocated and appropriated among (i) the Emergency and Budget Reserve Fund as a "temporary supplemental source of funding for the State during times of emergency, economic downturn, or unforeseen reduction in revenues" of the State, (ii) the State Department of Health for the children's health insurance program and health promotion and disease prevention programs, and (iii) the Hawaii Tobacco Prevention and Control Trust Fund for tobacco prevention and control. Act 14, Third Special Session Laws of Hawaii 2001, among other things, amended Chapter 328L to allocate and appropriate each year (in addition to the allocations set forth above), for the purpose of paying debt service on bonds issued to finance the cost of construction of the Project, a portion of the moneys in the Hawaii Tobacco Settlement Special Fund. A portion of such moneys constitute Auxiliary Moneys, 2002A and Auxiliary Moneys, 2006A, under the Resolution, including the Supplemental Resolution and previous supplemental resolutions of the Board. See "SECURITY FOR THE BONDS".

An estimate of the State's share of settlement amounts and the portion thereof to be allocated and appropriated for the purpose of paying debt service on bonds issued to finance the cost of construction of the Project is set forth below:

Table 3

SUMMARY OF ESTIMATED SETTLEMENT AMOUNTS AND AMOUNTS AVAILABLE FOR DEBT SERVICE ON SERIES 2006A BONDS
(in thousands of dollars)

Fiscal Year June 30	Estimated Total Receipts	Estimated Allocation and Appropriation	Fiscal Year June 30	Estimated Total Receipts	Estimated Allocation and Appropriation
2007	$42,155	$11,803	2020	$48,173	$12,489
2008	63,350	17,738	2021	48,173	12,489
2009	63,350	17,738	2022	48,173	12,489
2010	63,350	17,738	2023	48,173	12,489
2011	63,350	17,738	2024	48,173	12,489
2012	63,350	17,738	2025	48,173	12,489
2013	63,350	17,738	2026	48,173	12,489
2014	63,350	17,738	2027	48,173	12,489
2015	63,350	17,738	2028	48,173	12,489
2016	63,350	17,738	2029	48,173	12,489
2017	63,350	12,489	2030	48,173	12,489
2018	48,173	12,489	2031	48,173	12,489
2019	48,173	12,489	2032	48,173	12,489

Sources: Office of Attorney General of the State of Hawaii

The MSA provides that the amounts payable by the participating manufacturers are subject to numerous adjustments, off-sets and recalculations, some of which may be material. In 2006 the State received approximately 68.6 % of the estimated receipts from the MSA. This was attributable primary to a previously settled states adjustment and a volume adjustment. However, approximately 8.9% of the downward adjustment is attributable to that amount being withheld by the tobacco industry due to a dispute over the State's diligent enforcement of chapter 675, H.R.S., in calendar year 2003. The State initiated litigation to resolve this issue in the Circuit Court of the First Circuit of Hawaii. On August 3, 2006, the Court ruled that the State and the tobacco industry must resolve the issue through arbitration and ordered such. The downward adjustment has reduced the total available to the University. The University and the State believe this reduction should be short lived and that the amounts withheld will be restored eventually.

THE SERIES 2006A BONDS

General Terms of the Series 2006A Bonds

The Series 2006A 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 2006A Bond will be payable on January 15 and July 15 of each year, commencing January 15, 2007. The Series 2006A Bonds are issuable in fully registered form in the denomination of $5,000 or any integral multiple thereof.

The Series 2006A 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 2006A Bonds, and the ownership of one fully registered Series 2006A Bond for each maturity, in the principal amount of such maturity, of the Series 2006A Bonds will be registered in the name of Cede &

Co., as nominee of DTC as the sole registered owner of the Series 2006A 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 "THE SERIES 2006A BONDS - Book-entry-Only System" below. Interest on the Series 2006A Bonds will be payable by check or draft at the principal office of the Director of Finance of the State of Hawaii, as Paying Agent (the *"Paying Agent"*), mailed to the holder at 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 2006A Bond will be payable at the office of the Paying Agent in Honolulu, Hawaii.

THE SERIES 2006A BONDS - Redemption Provisions

Mandatory Redemption. The Series 2006A Bonds maturing July 15, 2030, and July 15, 2032, are subject to redemption in part, at a redemption price equal to the principal amount of such Series 2006A Bonds or portions thereof to be redeemed, from sinking fund installments accumulated in the Term Bond Principal Account, 2006A, in the Debt Service Fund, in amounts sufficient to retire such Series 2006A Bonds on July 15 in each of the years and in the principal amounts set forth below:

Series 2006A Bonds due July 15, 2030

Year	Principal Amount
2029	$6,000,000
2030	8,875,000

Series 2006A Bonds due July 15, 2032

Year	Principal Amount
2031	$4,275,000
2032	9,710,000

Optional Redemption. The Series 2006A Bonds maturing on and after July 15, 2017, 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 July 15, 2016, 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 2006A Bonds or portions thereof to be redeemed, together with accrued interest to the redemption date.

THE BONDS - Notice of Redemption

Notice of Redemption. Notice of redemption of any Bond, including any Series 2006A Bond, is required to be mailed not less than thirty (30) days prior to the redemption date to the holder of such Bond at its address as it appears on the registry books kept pursuant to the provisions of the Resolution.

Each notice of redemption is required to state: (i) the title of the 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 Bonds are to be redeemed, the distinctive number of the Bonds to be redeemed, (iii) that the interest on the 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 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 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 Bond all of the principal of which matures on the same day is called for redemption, that such 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 Bond or Bonds equaling in principal amount that portion of the principal sum not to be redeemed of the Bond to be surrendered.

Notice of redemption of Bonds will be given by the Paying Agent.

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the Paying Agent for the Bonds of the series proposed to be redeemed on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the 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 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 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 Bonds of a series surrendered for redemption shall be promptly returned to the holder or holders by the Paying Agent for the Bonds of such series.

For so long as a book-entry-only system is in effect with respect to the Series 2006A Bonds, notice of redemption, or notice of rescission of any conditional notice of redemption, of Series 2006A 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 2006A Bonds of any redemption will not affect the sufficiency or validity of the redemption of the Series 2006A Bonds to be redeemed. See "THE SERIES 2006A 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 2006A Bonds, or that they will do so on a timely basis.

Partial Redemption. If less than all the Bonds of a series shall be called for redemption, the particular Bonds of such series or portions thereof to be redeemed are required to be selected by lot or pro rata by the Director of Finance of the State of Hawaii, as registrar (the *"Registrar"*), or in any other manner as the Registrar in its discretion may deem proper. In selecting Bonds of a series for redemption, the Registrar is required to treat each Bond of such series as representing that number of Bonds which is obtained by dividing the principal amount of such Bonds by $5,000. If it is determined that one or more, but not all of the $5,000 units of principal amount represented by any such Bond of such series is to be called for redemption, then upon notice of intention to redeem such $5,000 unit or units, the holder of such Bond must surrender such Bond to the Registrar for (1) payment of the redemption price (including the redemption premium, if any, and interest to the date fixed for redemption) of the $5,000 unit or units of principal amount called for redemption, and (2) exchange for a new Bond or Bonds in the aggregate principal amount of the unredeemed balance of the principal of such Bonds.

Transfer or Exchange of the Bonds

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

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

The Paying Agent may charge a sum not exceeding the actual cost of each new fully registered Bond and may require the payment by the holder of the 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.

THE SERIES 2006A BONDS - 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 2006A Bonds. The Series 2006A 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 Series 2006A Bonds certificate will be issued for each maturity of the Series 2006A 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation. Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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.

Purchases of Series 2006A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2006A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006A Bonds ("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 2006A 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 Series 2006A Bonds, except in the event that use of the book-entry system for the Series 2006A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006A 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 2006A 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 2006A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006A 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 2006A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2006A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2006A Bonds may wish to ascertain that the nominee holding the Series 2006A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Series 2006A 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 such other DTC nominee) will consent or vote with respect to the Series 2006A Bonds unless authorized by a Direct Participant in accordance with DTC's 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 2006A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2006A 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 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 nor its nominee, agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the Series 2006A 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 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 2006A 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, Series 2006A Bonds certificates 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, Series 2006A Bonds certificates will be printed and delivered.

BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII

Founded in 1907 as a land-grant College of Agriculture and Mechanic Arts, the University of Hawaii has evolved into a multi-institutional system comprised of a major research university in Manoa on the island of Oahu, a four-year campus in Hilo on the island of Hawaii, an upper division college in West Oahu, and seven community colleges. In addition, there are outreach centers at Waianae, Oahu; Hana, Maui; Lanai; Molokai and West Hawaii. The affairs of the University are under the general management and control of the Board of Regents, consisting of twelve members appointed by the governor of the State for four-year terms and confirmed by the Senate. For a more comprehensive description of the Board, the University and certain statistical information, See APPENDIX A - "THE UNIVERSITY."

THE PROJECT

The University Project heretofore financed Phase I of the University's Health and Wellness Center (the "*Project*"). The Project is completed and located on approximately 9.9 acres of land situated in the Kaka'ako area of the City and County of Honolulu on Oahu leased by the University from the Hawaii Community Development Authority ("*HCDA*"). On June 12, 2002, the HCDA approved a $1/year, 55-year lease with the University of Hawaii for the Project site. The University of Hawaii has also negotiated a five-year offsite parking agreement with HCDA for the 5.5 acres adjacent tract for interim parking.

Phase I consists of three separate buildings, together with approximately 623 parking stalls at grade, approximately 414 which is on the aforesaid adjacent tract and 209 parking stalls on the Project site. The three buildings aggregate approximately 319,018 square feet, and consist of (i) an Education/Administration Building containing approximately 114,546 square feet, utilized for administration, dining, and other support facilities, (ii) a Research Building containing approximately 181,142 square feet, providing space for a wet laboratory, an animal facility and office space and (iii) a Ancillary/Central Plant Building containing approximately 20,330 square feet, providing space for childcare facilities, fitness facilities, loading docks, and operations of the Deep Seawater Cooling System and Emergency Generators.

The total cost of Phase I was $162.9 million. The proceeds of the Series 2006A Bonds, together with certain other available moneys will be deposited as outlined in "PLAN OF REFUNDING" to refund all or a portion of the Series 2002A Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS".

Initially, Phase II of the Project site envisioned the building of the Cancer Research Center of Hawaii (CRCH). The CRCH is now a separate project planned for the 5.5 acres adjacent tract, which is currently the interim parking site for Phase I. $1,000,000 from the Series 2002A proceeds is being used for the design and planning of the CRCH Project. Phase II of the Project is now expected to include research facilities, i.e. the Regional Biocontainment Laboratory as well as a parking structure. Both the CRCH Project and Phase II will be a private/public partnership undertaking. A private development company has been selected for both projects and the University is currently working to finalize a Development Agreement.

Table 4

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds are estimated as follows:

SOURCES OF FUNDS	
Principal Amount of Series 2006A Bonds	$133,810,000.00
Net Original Issue Premium/Discount	1,777,025.70
Total Sources	$135,587,025.70
USES OF FUNDS	
Deposit to Escrow Fund	$134,190,454.00
Costs of Issuance for Series 2006A Bonds, including insurance premium and underwriting discount on Series 2006A Bonds	1,396,571.70
Total Uses	$135,587,025.70

Table 5

DEBT SERVICE REQUIREMENTS TABLE

Set forth below are the debt service requirements for the Bonds. Debt Service requirements for the Bonds in each fiscal year ending June 30 include principal and interest payments on July 15 of such fiscal year and interest payments on January 15 of such fiscal year.

Fiscal Year Ending June 30	Outstanding Bonds Debt Service	Refunding Bonds Principal	Refunding Bonds Interest	Total Refunding Bonds Debt Service	Total Bonds Debt Service
2007	$6,705,153	$ -	$1,342,600	$1,342,600	$8,047,753
2008	603,298	-	6,041,700	6,041,700	6,644,998
2009	3,466,556	425,000	6,033,200	6,458,200	9,924,756
2010	3,463,945	445,000	6,015,800	6,460,800	9,924,745
2011	3,467,238	465,000	5,997,600	6,462,600	9,929,838
2012	3,466,100	480,000	5,978,700	6,458,700	9,924,800
2013	3,462,900	500,000	5,959,100	6,459,100	9,922,000
2014	-	4,075,000	5,851,025	9,926,025	9,926,025
2015	-	4,280,000	5,645,950	9,925,950	9,925,950
2016	-	4,495,000	5,429,325	9,924,325	9,924,325
2017	-	4,545,000	5,228,800	9,773,800	9,773,800
2018	-	4,900,000	5,024,994	9,924,994	9,924,994
2019	-	5,140,000	4,783,588	9,923,588	9,923,588
2020	-	5,410,000	4,519,838	9,929,838	9,929,838
2021	-	5,685,000	4,242,463	9,927,463	9,927,463
2022	-	5,975,000	3,950,963	9,925,963	9,925,963
2023	-	6,280,000	3,644,588	9,924,588	9,924,588
2024	-	6,585,000	3,339,425	9,924,425	9,924,425
2025	-	6,905,000	3,018,638	9,923,638	9,923,638
2026	-	7,240,000	2,683,113	9,923,113	9,923,113
2027	-	7,575,000	2,349,775	9,924,775	9,924,775
2028	-	7,880,000	2,041,438	9,921,438	9,921,438
2029	-	8,165,000	1,760,650	9,925,650	9,925,650
2030	-	8,500,000	1,427,763	9,927,763	9,927,763
2031	-	8,875,000	1,049,169	9,924,169	9,924,169
2032	-	9,275,000	648,763	9,923,763	9,923,763
2033	-	9,710,000	218,475	9,928,475	9,928,475

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.

PENDING LITIGATION

The University and the Board are subject to litigation in connection with the day-to-day operation of the University. Accordingly, the University has been named as a defendant and/or co-defendant in various lawsuits. Counsel is presently unable to express an opinion as to the probable outcome of certain lawsuits, and, accordingly, no provision for losses, if any, has been made for these matters. Losses, if any, may be paid for by the general fund of the State or from moneys in certain special or revolving funds of the University. There are no claims or judicial proceedings other than the proceedings generally referred to above. There is no litigation now pending or threatened seeking to restrain or enjoin the issuance and delivery of, or the power and authority of the Board to issue and deliver, the Series 2006A Bonds or affecting the validity thereof. During fiscal years 2005 and 2006, an aggregate of less than $3.0 million was paid on claims against the University.

TAX MATTERS

In the opinion of Bond Counsel, (i) under existing statutes and court decisions, interest on the Series 2006A Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) under the Code, interest on the Series 2006A Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. In rendering the foregoing opinions, Bond Counsel has assumed continuing compliance by the Board with the tax covenants set forth in the proceedings authorizing the issuance of the Series 2006A Bonds.

In the further opinion of Bond Counsel, under the existing laws of the State, the Series 2006A Bonds, and the income therefrom, are exempt from all State, county and municipal taxation, except inheritance, transfer, and estate taxes and except to the extent such income may be included in the measure of the franchise tax imposed on banks and other financial corporations pursuant to the laws of the State.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2006A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2006A Bonds, or under state and local tax law.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2006A Bonds in order that interest on the Series 2006A Bonds be and remain not included in gross income under Section 103 of the Code. Noncompliance by the Board with such requirements may require inclusion of interest on the Series 2006A Bonds in gross income retroactive to the date of issuance of the Series 2006A Bonds, regardless of when such noncompliance occurs. The Board has covenanted that it shall not take or omit to take or permit any person to take or omit to take any action which would cause interest on the Series 2006A Bonds to be included in the gross income of any Bond owner for federal income tax purposes by reason of Section 103(b) of the Code as now in effect.

As noted above, interest on the Series 2006A Bonds may be taken into account in determining the tax liability of corporations subject to the federal alternative minimum tax imposed by Section 55 of the Code. Interest on the Series 2006A Bonds may also be taken into account in determining the environmental tax imposed on certain corporations by Section 59A of the Code and the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Owners of Series 2006A Bonds should be aware that such ownership may result in collateral federal income tax consequences to various categories of taxpayers, such as corporations (including S Corporations and certain foreign corporations), financial institutions, property and casualty insurance companies, and individual recipients of Social Security or Railroad Retirement benefits, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes.

Owners of Series 2006A Bonds subject to any such taxes or who might fall into any such category should consult their own tax advisors as to the computation of any such tax and the applicability of these consequences.

Legislation affecting state and local bonds is being constantly considered by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Series 2006A Bonds will not have an adverse effect on the tax-exempt status or market price of the Series 2006A Bonds.

The form of opinion Bond Counsel proposes to render is set forth in APPENDIX D - "FORM OF OPINION OF BOND COUNSEL".

VERIFICATION

Causey Demgen & Moore Inc., a firm of independent public accountants, will deliver to the Board and Bond Counsel its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Board and its representatives related to the refunding of the Refunded Bonds effected from the proceeds of the Series 2006A Bonds. See "PLAN OF REFUNDING". Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash, the maturing principal amounts and the interest on the Federal Securities deposited with the Refunding Trustee to pay the interest, principal and redemption price coming due on the Refunded Bonds on and prior to their respective maturity or redemption dates as described in "PLAN OF REFUNDING" and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Series 2006A Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and delivery of the Series 2006A Bonds are subject to the approval of Hawkins Delafield & Wood LLP, bond counsel. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2006A Bonds and will be delivered with the Series 2006A Bonds. The proposed form of the opinion of Bond Counsel is annexed as APPENDIX D - "FORM OF OPINION OF BOND COUNSEL". Certain legal matters will be passed upon for the Underwriters by their Counsel, Orrick, Herrington & Sutcliffe LLP.

RATINGS

Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings have assigned their municipal bond ratings of "AAA", "Aaa" and "AAA", respectively, to the Series 2006A Bonds with the understanding that upon delivery of the Series 2006A Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2006A Bonds will be issued by Insurer. In addition, such agencies have assigned underlying ratings of "A+", "Aa3" and "A+", respectively, to the Series 2006A Bonds based on their respective evaluation of the Series 2006A Bonds, without giving effect to such policy. 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 either to bring to the attention of owners of the Series 2006A Bonds any downward revision, suspension or withdrawal of any such rating or 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 2006A 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 set forth as APPENDIX F - "FORM OF CONTINUING DISCLOSURE CERTIFICATE".

UNDERWRITING

UBS Securities, LLC has agreed to purchase the Series 2006A Bonds at a price of \$133,810,000.00 plus net original issue premium/discount of \$1,777,025.70 and less an underwriting discount of \$813,822.45, resulting in a purchase price of \$134,773,203.25. The Contract of Purchase provides that the Underwriters will purchase all the Series 2006A 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 2006A Bonds to certain dealers (including dealers depositing the Series 2006A 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 HAWAII

By: Kitty Lagareta
Chair

payment when due of the principal of and interest on the Series 2006A Bonds will be issued by Insurer. In addition, such agencies have assigned underlying ratings of "A+", "Aa3" and "A+", respectively, to the Series 2006A Bonds based on their respective evaluation of the Series 2006A Bonds, without giving effect to such policy. 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 either to bring to the attention of owners of the Series 2006A Bonds any downward revision, suspension or withdrawal of any such rating or 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 2006A Bonds.

CONTINUING DISCLOSURE

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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 HAWAII

By: s/s Kitty Lagareta
Chair

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APPENDIX A

THE UNIVERSITY

General

The University of Hawaii (the "University") constitutes a post secondary system (the "University System"), comprised of three University campuses, seven community college campuses, an Employment Training Center and five educational centers distributed across six islands throughout the State. In addition to the flagship campus of the University at Manoa, the University System also includes the 3,000 student campus at Hilo on the island of Hawaii and the smaller campus in West Oahu on the leeward island of Oahu. The community college system in the University System consists of seven community colleges and an Employment Training Center. There are four community college campuses on the island of Oahu and one community college campus on each of the islands of Maui, Kauai, and Hawaii, making college classes accessible and affordable and easing the transition from high school to college for many students. The Employment Training Center is located on the island of Oahu. The five 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.

Campuses and Academic Programs

The University System provides students with two campuses offering baccalaureate degrees but with differing admission requirements, one multi-college university with graduate programs, and seven community colleges 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, associate degrees in liberal arts and career and technical education, bachelor's degrees in 124 programs, master's degrees in 92 programs, and doctoral degrees in 54 programs, including M.D., J.D. and ArchD degrees. In addition, the University maintains a co-operative extension program. The Employment Training Center and the five educational centers provide non-degree adult continuing education and training programs.

Manoa Campus

The oldest campus and the flagship of the University System is at Manoa on the island of Oahu. The University was established at Manoa 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 Hawaii at Manoa to distinguish it from the other units of the growing University System. The campus at Manoa remains by far the largest and most comprehensive unit in the University System, comprising 19 schools and colleges, offering 87 baccalaureate degrees and 144 graduate and professional degrees, with 134 degree programs, including M.D., J.D. and ArchD degrees. Regular credit enrollment for the fall 2005 semester was 20,644, of which 15,037 were full-time and 5,607 were part-time with 14,352 students enrolled as undergraduates, 6,292 as graduates. 4,401 degrees were awarded during fiscal year 2005-2006, of which 1,564 were graduate degrees and 2,837 were bachelor's degrees. The University at Manoa is situated on approximately 300 acres on the island of Oahu, 7 miles east of the central business district of the City and County of Honolulu. The estimated daytime student population of the University at Manoa campus is approximately 19,000. At the beginning of the 2005 academic year, the University at Manoa had 2,349 faculty.

The University at Manoa is a Carnegie I research university of international standing. 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 39 universities or consortia in the United States designated as a land, sea and space grant college. As a major research university, the University at Manoa has the capability of serving not only the State but the nation and the international community as well. The University at Manoa 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 Manoa offers instruction in more languages than any United States institution outside the United States Department of State. In addition to the University faculty expertise in benthic and pelagic oceanography, the Hawaii Institute of Marine Biology leads global research in coral reefs and zooxanthellae.

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

Hilo Campus

The campus of the University of Hawaii 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 and a College of Hawaiian Language.

Students may select majors in the natural sciences, humanities, social sciences, agriculture and Hawaiian language, as well as professional programs such as business, education, and nursing. At the beginning of the 2005-2006 academic year, the campus had 209 faculty. Regular credit enrollment for the fall 2005 semester was 3,422, of which 2,762 were full-time and 670 were part-time, with 3,214 students enrolled as undergraduates and 208 as graduates. 614 degrees were awarded during fiscal year 2005-2006, of which 537 were bachelor's degrees. With an average of 21 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 Oahu Campus

The campus of the University in West Oahu is the most recent addition to the University System. That campus opened its doors in January, 1976, as West Oahu College and is currently located on the Leeward Community College campus in Pearl City on the island of Oahu. The name of the institution was changed to the University of Hawaii-West Oahu by the Board in 1989.

The campus at West Oahu was established to take advantage of this region's substantial growth and to alleviate the crowded conditions at the campus at Manoa. West Oahu, an upper division campus, permits students to pursue their educational and professional goals through a curriculum that places major emphasis on the teaching function, as well as the humanities, social sciences, and selected professional programs. Courses are scheduled to accommodate student schedules, including evenings and weekends.

At the beginning of the 2005-2006 academic year, the campus had 34 faculty. Regular credit enrollment for the fall 2005 semester was 858, of which 306 were full-time and 552 were part-time, with 858 as undergraduates. During fiscal year 2005-2006, 265 degrees were awarded, all of which were bachelor degrees.

The Community Colleges and Outreach Programs

The community college sub-system in the University System consists of seven campuses. Currently, the community college sub-system serves over 25,000 credit students annually, which is more than half of the enrollment of the entire University System. The community college sub-system is comprehensive in nature, 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 (transferrable to applicable baccalaureate programs), an Associate in Applied Science, or an Associate in Technical Studies. 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
2005-2006 Academic Year

College	FTE Enrollment	Faculty/Staff	Degrees Awarded*
Hawaii	1,481	238	315
Honolulu	2,388	358	561
Kapiolani	4,139	522	731
Kauai	591	163	165
Leeward	3,332	371	482
Maui	1,672	289	306
Windward	999	180	111
Total:	14,602	2,121	2,671

* FY 2004-2005

Source: UH Institutional Research Office

In addition to the community college sub-system, the University System provides continuing adult education programs through several outreach centers located in Waianae, Oahu; Hana, Maui; Lanai; Molokai and West Hawaii.

Employment Training Center

The Employment Training Center was established in 1964 within the State's Department of Education under an agreement between the United States Department of Health, Education and Welfare and the State. The Employment Training Center was initially designated the Manpower Training Office reflecting the national initiative set by the Manpower Development and Training Act. The Manpower Training Office was transferred to the University in 1968 by an act of the State Legislature. In 1980 the Board approved the name change to the Employment Training Office. In 1991 that name was modified to the Employment Training Center to reflect that the Center was not merely an "office" administrating training programs, but a "center" which provides a variety of educational and training programs.

Accreditation and Membership

The University is accredited by the Accrediting Commission for Colleges and Universities of the Western Association of Schools and Colleges. Professional programs in curriculum are individually accredited by appropriate agencies. Students may transfer credits to other American or foreign universities on the same basis as course credits are transferred by other accredited American universities.

The John A. Burns School of Medicine is accredited by the Liaison Committee on Medical Education of the Association of American Medical Colleges and the Council on Medical Education of the American Medical Association.

Administrative Organization

The University System is governed by the Board of Regents, whose members are appointed by the Governor and confirmed by the Senate of the State. The Regents in turn appoint the president of the University System who 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 of Regents, consisting of twelve members appointed by the governor of the State and confirmed by the Senate. Regents serve four-year terms. The Regents of the University are:

Kitty Lagareta, Chair
Ronald K. Migita, Vice Chair

Andres Albano, Jr.
Byron W. Bender
Michael A. Dahilig
Ramón de la Peña
Marlene M. Hapai
James J.C. Haynes II
Allan R. Landon
Alvin A. Tanaka
Jane B. Tatibouet

Administration

Administrative personnel of the University System include the following individuals:

David McClain, President, University of Hawai'i System. David McClain became President of the 10-campus UH System in March 2006. He was appointed Acting President in June 2004 and Interim President two months later.

McClain previously served as Vice President for Academic Affairs for the System from

2003 to 2004 and as Dean of the UH Manoa College of Business and First Hawaiian Bank Distinguished Professor of Leadership and Management from 2000 to 2003. He first joined the Manoa campus in 1991 as the Henry A. Walker Jr. Distinguished Professor of Business Enterprise and professor of financial economics and institutions and professor of financial economics and institutions.

After receiving a BA in economics and mathematics from the University of Kansas, McClain joined the U.S. Army, completing his service as a first lieutenant in Vietnam. He earned a PhD in economics from the Massachusetts Institute of Technology and was a tenured faculty member and department chair at Boston University and founding director of its Management Development Program–Japan. He has taught at MIT's Sloan School of Management and at Universidad Gabriela Mistral in Santiago, Chile, and has been a visiting scholar at Keio and Meiji Universities in Japan. He also served as senior staff economist on the Council of Economic Advisors to President Jimmy Carter and as head of global economic information services for Data Resources, Inc.

McClain has headed the Asia Pacific Economic Cooperation Business Management Network and is on the board of advisors for Ritsumeikan Asia Pacific University in Japan. He is a director of ML Resources, the managing partner of ML Macadamia Orchards, and First Insurance Company of Hawai'i, a joint venture of CNA and Tokio Marine Nichido. He is the author of Apocalypse on Wall Street (Dow-Jones/Irwin) and hundreds of scholarly articles and columns on economic issues.

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 and Honolulu Charter Commission, Lendio has been active in numerous professional and civic organizations, including the Hawai'i Filipino Lawyers, Honolulu Board of Water Supply 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.

Denise Eby Konan, Interim Chancellor, University of Hawai'i at Manoa. Denise Eby Konan became Interim Chancellor of the University of Hawai'i's oldest and largest campus on Aug. 1, 2005. She previously served nearly three years as the Interim Assistant Vice Chancellor for Academic Affairs and more recently as Chair of the Department of Economics. While in the Manoa Academic Affairs Office, Konan played a leadership role in facilitating a collaborative process that resulted in Manoa's visionary strategic plan.

Konan joined the Manoa faculty in 1993 and was named full professor in 2002. She teaches international trade and microeconomics at the graduate and undergraduate level. Students selected her for the College of Social Science's Excellence in Teaching award in academic year 1997–98, and the faculty elected her to the Manoa Faculty Senate Executive Committee in 2005. She is an affiliated faculty member in Global Environmental Sciences and is a fellow in the International Center for Climate and Society at Manoa.

A noted international trade economist, Konan has published numerous articles on a wide variety of topics, including the economics of regionalism and the multilateral trading system, international trade in services and intellectual property rights. She has been a consultant to the World Bank, the Council of Foreign Relations, World Economic Forum and various foreign and national governments.

Konan is chair of the Women Leaders in Higher Education chapter in Hawai'i. She has served on the boards of the Organization of Women Leaders, Hawai'i Economics Association and the Hawai'i Council for Economics Education. She has been a Pacific Century Fellow in Hawai'i.

Raised in Philadelphia and Lancaster, Penn., Konan received her undergraduate degree from Goshen College and her doctorate from the University of Colorado at Boulder.

Rose Tseng, Chancellor, University of Hawai'i at Hilo. Rose Tseng is Chief Executive Officer of the growing UH Hilo campus, which offers baccalaureate and selected graduate programs on the Big Island of Hawai'i. In addition to her responsibility for the campus' academic program, she oversees development of the University Research Park and other entrepreneurial initiatives designed to boost economic and social development of the island and state.

Prior to joining UH, Tseng served as System Chancellor and Chief Executive Officer of the West Valley Mission Community College District in California's Silicon Valley, which includes Mission College, West Valley College and a 22,000-student Economic Development Institute. Under her leadership, the district reversed a budget shortfall, tripled the amount of grant monies it receives, increased business contacts and completed several land lease development projects that generated $4 million in annual revenues. She began her academic career in as a professor and founding chair of the Nutrition and Food Science Department and health division director at San Jose State University. She was a visiting professor at Fu Jen University in Taiwan and spent six years as dean of San Jose State University's College of Applied Sciences and Arts.

Tseng attended Cheng Kung University in Taiwan, where she majored in architectural engineering and chemistry. She holds a BS in chemistry from Kansas State University and master's and doctoral degrees in nutrition from the University of California at Berkeley.

As the principal consultant for the UH-sponsored Nutrition Manpower Development Project, Tseng helped develop MS and BS degree programs in nutrition and food in several countries. She was a founding board member of the Joint Silicon Valley 21st Century Education Initiative/Challenge 2000; co-chair and board member of Workforce Silicon Valley; senior fellow of American Leadership Forum, Silicon Valley Chapter; and chair of the National Science Foundation's Northwest Center for Sustainable Resources National Visiting Committee. She served as an accreditation evaluator for the Western States Universities and Colleges for both two- and four-year colleges; is a past member of the American Council on Education's Commission on Minorities in Higher Education and served on the Policy Council of the Test of English As a Foreign Language Educational Testing Service. She has authored more than 40 professional publications on higher education, nutrition and multicultural health issues.

Tseng was named one of the San Francisco Bay Area's Top 50 Women in Management by California business journals in 1997 and received the Against-All-Odds Role Model award from the California State Legislature. Other honors include the Outstanding Alumni award from National Cheng Kung University, the YWCA Tribute to Women and Industry (TWIN) award, Santa Clara County Women of Achievement Award, and Best Publications Award from the American Society of Allied Health Professions.

Tseng serves on the boards of the Hawai'i Island Chamber of Commerce and Economic Development Board and actively supports a variety of local charities.

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 Manoa.

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.

John F. Morton, Interim Vice President for Community Colleges. As Interim Vice President for Community Colleges, John Morton is responsible for executive leadership, policy decision-making, resource allocation and development of appropriate support services for the University's seven community colleges. It is his second stint in a systemwide role; he previously took on a special assignment to help direct implementation of a systemwide online student registration system.

Chancellor of Kapi'olani Community College since 1984, Morton previously served as Dean of Instruction at Leeward Community College. He started his UH career at that campus as a faculty member in both chemistry and political science.

Active in community affairs, Morton has served as President of the Hawai'i Services on Deafness Board and the Hawai'i Health Information Corporation Board and as a member of the Board of Trustees of ASSETS School.

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 Manoa.

Howard Todo, Vice President for Budget and Finance/Chief Financial Officer. Howard Todo joined the UH 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 chairs the state's Board of Public Accountancy and has 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 UH Manoa and 1995 inductee into the College of Business Administration's Hall of Honor, Todo served on the boards of the UH Alumni Association and College of Business Alumni and Friends.

Sam Callejo, Vice President for Administration. Sam Callejo serves as Chief Administrative Operational Officer and Advisor to the President, providing executive leadership, vision and management in non-academic matters.

Callejo joined the university in 2003 as UH Director of Capital Improvements. He previously served as the Administrative Director/Chief of Staff to the governor of the State of Hawai'i, where he managed 16 state departments and coordinated with UH and the Department of Education on behalf of the Governor. He has extensive knowledge of the public sector at both the state and local levels, having previously served as State Comptroller for the State of Hawai'i's Department of Accounting and General Services and Director and Chief Engineer of the City and County of Honolulu's Department of Public Works.

Callejo also served in the U.S. Army's Corps of Engineers, and was involved in various construction projects in both Vietnam and San Francisco.

He earned his BS in civil engineering from the University of Hawai'i at Manoa

Linda K. Johnsrud, Vice President for Academic Planning and Policy. 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.

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 Acting/Interim Chancellor for UH West O'ahu.

She is a professor of higher education in the Department of Educational Administration, College of Education at UH Manoa. 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 Manoa faculty senate. She was the 2000-

02 vice president of Postsecondary Division J of the American Educational Research Association, and she also served on the AERA executive council.

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 Ohio State University

Karen C. Lee, Interim Associate Vice President for Student Affairs. As the Interim Associate Vice President for Student Affairs since March 1, 2006, Karen C. Lee is responsible for system-wide student affairs policies and procedures and student life activities.

Prior to her appointment, she has served as executive assistant to the UH president and as undergraduate coordinator of the Office of Student Academic Services at the UH Manoa College of Business. She has also been Assistant Dean of Students and Senior Assistant Director of Admissions at Columbia University (NY), and Assistant Director of Admission at Colgate University (NY).

Lee holds a BA in mathematics and an MA in higher education administration from Columbia University.

Carolyn Tanaka, Associate Vice President for External Affairs and University Relations. As the lead executive for external affairs and university relations, Carolyn Tanaka establishes strategy for significant activities that promote understanding and mutual respect within the university and among media, lawmakers and the public at large.

Before joining the University of Hawai'i System in 2002, Tanaka held the position of Vice President for Public Affairs for McNeil Wilson Communications, the state's largest public relations agency. A 20-year veteran communicator, she previously served as director of communications and press secretary to Gov. John Waihee, 1986–1994, and as a news broadcaster for Honolulu television stations KHON and KGMB.

Carolyn Tanaka holds a BA in journalism from University of Hawai'i at Manoa.

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

Gaines joined University of Hawai'i at Manoa in 1987 as a professor of physics and chaired the Physics and Astronomy Department since 1995. He spent two years as Vice President and Head of Materials Science for KMS Fusion Inc., 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), 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 BS from Berea College.

Student Enrollment

Enrollments

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

Academic Year	Total University System	UH Manoa	UH Hilo	UH West Oahu	Community Colleges
2001-2002					
Undergraduate	27,830	10,281	2,299	442	14,808
Graduate	3,765	3,655	109	1	
Total:	31,595	13,936	2,408	443	14,808
2002-2003					
Undergraduate	29,378	11,131	2,465	469	15,313
Graduate	3,976	3,887	86	3	
Total:	33,354	15,018	2,551	472	15,313
2003-2004					
Undergraduate	30,303	11,785	2,705	475	15,338
Graduate	4,214	4,135	79	0	
Total:	34,517	15,920	2,784	475	15,338
2004-2005					
Undergraduate	30,379	12,180	2,684	476	15,039
Graduate	4,293	4,196	97	0	
Total:	34,672	16,376	2,781	476	15,039
2005-2006					
Undergraduate	30,188	12,358	2,738	490	14,602
Graduate	4,391	4,225	166	0	
Total:	34,579	16,583	2,904	490	14,602

Source: UH Institutional Research Office

Applications and New Enrollments

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

Table A-3
MANOA CAMPUS
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2001-2002	8,207	6,251	76.2%	1,650	1,935	3,585
2002-2003	9,093	6,655	73.2	1,877	1,934	3,811
2003-2004	10,688	7,502	70.2	1,996	1,787	3,783
2004-2005	11,972	8,369	69.9	2,019	2,298	4,317
2005-2006	10,496	8,241	78.5	2,022	2,133	4,155

Table A-4
HILO CAMPUS
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2001-2002	3,505	2,381	67.9%	415	577	922
2002-2003	3,132	1,996	63.7	413	603	1,016
2003-2004	3,382	2,410	71.3	434	677	1,111
2004-2005	3,606	2,286	63.4	441	649	1,090
2005-2006	2,831	2,126	75.1	444	781	1,225

Table A-5
WEST OAHU CAMPUS
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2001-2002	531	401	75.5%	N/A	245	245
2002-2003	522	428	82.0	N/A	250	250
2003-2004	485	398	82.1	N/A	232	232
2004-2005	466	396	85.0	N/A	230	230
2005-2006	436	388	89.0	N/A	232	232

* West Oahu is an upper division campus and does not accept freshmen.

Table A-6

COMMUNITY COLLEGES
APPLICATIONS AND NEW ENROLLMENTS
UNDERGRADUATE

	Applications			New Enrollments		
Academic Year	Received	Accepted	Percent Accepted	Freshman	Transfer	Total Enrolled
2001-2002	19,081	18,376	96.3%	4,792	3,484	8,276
2002-2003	20,231	18,755	92.7	4,757	3,758	8,515
2003-2004	17,715	17,226	97.2	4,550	2,758	7,308
2004-2005	16,813	16,103	95.8	4,262	2,281	6,543
2005-2006	16,095	15,609	97.0	4,300	2,791	7,091

Source: UH Institutional Research Office

Student Tuition and Housing Costs

For the 2005-2006 academic year, undergraduate tuition and mandatory fees for resident students was $3,697 and for non-resident students was $10,177 at the University at Manoa. Undergraduate tuition and mandatory fees for resident students was $2,603 and for non-resident students was $8,171 at the University at Hilo. Undergraduate tuition and mandatory fees for resident students was $2,266 and for non-resident students was $7,402 at the University at West Oahu. The Community Colleges tuition was $1,176 for resident students and $5,808 for non-resident students. Mandatory fees at the Community Colleges range from a low of $25 per academic year to $124 per academic year. The Board has approved annual tuition increases in the next 5 academic years of $7 to $9 per credit hour, or between $168 to $216 per academic year.

The average annual room and board charges for the academic year 2005-2006 at the University at Manoa is $6,717, at the University at Hilo is $5,472, and at Maui Community College is $5,962. The University at West Oahu is a commuter campus and has no dormitory facilities. Maui Community College is the only community college campus with on-campus student housing. Housing rates at the University at Hilo will increase by 15%, commencing in the fall of 2006, and by 10% in the fall of 2007. Housing rates at Maui Community College will increase by 15% in the fall of 2006 and the same percentage on the fall of 2007.

Degrees Awarded by School

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

Table A-7
DEGREES AWARDED BY CAMPUS
ASSOCIATE/BACHELOR/GRADUATE*

Fiscal Year	Total UH System	UH Manoa	UH Hilo	UH West Oahu	Community Colleges
2000-2001					
Associate/Certificate	2,534	0	0	0	2,534
Bachelor/Professional Degree	3,069	2,396	452	221	0
Graduate/JD	1,207	1,207	0	0	0
Other	1	0	0	0	1
Total:	6,811	3,603	452	221	2,535
2001-2002					
Associate/Certificate	2,553	0	0	0	2,553
Bachelor/Professional Degree	3,009	2,377	453	179	0
Graduate/JD	1,078	1,077	1	0	0
Other	0	0	0	0	0
Total:	6,640	3,454	454	179	2,553
2002-2003					
Associate/Certificate	2,711	0	0	0	2,711
Bachelor/Professional Degree	3,091	2,438	486	167	0
Graduate/JD	1,274	1,258	16	0	0
Other	0	0	0	0	0
Total:	7,076	3,696	502	167	2,711
2003-2004					
Associate/Certificate	2,596	0	0	0	2,596
Bachelor/Professional Degree	3,417	2,639	566	212	0
Graduate/JD	1,233	1,220	13	0	0
Other	0	0	0	0	0
Total:	7,246	3,859	579	212	2,596
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

Source: UH Institutional Research Office

* The University Institutional Research Office maintains the information contained in this table only for fiscal years.

Faculty

The full-time equivalent faculty in the University System in the academic year 2005-2006 totals approximately 3,237, of which about 78% of those in the tenure track are fully tenured. When all faculty are considered, including those that are neither tenure nor tenure-track, approximately 58% 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 Hawaii 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 Hawaii Faculty, Unit 8, Administrative, Professional and Technical Employees of the University of Hawaii, Unit 9, Registered Professional Nurses, or Unit 10, Institutional and Hospital Employees. Employees in executive and managerial positions, as well as certain Unit 8 and civil service personnel designated as excluded, are not represented by any union and some employees (*i.e.*, certain contractual hires) are not a party to a formal labor contract.

Most of the collective bargaining agreements are for a two-year period beginning July 1, 2005 and ending on June 30, 2007. The faculty collective bargaining unit is for a six-year period July 1, 2003 through June 30, 2009. Salary adjustments for the various bargaining units at the University are approximately as follows for the term of the contract: Unit 1, Blue Collar Workers, 9.42%; Unit 2, Blue Collar Supervisors, 9%; Unit 3, White Collar Employees, 11%; Unit 4, White Collar Supervisors, 11%; Unit 7, University of Hawaii Faculty, 31%; Unit 8, Administrative, Professional and Technical Employees of the University of Hawaii, 11%; Unit 9, Registered Professional Nurses, 12%; and Unit 10, Institutional and Hospital Employees, 10%.

Employee and Pensions Benefits

For information on employee benefits and pensions see note 15 in APPENDIX B –"AUDITED FINANCIAL STATEMENTS".

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 will be effective for the State, including the University, beginning in the fiscal year ending June 30, 2008. The State has commissioned an actuarial study of the obligations for post-retirement benefits which are paid by the Hawaii Employers-Union Health Benefit Trust Fund.

Financial Information

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.

The audited financial statements of the University as of and for the year ended June 30, 2005 are included in Appendix B to this Official Statement to provide general information. However, both the audited financial statements included as Appendix B and in the tables set forth in this Appendix A, include revenues excluded from the definition of "Available Moneys" under the Resolution, including affiliated foundations and other entities. See "THE UNIVERSITY SPECIAL AND REVOLVING FUNDS" in this Official Statement. PricewaterhouseCoopers, LLP, has not reviewed this Official Statement and has no responsibility with respect to this Official Statement.

Total net assets has increased 28.1% over the past four fiscal years as shown in the table below.

Table A-8

***SUMMARY BALANCE SHEET**
AS OF JUNE 30
(in thousands of dollars)

	2002	2003	2004	2005
Total Assets	$1,343,870	$1,438,768	$1,491,077	$1,629,733
Total Liabilities	384,301	382,127	386,026	400,680
Net Assets				
Invested in capital assets, net of related debt	575,259	667,383	692,610	803,237
Restricted:				
Nonexpendable	82,272	88,921	97,384	104,949
Expendable	94,984	89,721	110,713	123,274
Unrestricted	207,054	210,616	204,344	197,593
Total Net Assets	959,569	1,056,641	1,105,051	1,229,053
Total Liabilities and Net Assets	$1,343,870	$1,438,768	$1,491,077	$1,629,733

* In Fiscal Year 2002 the University adopted GASB Statement No. 35 which changed reporting format.

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 four fiscal years.

Table A-9

***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)

	2002	2003	2004	2005
Revenues:				
Tuition and fees, net	$ 88,194	$ 94,253	$ 110,253	$ 115,505
State appropriations	450,891	462,453	459,649	488,193
Grants and contracts	235,940	291,962	313,564	337,728
Sales and services	81,244	87,699	93,777	97,074
Investment income	-	11,728	26,650	19,176
Private gifts	9,862	10,725	17,420	18,560
Other revenue	1,506	1,467	1,724	1,342
Revenues Supporting Core Activities	$867,637	960,287	1,023,037	1,077,578
Expenses Associated with Core Activities				
Before Depreciation	880,505	947,617	964,674	1,033,130
Income (Loss) from Core Activities				
Before Depreciation	(12,868)	12,670	58,363	44,448
Depreciation	37,051	41,428	43,610	53,748
Expenses Associated with Core Activities				
Including Depreciation	917,556	989,045	1,008,284	1,086,878
Income (Loss) from Core Activities	(49,919)	(28,758)	14,753	(9,300)
Other Nonoperating Income, net	109,118	125,830	33,657	133,301
Increase in Net Assets	59,199	97,072	48,410	124,001
Net Assets, Beginning of Year	900,370	959,569	1,056,641	1,105,051
Net Assets, End of Year	$959,569	$1,056,641	$1,105,051	$1,229,052

* In Fiscal Year 2002 the University adopted GASB Statement No. 35 which changed reporting format.

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-Manoa, UH-Hilo, 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 of Regents, the University's operating and CIP 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 program 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. General fund state appropriations to the University for the past five fiscal years and the budgeted amount for the current fiscal year are summarized in the table below.

Table A-10

***GENERAL FUND STATE APPROPRIATIONS**
FOR THE FISCAL YEAR ENDED JUNE 30,
(in thousands of dollars)

	2002	2003	2004	2005	2006**	2007**
General Fund State Appropriations	$450,891	$462,453	$459,649	$488,193	$601,271	$605,170

* In Fiscal Year 2002 the University adopted GASB Statement No. 35 which changed reporting format.
** Amount derived from University Budget Office and may differ when financial statements are prepared by the accounting office due to recording/classification and adjustments for lapsed funds.

For the last three years, Hawaii's economic growth has exceeded the nation's. This trend however, is not expected to continue. The growth rate in real GSP is projected to decrease from 3.0% in FY 2005-2006 to 2.6% in FY 2006-2007 and stabilize at approximately 2.4% in FY 2007-2008 and FY 2008-2009. Similarly, the rate of growth in state general fund tax revenues is projected to decline over the same period (9.5%, 6.5%, 7.1%, and 5.0% respectively).

In light of these projections, the Legislature has been reluctant to approve additional funds for new programs and services that would permanently increase the size and cost of government and create "structural deficits" in future budgets if state tax revenues should decrease from currently projected levels. For much the same reason the public call for tax relief which often accompanies a booming economy, has been met with a modest 20% expansion in personal income tax brackets and an increase in the standard deduction from 25% to 40% of the federal standard deduction.

Higher operating expenses fueled by rising energy costs, anticipated increases in government employee pay and benefits, and unfunded federal mandates has also served to moderate the Legislature's propensity to provide additional state services and tax relief in an election year. In addition, the state will also be required to include previously unreported long term financial obligations in its annual financial statements in compliance with Government Accounting and Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for* Postemployment *Benefits Other Than Pensions.* This requirement will take effect in FY 2007-2008 and is expected to have an impact on future budgets by further reducing the amount of state revenues available for programs.

Grants and Contracts. From 2002 to 2005, research funding has grown 43.1% from $236 million to $338 million. Federal grant revenue accounts for 85.7% of research at the University, while the remainder is 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-11

***GRANTS AND CONTRACTS**
FOR THE FISCAL YEAR ENDED JUNE 30,
(in thousands of dollars)

	2002	2003	2004	2005
Federal Grants and Contracts	$195,894	$246,161	$272,021	$289,575
Other	40,046	45,801	41,543	48,153
Total Grants and Contracts	$235,940	$291,962	$313,564	$337,728

* In Fiscal Year 2002 the University adopted GASB Statement No. 35 which changed reporting format.

Gifts and Fund Development. On July 1, 2002 the University embarked on the Centennial Campaign. The campaign period was recently extended to June 2009 with a goal of $250 million. Through FY 2006 the amount raised for the campaign is $118 million, 47 % of the goal. The Centennial

Campaign will serve as a focal point to build a culture and legacy of philanthropic support throughout the University System.

The University's last campaign concluded in 2001 after raising $116 million, ahead of its $100 million goal. Of the $116 million raised from private sources, over $50 million was earmarked for educational innovation and over $25 million was directed towards scholarships and other forms of tuition assistance

Auxiliary Enterprises Sales and Services. The University operates auxiliary enterprises to provide important goods and services to students, faculty, staff, and others. These self-supporting activities generate sales and services revenues that are used to fund their operations. Auxiliary enterprises include dormitories, bookstores, campus food service, parking, faculty housing, and others. Sales and services revenues increased 21.5% over the past four years. See "Other Indebtedness - *The Network*" below.

Investments. The University's endowment provides funds to support University academic programs and student-related activities. The following table summarizes the University's cash and investments for the past four years.

Table A-12

***UNIVERSITY CASH AND INVESTMENTS**
AS OF JUNE 30,
(in thousands of dollars)

	2002	2003	2004	2005
Current Assets:				
Cash and cash equivalents	$152,357	$166,026	$121,134	$115,930
Operating investments	91,066	93,468	141,988	131,805
Noncurrent Assets:				
Restricted cash and cash equivalents	90,836	17,577	10,151	13,442
Endowment and other investments	244,798	293,283	288,352	240,661
Total Cash and Investments	$579,057	$570,354	$561,625	$501,838

* In Fiscal Year 2002 the University adopted GASB Statement No. 35 which changed reporting format.

Additional information regarding the University's investments is provided in Note (1) and (2) to the financial statements of the University included in Appendix B.

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 are such that exclusion would cause the financial statements of the University to be misleading. Accordingly, the financial information of the University of Hawaii Foundation (*"UHF"*) and the Research Corporation of the University of Hawaii (*"RCUH"*) are blended in the University's financial statements.

UHF was formed to encourage private support to the University. It has built a solid program base, including a range of fund raising services to all University campuses and management of more than 3,400 gift accounts. For the fiscal year ended June 30, 2005, UHF reported in their financial statements revenues of $46.0 million and expenses of $25.1 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, 2005, RCUH reported in their financial statements revenues of $13.5 million and expenses of $12.0 million.

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, 2005 amounted to $969.6 million, an increase of 54.2% over the past four fiscal years.

Table A-13

***UNIVERSITY CAPITAL ASSETS**
AS OF JUNE 30,
(in thousands of dollars)

	2002	2003	2004	2005
Capital assets not being depreciated:				
Land	$ 9,708	$ 10,216	$ 11,787	$ 11,827
Construction in progress	50,534	100,528	164,706	183,626
Total capital assets not being depreciated	$ 60,242	$ 110,744	$ 176,493	$195,453
Capital assets being depreciated:				
Land improvements	$ 41,599	$ 41,599	$ 41,775	$ 56,451
Infrastructure	25,834	28,318	29,515	45,308
Buildings	752,530	817,641	823,018	953,791
Equipment	182,742	191,465	214,146	226,677
Library books	133,974	141,569	146,298	147,008
Total assets being depreciated	$1,136,679	$1,220,592	$1,254,752	$1,429,235
Less accumulated depreciation	$567,945	$601,205	$631,909	$655,062
Capital assets, net	$628,976	$730,131	$799,336	$969,626

* In Fiscal Year 2002 the University adopted GASB Statement No. 35 which changed reporting format.

The University's capital improvements program for fiscal biennium 2005-2007 includes a total of $322.7 million in legislative appropriations and authorizations; this includes $42.5 million in State general funds and $191.8 million in State funded general obligation bonds. The University received a total of $140.0 million in legislative appropriations and authorizations for capital improvements for the fiscal biennium 2003-2005; which includes $111.4 million in State funded general obligation bonds.

Other Indebtedness.

The Network

Pursuant to a separate resolution, the Board has established a "Network" consisting of auxiliary revenue producing facilities, such as dormitories, parking facilities, and student centers. As of June 30, 2005, $16,465,000 of principal remained outstanding with annual installments, including semi-annual interest payments, ranging from $349,000 to $1,718,000 with the final installment due in October 2018. Under existing legislation, the Board is authorized to issue up to $100 million of additional bonds under the Network to finance additional facilities. It is anticipated that the Board will issue a portion of that amount to finance new dormitory facilities in the next 12 to 18 months subject to complying with the additional bonds test in the aforesaid separate resolution. The bonds issued for the Network are payable from certain moneys which are excluded from the definition of "Available Moneys" under the Resolution. The bonds issued for the Network have no claim on the Available Moneys or the Auxiliary Moneys, 2006A pledged to the Series 2006A Bonds. See "*Auxiliary Enterprises Sales and Services*" above.

Reimbursable General Obligation Bonds

In addition to payment of debt service on the bonds issued for the Network, revenues from the Network (which are excluded from the definition of "Available Moneys") are utilized to reimburse the State for debt service on certain reimbursable State of Hawaii 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, 2005, $9,123,980 of principal reimbursements remained outstanding. Annual reimbursement, including semi-annual interest payments, range from $129,000 to $3,393,000 with the final installment in July, 2017.

Kau'iokahaloa Nui Faculty Housing Project

In 1995, the Housing Finance and Development Corporation, known today as the Hawaii Housing Finance and Development Corporation (*"HHFDC"*) issued revenue bonds to provide permanent financing for the University's Kau'iokahaloa Nui Faculty Housing Project. The Board entered into a Lease and Sublease Agreement with HHFDC providing for the lease of the aforesaid housing project to the Board. The aforesaid Agreement calls for the Board to make certain lease payments to HHFDC, including amounts sufficient to pay the principal of, premium, if any, and interest on the bonds issued to finance the aforesaid housing project. The Board's obligation to make payments under the aforesaid Agreement is limited to revenues of the Network (which are excluded from the definition of "Available Moneys"). The annual installments are approximately $1.24 million per year and the final installment is in October, 2025.

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 and are subject to appropriation. 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, 2005, such payments under both the leasing agreement and the installment purchase contracts aggregate approximately $1.34 million and decline each subsequent year.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

There follows the audited financial statements of the entire University as of and for the fiscal year ended June 30, 2005. Since such financial statements are *verbatim* from the printed version, the page numbers reflect the page numbers of the audit. Such financial statements are included to provide general information and include revenues, expenditures, assets and liabilities of the entire University, including affiliated foundations and other entities. In particular some revenues shown are excluded from the definition of "Available Moneys" under the Resolution. See "THE UNIVERSITY SPECIAL AND REVOLVING FUNDS" in this Official Statement. The auditor has not reviewed the Official Statement and has no responsibility for its contents. This notice is not a part of the audited financial statements.

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PRICEWATERHOUSECOOPERS

University of Hawai'i
State of Hawai'i

Consolidated Financial Statements

June 30, 2005 and 2004

University of Hawai'i
State of Hawai'i
Index
June 30, 2005 and 2004

UNIVERSITY OF HAWAIʻI

David McClain
Interim President

February 22, 2006

Chairperson Kitty Lagareta
Members of the Board of Regents
2444 Dole Street
Honolulu, Hawaiʻi 96822

Dear Chairperson Lagareta:

I am pleased to submit the Financial Report of the University of Hawaiʻi for the year ended June 30, 2005.

This report has been prepared by the staff of the Vice President for Budget and Finance and Chief Financial Officer in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board Statement No. 35, *"Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,"* and Statement No. 34, *"Basic Financial Statements and Management Discussion and Analysis for State and Local Governments"*.

Our financial report as of June 30, 2005 includes a "Statement of Net Assets", "Statement of Revenues, Expenses, and Changes in Net Assets", "Statement of Cash Flows", "Notes to the Financial Statements", and "Management's Discussion and Analysis (MD&A)". The financial data of the University of Hawaiʻi System includes the University of Hawaiʻi, the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi Foundation.

The financial statements herein have been audited by PricewaterhouseCoopers LLP, Independent Accountants, whose Report of Independent Auditors is on page 2.

Respectfully submitted,

David McClain
Interim President

Attachment

2444 DOLE STREET • BACHMAN HALL • HONOLULU, HAWAIʻI 96822 • TEL (808) 956-9704 • FAX (808) 956-9943

PRICEWATERHOUSECOOPERS

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First Hawaiian Center
999 Bishop Street, Suite 1900
Honolulu HI 96813
Telephone (808) 531 3400
Facsimile (808) 531 3433

Report of Independent Auditors

To the Board of Regents of the
University of Hawaii

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows present fairly, in all material respects, the financial position of the University of Hawaii (the "University") at June 30, 2005 and 2004, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawaii Foundation (the "Foundation") and the Research Corporation of the University of Hawaii (the "Research Corporation"), whose statements collectively reflect total assets of 11.8 percent and 11.5 percent of the related consolidated total as of June 30, 2005 and 2004 and operating revenues of 0.2 percent and 0.3 percent of the related consolidated operating revenues for the years then ended, of the University's consolidated assets and operating revenues, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation and Research Corporation, are based solely on the report 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 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") for the years ended June 30, 2005 and 2004 on pages 3 through 27 are not a required part of the consolidated financial statements but are supplementary information required by the Government Accounting Standards Board ("GASB"). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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 February 7, 2006 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, 2005. 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.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
February 7, 2006

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, 2005 and 2004, with selected information for the year ended June 30, 2003. 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 composed of twelve members appointed by the Governor of the State of Hawai'i . The University system is represented by ten campuses with approximately 50,000 students and 9,000 faculty and staff. The University provides a broad range of 276 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui, and Kauai, the University offers a wide range of 152 certificate and 119 associate degree programs. In addition, the University operates three university centers, multiple learning centers, and extension, research, and service programs at more than 70 sites in the State of Hawai'i. 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 Government 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 three components:

- **Statement of Net Assets** – The Consolidated Statements of Net Assets separates current and non-current assets and liabilities, with resources classified for accounting and reporting purposes into four net asset categories.

- **Statement of Revenues, Expenses and Changes in Net Assets** – The Consolidated Statements of Revenues, Expenses and Changes in Net Assets distinguishes 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. 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.

- **Statement 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.

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 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, 2005, 2004 and 2003 (in thousands):

	2005				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 356,071	$ 29,240	$ 4,195	$ (17,518)	$ 371,988
Noncurrent assets	1,081,733	5,288	177,090	(6,366)	1,257,745
Total assets	1,437,804	34,528	181,285	(23,884)	1,629,733
Current liabilities	161,688	23,523	1,405	(18,170)	168,446
Noncurrent liabilities	225,373	1,120	5,981	(239)	232,235
Total liabilities	387,061	24,643	7,386	(18,409)	400,681
Net assets	$ 1,050,743	$ 9,885	$ 173,899	$ (5,475)	$ 1,229,052

	2004				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 346,189	$ 28,868	$ 2,611	$ (15,874)	$ 361,794
Noncurrent assets	973,876	3,371	157,261	(5,225)	1,129,283
Total assets	1,320,065	32,239	159,872	(21,099)	1,491,077
Current liabilities	143,417	23,164	1,016	(17,154)	150,443
Noncurrent liabilities	228,971	725	5,887	-	235,583
Total liabilities	372,388	23,889	6,903	(17,154)	386,026
Net assets	$ 947,677	$ 8,350	$ 152,969	$ (3,945)	$ 1,105,051

	2003				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 356,567	$ 31,466	$ 1,617	$ (22,452)	$ 367,198
Noncurrent assets	940,516	2,790	131,396	(3,132)	1,071,570
Total assets	1,297,083	34,256	133,013	(25,584)	1,438,768
Current liabilities	135,661	27,051	1,299	(21,694)	142,317
Noncurrent liabilities	234,519	602	4,689	-	239,810
Total liabilities	370,180	27,653	5,988	(21,694)	382,127
Net assets	$ 926,903	$ 6,603	$ 127,025	$ (3,890)	$ 1,056,641

	2005				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 550,495	$ 5,833	$ 6,528	$ (11,207)	$ 551,649
Operating expense	1,012,363	4,651	25,112	(16,234)	1,025,892
Operating income (loss)	(461,868)	1,182	(18,584)	5,027	(474,243)
Nonoperating activity	564,934	353	39,514	(6,557)	598,244
Increase (decrease) in net assets	103,066	1,535	20,930	(1,530)	124,001
Net assets					
Beginning of year	947,677	8,350	152,969	(3,945)	1,105,051
End of year	$ 1,050,743	$ 9,885	$ 173,899	$ (5,475)	$ 1,229,052

	2004				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 517,588	$ 5,277	$ 8,101	$ (11,648)	$ 519,318
Operating expense	942,350	3,753	22,420	(14,140)	954,383
Operating income (loss)	(424,762)	1,524	(14,319)	2,492	(435,065)
Nonoperating activity	444,888	223	40,263	(1,899)	483,475
Increase in net assets	20,126	1,747	25,944	593	48,410
Net assets					
Beginning of year	927,551	6,603	127,025	(4,538)	1,056,641
End of year	$ 947,677	$ 8,350	$ 152,969	$ (3,945)	$ 1,105,051

	2003				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 474,495	$ 4,615	$ 3,667	$ (7,396)	$ 475,381
Operating expense	907,032	4,209	20,853	(10,169)	921,925
Operating income (loss)	(432,537)	406	(17,186)	2,773	(446,544)
Nonoperating activity	527,955	164	17,226	(1,729)	543,616
Increase in net assets	95,418	570	40	1,044	97,072
Net assets					
Beginning of year	832,133	6,033	126,985	(5,582)	959,569
End of year	$ 927,551	$ 6,603	$ 127,025	$ (4,538)	$ 1,056,641

Financial Position

The statement of net assets presents the financial position of the University at the end of the fiscal year and displays all assets and liabilities of the University. Assets and liabilities are generally measured using current values. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and depreciation, respectively. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. The University's financial position remained strong at June 30, 2005, with assets of $1.6 billion, liabilities of $400.7 million, and net assets of $1.2 billion, a $124.0 million increase from fiscal year 2005. The University's assets, liabilities and net assets at June 30, 2005, 2004 and 2003 are summarized as follows (in thousands):

	2005	Percentage of Total Assets	2004	Percentage of Total Assets	FY 05 vs 04 Change	2003	Percentage of Total Assets	FY 04 vs 03 Change
Current assets								
Cash and operating investments	$ 247,735	15%	$ 263,121	18%	$ (15,386)	$ 259,494	18%	$ 3,627
Receivables, net	106,004	7%	82,270	6%	23,734	92,234	7%	(9,964)
Other current assets	18,249	1%	16,403	1%	1,846	15,470	1%	933
	371,988	23%	361,794	25%	10,194	367,198	26%	(5,404)
Noncurrent assets								
Endowment and other investments	240,661	15%	288,352	19%	(47,691)	293,283	20%	(4,931)
Capital assets, net	969,626	59%	799,336	53%	170,290	730,130	51%	69,206
Other noncurrent assets	47,458	3%	41,595	3%	5,863	48,157	3%	(6,562)
Total assets	1,629,733	100%	1,491,077	100%	138,656	1,438,768	100%	52,309
Current liabilities	168,446	10%	150,443	10%	18,003	142,317	10%	8,126
Noncurrent liabilities								
Long-term debt	175,464	11%	179,323	12%	(3,859)	184,028	13%	(4,705)
Other noncurrent liabilities	56,771	4%	56,260	4%	511	55,782	4%	478
Total liabilities	400,681	25%	386,026	26%	14,655	382,127	27%	3,899
Net assets								
Invested in capital assets, net of related debt	803,238	49%	692,610	46%	110,628	667,383	46%	25,227
Restricted								
Nonexpendable	104,948	6%	97,384	7%	7,564	88,921	6%	8,463
Expendable	123,273	8%	110,713	7%	12,560	89,721	6%	20,992
Unrestricted	197,593	12%	204,344	14%	(6,751)	210,616	15%	(6,272)
Total net assets	$ 1,229,052	75%	$ 1,105,051	74%	$ 124,001	$ 1,056,641	73%	$ 48,410

A review of the University's statement of net assets at June 30, 2005, 2004 and 2003 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 controls, management of its endowment, conservative utilization of debt and adherence to its long range capital plan for the maintenance and replacement of physical plant.

Current Assets and Liabilities

Current assets consist primarily of cash, operating investments and accounts receivable. Total current assets increased by $10.2 million or 2.8 percent at June 30, 2005, primarily due to a $23.7 million increase in receivables offset by a decrease in cash and cash equivalents and operating investments of $15.4 million. Receivables, net of allowances for doubtful accounts, increased by $23.7 million or 28.8 percent to $106.0 million at June 30, 2005, primarily due to several large Letter of Credit (LOC) and advance account billings that occurred late in the fiscal year. The sponsors involved with some of these large accounts receivable billings are the National Science Foundation, U.S. Department of Agriculture and the U.S. Department of Health. Total current assets decreased by $5.4 million or 1.5 percent at June 30, 2004 as compared to June 30, 2003, due primarily to a decrease in receivables and cash and cash equivalents, offset by an increase in operating investments. Receivables, net of allowances for doubtful accounts, decreased by $10.0 million or 10.8 percent to $82.3 million at June 20, 2004, primarily due to an earlier cash draw-down procedure instituted at the Office of Research Services ("ORS"). The cash draw was done in weekly intervals in fiscal year 2004 as opposed to every two weeks in fiscal year 2003. More timely draw-downs resulted in lower receivable totals.

Current liabilities consist primarily of accounts payable, accrued compensation, advances from sponsors, and deferred revenue. Current liabilities also include accrued interest payable, amounts due to the State of Hawai'i, and the current portion of long-term debt. Total current liabilities increased by $18 million or 12.0 percent at June 30, 2005 as compared to the prior year, due primarily to increases in accounts payable and accrued compensation and benefits, offset by a decrease in investment trade settlements payable and accrued interest. Total current liabilities increased by $8.1 million or 5.7 percent at June 30, 2004 as compared to June 30, 2003, due primarily to increases in accounts payable and accrued compensation and benefits, offset by a decrease in accrued interest and advance from sponsors.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, decreased by $47.7 million to $240.7 million at June 30, 2005. Endowments and other investments held with the Foundation amounted to $153.4 million at June 30, 2005. The decrease was primarily attributable to investment sales needed to fund construction expenditures for the John A. Burns School of Medicine building offset by the receipt of additional endowment gifts. As of June 30, 2004, the University's endowment and other investments, including endowments held with the Foundation, decreased by $4.9 million to $288.4 million. Endowments and other investments held with the Foundation amounted to $137.2 million at June 30, 2004. Similar to fiscal year 2005, fiscal year 2004's decrease was due to the sale of investments to fund expenditures related to the construction of the John A. Burns School of Medicine building offset by the receipt of additional endowment gifts.

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 maintained inviolate and be 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.

Effective for fiscal year 2004, the University adopted a spending rate policy with the intent of limiting 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 and six percent of the five-year moving average of the endowment portfolio's fair value. In accordance with the Board of Regents' distribution policy in fiscal year 2005, the University instituted a 4 percent distribution on restricted endowment and a 4 percent distribution on unrestricted endowment. The total restricted and unrestricted distribution for the University in 2005 totaled $2 million. For fiscal year 2004, the University instituted a three percent distribution on restricted endowment and four percent distribution on unrestricted endowment. The total restricted and unrestricted distribution for the University in 2004 amounted to $1.8 million.

Capital and Debt Activities

The University's capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library books, and construction in progress. At June 30, 2005 and 2004, total capital assets, net of accumulated depreciation amounted to $969.6 million and $799.3 million, respectively, which represented 59.5 percent and 53.6 percent of the University's total assets at June 30, 2005 and 2004, respectively. Capital asset additions totaled $235.2 million in fiscal year 2005, while depreciable capital asset disposals, net of accumulated depreciation amounted to $10.1 million. Approximately $158.9 million of fiscal year 2005 capital asset additions were related to the renovation, improvement and construction of buildings. In addition, during fiscal year 2005, approximately $56.1 million and $6.4 million of these capital asset additions were related to building and infrastructure projects administered by the State of Hawai'i Department of Accounting and General Services ("DAGS") – Public Works Division and transferred to the University, respectively. Purchases of equipment, including information technology, amounted to approximately $19 million during fiscal year 2005 and purchases of library books amounted to approximately $8 million.

At June 30, 2004 and 2003, total capital assets, net of accumulated depreciation amounted to $799.3 million and $730.1 million, respectively, which represented 53.6 percent and 50.7 percent of the University's total assets at June 30, 2004 and 2003, respectively. Capital asset additions totaled $115.1 million in fiscal year 2004, while capital asset disposals, net of accumulated depreciation amounted to $2.1 million. Approximately $68.6 million of fiscal year 2004 capital asset additions were related to the renovation, improvement and construction of buildings, of which $60.6 million was related to construction in progress and $275,000 was related to capital improvement projects administered by DAGS and transferred to the University. Purchases of equipment, including information technology, amounted to approximately $16 million during fiscal year 2004 and purchases of library books amounted to approximately $5 million.

One of the critical factors in continuing the quality of the University's academic and research programs and student life enrichment is the development 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 2005 and 2004 or in progress as of June 30, 2005 and June 30, 2004 included:

- **John A. Burns School of Medicine** – In April 2005 the University completed the construction and furnishing of the Medical Education Building at the John A. Burns School of Medicine in Kaka'ako and continued Phase I of the construction work on the remaining new structures. The 114,546 square foot Medical Education Building that houses teaching facilities, faculty and administrative staff offices and a café was occupied soon after the facility was completed and furnished. The Medical Research Building, when completed, will provide 184,142 square feet of laboratory, office, and support space for research staff. The child care and fitness centers, loading docks, and central mechanical plant, totaling 18,537 square feet, will be adjacent to the Medical Research Building. Parking for the first phase will include 221 stalls of surface parking on site and approximately 400 stalls on the adjacent 5.5 acre site that will be leased from Hawai'i Community Development

Authority. As of June 30, 2005, the University incurred approximately $136,348,000 in construction costs and the project was estimated to be 90.1 percent completed. At June 30, 2004, the University incurred approximately $69,808,000 in construction costs and the project was estimated to be 46.5 percent complete. Phase one of the project is anticipated to be completed in early fiscal year 2006.

- **Mauna Kea Astronomy Education Center (MKAEC)** - The design, construction, and furnishing of the 44,000 square foot Mauna Kea Astronomy Education Center (MKAEC) that began in fiscal year 2002, was serviced-ordered to the Research Corporation of the University of Hawai'i (RCUH). The MKAEC, officially renamed 'Imiloa, the Astronomy Center of Hawaii, was envisioned as a state of the art educational facility from which to impart today's cutting-edge scientific knowledge of the Universe as well as convey the importance of the early astronomical skills of the ancient Hawaiians to the general public. The importance and uniqueness of Mauna Kea as an astronomical location will also be showcased. Funded primarily through grants from the National Aeronautics and Space Administration, design and construction costs were approximately $14.5 million as of June 30, 2005 with approximately 75 percent of the project completed.

- **Upgrade of Athletic and Sports Teaching Facilities** – The steady transformation of the University's lower campus at Mānoa has continued with the complete renovation and upgrade of the outdoor tennis facility. Designed and constructed at a cost of $3.3 million, the new facility, which provides a total of twelve courts with vastly improved lighting and fencing, was completed in February 2005. Additionally, phased improvements to the makai training room for student-athletes within the Physical Education and Athletic Complex were in-progress as of June 30, 2005 with incurred costs of approximately $1,020,000.

- **DAGS Administered Capital Projects** – A significant portion of the University's major construction projects are administered and financed by DAGS. In fiscal year 2005, DAGS transferred to the University a total of $62.6 million in current and prior year construction and renovation projects involving State of Hawai'i funding participation in numerous building and infrastructure assets. These projects included: Hawaii Institute of Geophysics Lab Wing and Lecture Hall Addition - $1,063,599; Bilger Hall Interior Improvements - $438,960; UHM Electrical Distribution System Phase IV Improvements - $3,279,773; Pacific Ocean Science & Technology Building (Initial, Phase IA, Phase IB, and Phase II) - $41,661,188; Agricultural Science Facility - $13,036,767; and UH Hilo Utility Grid Phase II - $3,145,994.

At June 30, 2005 and 2004, amounts due to the State of Hawai'i for general obligation bonds payable amounted to $9.1 million and $12 million, respectively. For fiscal year 2005, debt service paid by the University amounted to $3.4 million consisting of $2.9 million for principal and $529,871 for interest. In fiscal year 2004, debt service paid by the University amounted to $2.0 million consisting of $1.4 million for principal and $596,987 for 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 $45.4 and $45.7 million in fiscal years 2005 and 2004, respectively, and were paid for by the State of Hawai'i on behalf of the University using state appropriations.

In June 2005, the State of Hawai'i issued Series DG & DH general obligation ("G.O.") refunding bonds. Proceeds from the Series DG & DH G.O. refunding bonds were used to partially refund a range of G.O.

bonds, including the Series CG G.O. bonds for various State Departments including the University of Hawai'i.

At June 30, 2005 and 2004, revenue bonds payable amounted to $163.9 million and $167.4 million, respectively. Debt service in fiscal year 2005 amounted to $11.8 million consisting of $3.5 million for principal and $8.3 million for interest. Debt service for fiscal year 2004 amounted to $13.4 million consisting of $890,000 for principal and $12.5 million for interest. Principal reductions during fiscal year 2005 and 2004 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. 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. In June 2005 and May 2004, the University received $10.0 million in State of Hawai'i Tobacco Settlement funds to cover the debt service due in fiscal year 2005. In June 2003, the University received $11.6 million in State of Hawai'i Tobacco Settlement funds to cover the first interest payments under these bonds which were due in fiscal year 2004.

On August 13, 2004, Moody's Investors Service ("Moody's") downgraded the underlying debt rating on the University's $150 million of Series 2002A bonds from the Aa3 rating held on June 30, 2004 and 2003 to A1, while the Standard & Poor's and Fitch Rating Services ("S&P and Fitch") continued to reaffirm their A+ rating for the years ended June 30, 2005, 2004 and 2003. The downgrade was a result of Moody's growing concern regarding tobacco settlement bonds, resulting in the downgrade of all tobacco settlement collateralizations, and lower tobacco revenue projections. The A1 rating by Moody's and A+ rating by S&P and Fitch were based on the University's important state-wide role in education, research, and economic development; growing enrollment levels; adequate financial reserves and operating performance; and a close relationship with the Aa3-rated State of Hawaii.

In addition to the general obligation and revenue bond liabilities discussed above, the University entered into a capital lease to finance the construction of the Kau'iokahaloa Nui faculty housing project in November 1995. At June 30, 2005 and 2004, capital lease obligations amounted to $15.1 million and $15.4 million, respectively. Debt service in fiscal year 2005 amounted to $1.2 million consisting of $380,000 for principal and $858,635 for interest. Debt service in fiscal year 2004 amounted to $1.2 million consisting of $360,000 for principal and $876,030 for interest.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. At June 30, 2005 and 2004, total net assets amounted to $1.2 billion and $1.1 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 $803.2 million and $692.6 million at June 30, 2005 and 2004, respectively, an increase of $110.6 million in fiscal year 2005 and $25.2 million in fiscal year 2004. The fiscal year 2005 increase represents $235 million of capital asset additions, less $77 million of debt financed medical school additions and $54 million of depreciation expense. The fiscal year 2004 increase represents $115 million of capital asset additions, less $53 million of debt financed medical school additions and $44 million of depreciation expense.

Restricted nonexpendable net assets representing the University's and the Foundation's permanent endowment funds, which are required to be maintained in perpetuity, amounted to $104.9 million and $97.4 million at June 30, 2005 and 2004, respectively. The increase of $7.6 million was primarily attributable to new permanent endowment gifts received during fiscal year 2005.

Restricted expendable net assets, subject to externally imposed restrictions governing their use, consisted of net assets that were restricted for the following purposes at June 30, 2005, 2004 and 2003 (in thousands):

	2005	2004	2003
Plant facilities	$ 2,678	$ 3,270	$ 3,490
Donor restricted activities	87,195	75,759	55,548
Loan activities	27,408	26,817	27,074
External sponsor activities	5,992	4,867	3,609
	$ 123,273	$ 110,713	$ 89,721

The overall increase in restricted expendable net assets was attributable to the large influx of donor restricted funds at Foundation.

Net assets that are not subject to externally imposed restrictions governing their use must be 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 $36.3 million, $36.0 million and $32.4 million were designated for endowment activities at June 30, 2005, 2004 and 2003 respectively. Unrestricted net assets were comprised of the following at June 30, 2005, 2004 and 2003 (in thousands):

	2005	2004	2003
Designated			
Capital projects	$ 118,163	$ 124,166	$ 137,896
Research and training	40,207	40,152	35,404
Quasi-endowment	36,283	35,964	32,401
Bond system	19,427	19,045	16,905
Contractual commitments	16,442	12,133	15,742
Other	8,095	7,475	5,991
	238,617	238,935	244,339
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc).	(41,024)	(34,591)	(33,723)
	$ 197,593	$ 204,344	$ 210,616

Results of Operations

The 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 for 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, 2005, 2004 and 2003, summarized to match revenues supporting core activities with expenses associated with core activities, is as follows (in thousands):

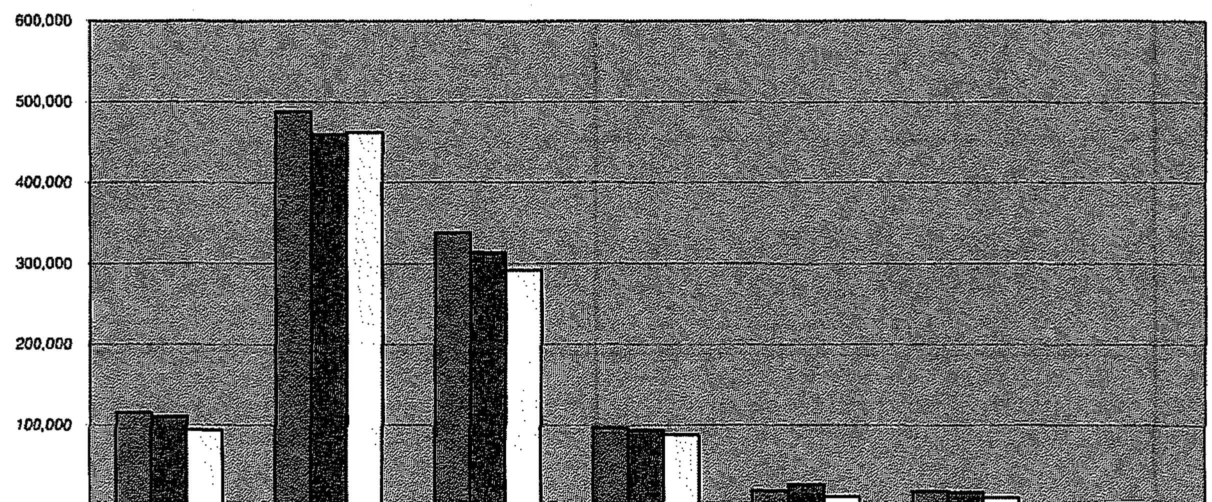
	2005			2004			2003	
	Amount	Percent of Total	Inc/(Dec) Fr 2004	Amount	Percent of Total	Inc/(Dec) Fr 2003	Amount	Percent of Total
Revenues								
Operating								
Tuition and fees, net	$ 115,505	10.72%	$ 5,252	$ 110,253	10.78%	$ 16,000	$ 94,253	9.82%
Grants and contracts	337,728	31.34%	24,164	313,564	30.65%	21,602	291,962	30.40%
Sales and services	97,074	9.01%	3,297	93,777	9.17%	6,078	87,699	9.13%
Other revenue	1,342	0.12%	(382)	1,724	0.17%	257	1,467	0.15%
Total operating revenues	551,649	51.20%	32,331	519,318	50.77%	43,937	475,381	49.50%
Non-operating								
State appropriations	488,193	45.30%	28,544	459,649	44.93%	(2,804)	462,453	48.16%
Investment income	19,176	1.78%	(7,474)	26,650	2.60%	14,922	11,728	1.22%
Private gifts	18,560	1.72%	1,140	17,420	1.70%	6,695	10,725	1.12%
Total non-operating revenues	525,929	48.80%	22,210	503,719	49.23%	18,813	484,906	50.50%
Total revenues supporting core activities	1,077,578	100.00%	54,541	1,023,037	100.00%	62,750	960,287	100.00%
Expenses								
Operating								
Compensation and benefits	664,196	61.10%	38,909	625,287	62.01%	23,749	601,538	60.82%
Supplies and materials	155,031	14.26%	9,339	145,692	14.45%	546	145,146	14.68%
Telecom and utilities	35,021	3.22%	(163)	35,184	3.49%	2,381	32,803	3.32%
Scholarships and fellowships	35,391	3.26%	1,704	33,687	3.34%	6,480	27,207	2.75%
Other expense	82,504	7.60%	11,582	70,923	7.03%	(2,880)	73,803	7.46%
Total operating expenses	972,143	89.44%	61,371	910,773	90.32%	30,276	880,497	89.03%
Non-operating								
Transfers to State, net	58,395	5.37%	7,836	50,559	5.01%	(6,549)	57,108	5.77%
Interest expense	2,592	0.24%	(750)	3,342	0.33%	(6,670)	10,012	1.01%
Total non-operating expenses	60,987	5.61%	7,086	53,901	5.34%	(13,219)	67,120	6.78%
Expenses associated with core activities before depreciation	1,033,130	-	68,456	964,674	-	17,057	947,617	-
Income from core activities before depreciation	44,448	-	(13,915)	58,363	-	45,693	12,670	-
Depreciation	53,748	4.95%	10,138	43,610	4.34%	2,182	41,428	4.19%
Expenses associated with core activities including depreciation	1,086,878	100.00%	78,594	1,008,284	100.00%	19,239	989,045	100.00%
Income loss from core activities	(9,300)	-	(24,053)	14,753	-	43,511	(28,758)	-
Other nonoperating activity								
Capital gifts and grants	136,518			29,709			119,888	
Permanent endowment	5,474			5,728			7,151	
Other expense, net	(8,691)			(1,780)			(1,209)	
Other nonoperating income, net	133,301			33,657			125,830	
Increase in net assets	124,001			48,410			97,072	
Net assets								
Beginning of year	1,105,051			1,056,641			959,569	
End of year	$ 1,229,052			$ 1,105,051			$ 1,056,641	

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 housing, food services, and parking.

Revenues in support of the University's core operations, including those considered to be nonoperating revenues amounted to $1.1 billion in fiscal year 2005 compared to $1 billion in fiscal year 2004, a 5.4 percent increase. The following chart compares the individual components of revenues supporting core activities of the University for the years ended June 30, 2005, 2004 and 2003 (in thousands):

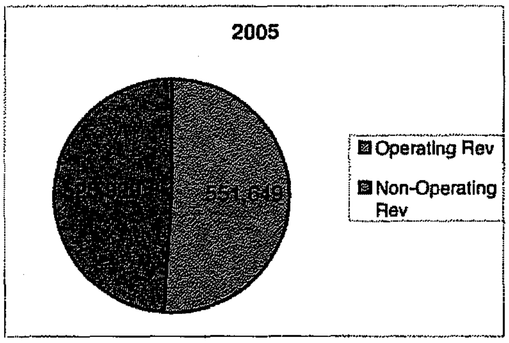
Revenues Supporting Core Activities

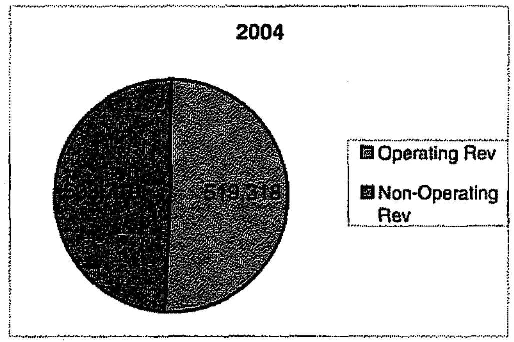


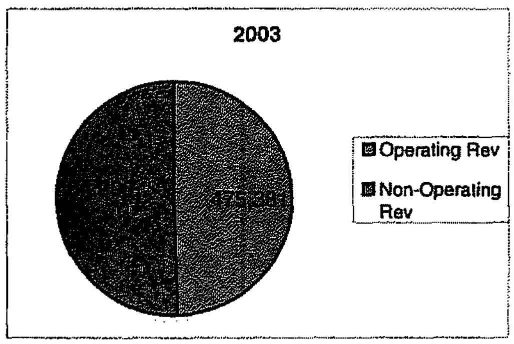
	Tuition and Fees, net	State Appropriations	Grants and Contracts	Sales and Services	Investment Income	Private Gifts	Other Revenue
2005	115,505	488,193	337,728	97,074	19,176	18,560	1,342
2004	110,253	459,649	313,564	93,777	26,650	17,420	1,724
2003	94,253	462,453	291,962	87,699	11,728	10,725	1,467

During fiscal year 2005, approximately 48.8 percent of the University's revenues in support of core activities were considered to be nonoperating, compared to 49.2 percent in fiscal year 2004.

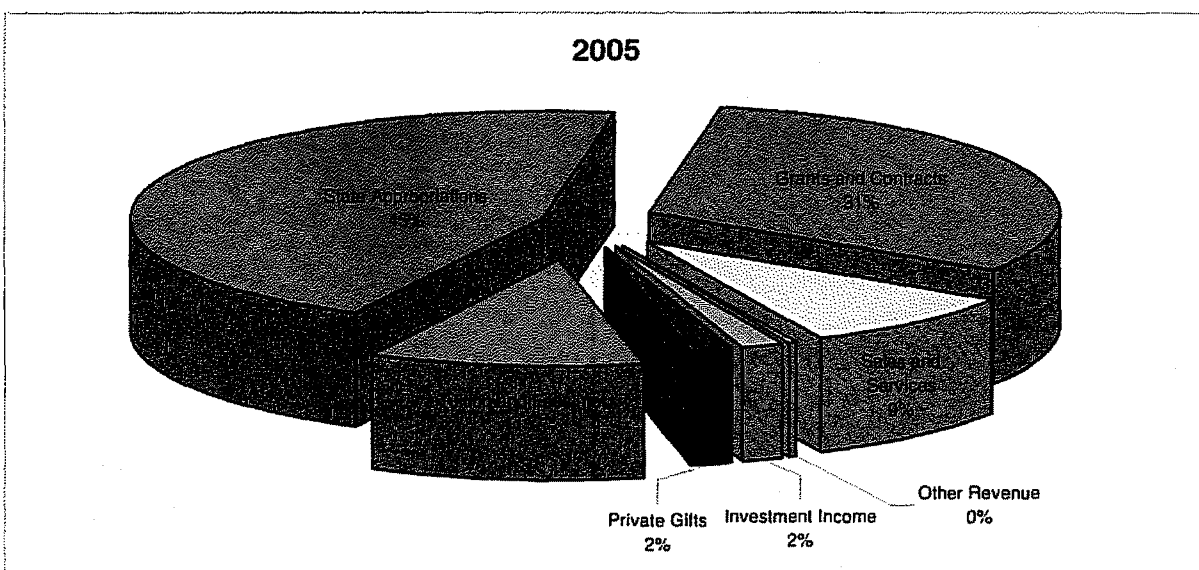
The following charts compare operating and nonoperating revenues supporting core activities of the University for the years ended June 30, 2005, 2004 and 2003 (in thousands):



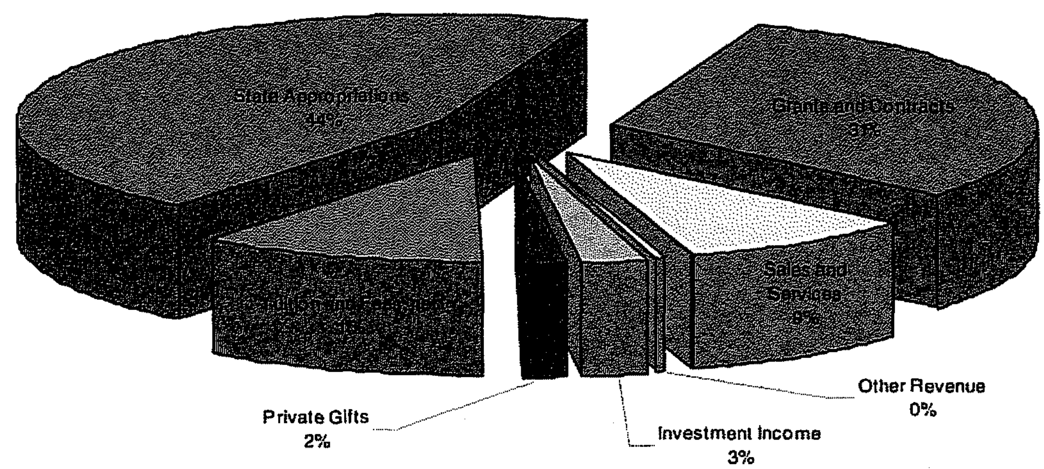




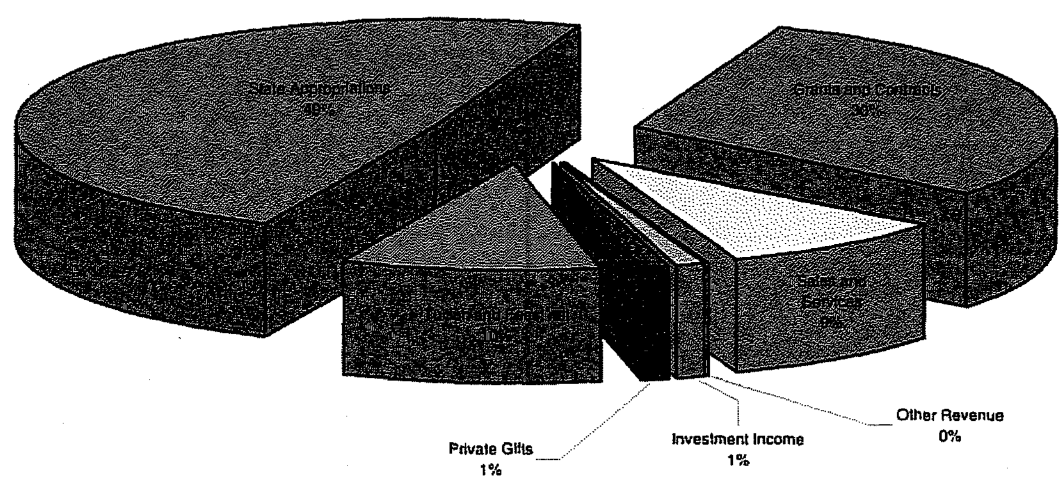
The following charts illustrate the allocation of individual components of revenues supporting the University's core activities for the years ended June 30, 2005, 2004 and 2003:



2004



2003



Tuition and fees revenue, net of scholarship allowances, increased by $5.3 million or 4.8 percent to $115.5 million in fiscal year 2005, and increased by $16 million or 17 percent to $110.3 million in fiscal year 2004. Scholarship allowances amounted to $30.9 million in fiscal year 2005 compared to $27.7 million in fiscal year 2004. For fiscal year 2005, Mānoa campus student enrollment increased by 3.5 percent and tuition and fee rates for all campuses increased between 3 and 9 percent. In fiscal year 2004, student enrollment at the Mānoa campus increased by 3.4 percent and tuition rates across all campuses increased between 1 and 3 percent.

General state appropriations increased by $28.5 million or 6.2 percent to $488.2 million in fiscal year 2005, however decreased by $2.8 million or one percent to $459.6 million in fiscal year 2004. A $13.9 million increase in the appropriation for discretionary costs paid to the Department of Budget and Finance related to non-imposed fringe benefits and debt service, combined with a $10 million increase in collective bargaining appropriations accounted for the majority of the $28.5 million increase in fiscal year 2005. The fiscal year 2004 decrease was largely attributable to a $2 million reduction in the system-wide support appropriation for discretionary costs paid on an annual basis to the Department of Budget and Finance.

Revenues from federal, state, private and local grants and contracts increased by $24.2 million or 7.7 percent to $337.7 million in fiscal year 2005, and increased by $21.6 million or 7.4 percent to $313.6 million in fiscal year 2004. The fiscal year 2005 increase was attributable to an increase in the number of awards and a 4.6 percent increase in the dollar value of research projects awarded to the University. The fiscal year 2004 increase was also attributable to an increase in the number of awards and a 5 percent increase in the dollar value of research projects awarded to the University. The most significant sponsoring agencies of extramural research and non-research grants and contracts were (amounts in millions):

	2005	2004
Extramural research		
Department of Health and Human Services	$ 48.3	$ 38.4
Department of Defense	41.1	49.4
Department of Commerce	21.9	18.6
National Science Foundation	16.9	16.0
Extramural non-research		
Department of Education	30.2	34.6
Hawaii Government Agencies	25.0	21.8
Department of Health and Human Services	15.3	12.9
Hawaii Health Organizations	14.5	6.0
Department of Defense	13.3	6.0
National Science Foundation	11.6	10.9
Department of Labor	.5	13.3

Sales and services revenues increased by $3.3 million or 3.5 percent, to $97.1 million in fiscal year 2005 compared to $93.8 million in fiscal year 2004. In fiscal year 2004, sales and services increased by $6.1 million or 6.9 percent to $93.8 million when compared to the $87.7 million total in fiscal year 2003. An increase in student enrollment and the sales prices of items sold at the bookstores accounted for a significant amount of the increase in fiscal year 2005. The increase in fiscal year 2004 was primarily attributable to rate increases associated with student housing and increased volume in sales and services associated with enrollment growth.

The University's net investment income for fiscal year 2005 decreased by $7.5 million or 28 percent to $19.2 million compared to $26.7 million in fiscal year 2004. A $7.5 million decrease in the net realized and unrealized gains for Foundation accounted for the majority of the overall decrease.

The components of net investment income for the years ended June 30, 2005, 2004 and 2003 were as follows (in thousands):

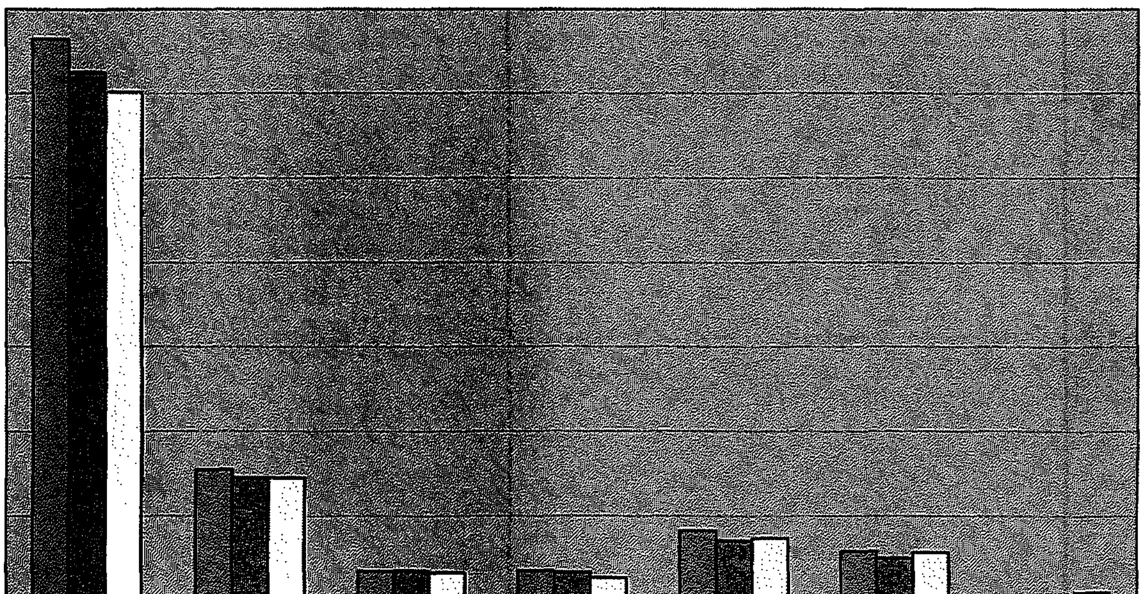
	2005	2004	Dec From 2004	2003	Inc/(Dec) From 2003
Interest and dividend income	$ 13,527	$ 13,992	$ (465)	$ 15,425	$ (1,433)
Investment income used to finance construction costs	(1,427)	(1,012)	(415)	-	(1,012)
Net realized and unrealized gains (losses)	7,076	13,670	(6,594)	(3,697)	17,367
	$ 19,176	$ 26,650	$ (7,474)	$ 11,728	$ 14,922

For fiscal year 2005, private gifts, most of which are restricted as to use, increased by $1.1 million or 6.5 percent to $18.6 million in fiscal year 2005. The increase reflects the Foundation's continuing commitment to generate additional revenue sources. For fiscal year 2004, private gifts increased $6.7 million or 62.4 percent to $17.4 million when compared with fiscal year 2003's total of $10.7 million. The fiscal year 2004 increase was primarily attributable to the success that the Foundation achieved in generating additional revenue sources. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

Expenses associated with the University's core activities, including those considered to be nonoperating expenses, increased by $78.6 million or 7.8 percent to $1.1 billion in fiscal year 2005, and increased by $19.2 million or 1.9 percent to $1 billion in fiscal year 2004. The following chart compares the individual components of expenses associated with core activities of the University for the years ended June 30, 2005, 2004 and 2003 (in thousands):

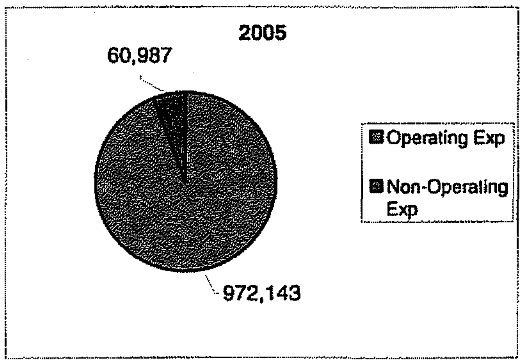
Expenses Associated with Core Activities

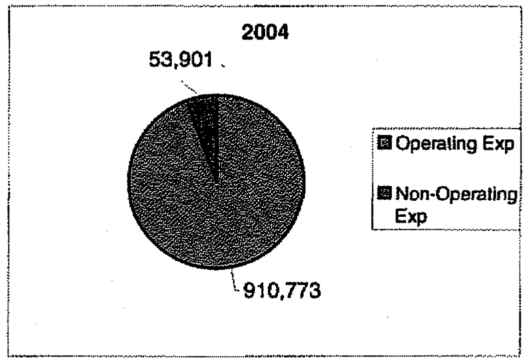


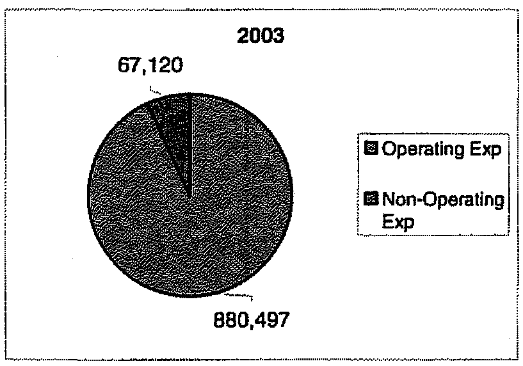
	Compensation and Benefits	Supplies and Materials	Telecom and Utilities	Scholarships and Fellowships	Other Expenses	Transfers to State, net	Interest Expense
2005	664,196	155,031	35,021	35,391	82,504	58,395	2,592
2004	625,287	145,692	35,184	33,687	70,923	50,559	3,342
2003	601,538	145,146	32,803	27,207	73,803	57,108	10,012

During fiscal year 2005, approximately 5.6 percent of the University's expenses associated with core activities were considered to be nonoperating, compared to 5.3 percent in fiscal year 2004.

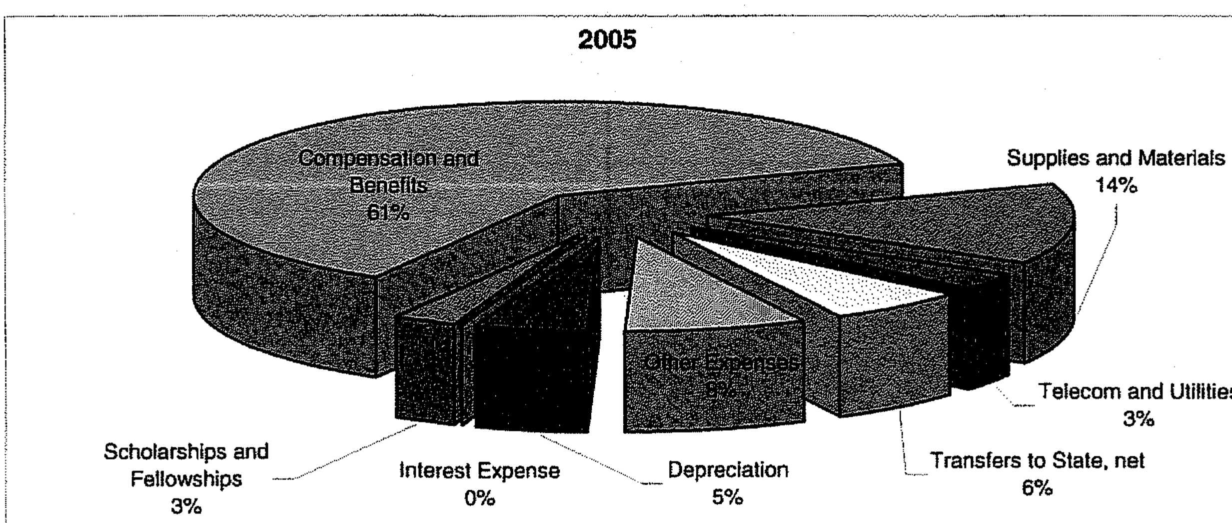
The following charts compare operating and nonoperating expenses associated with core activities of the University for the years ended June 30, 2005, 2004 and 2003 (in thousands):

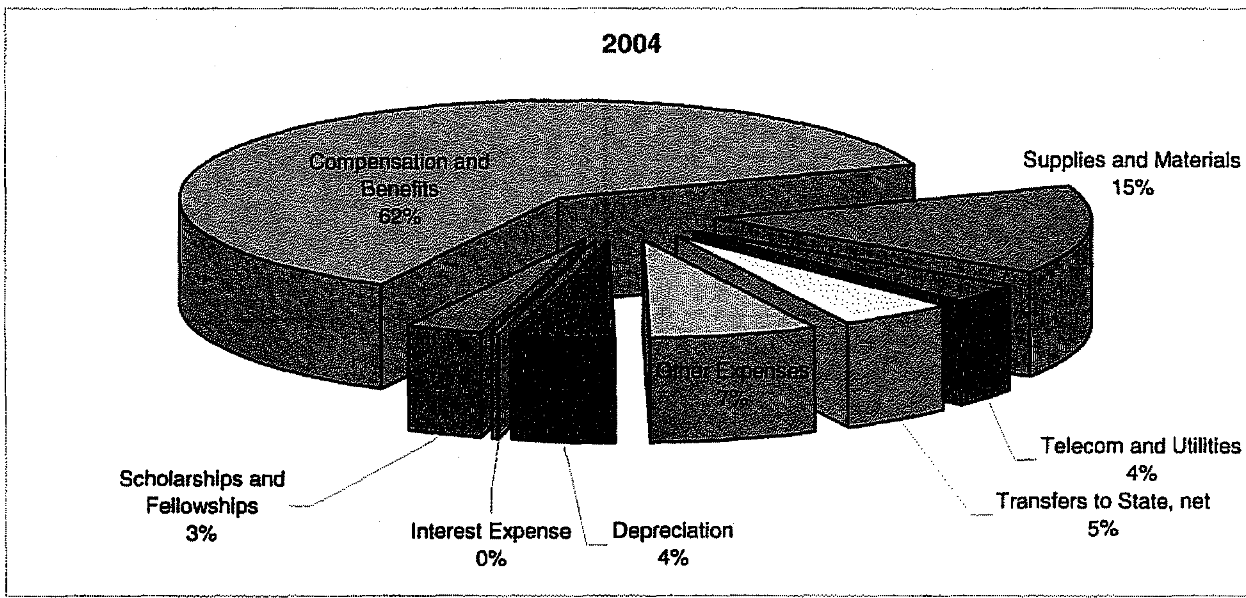


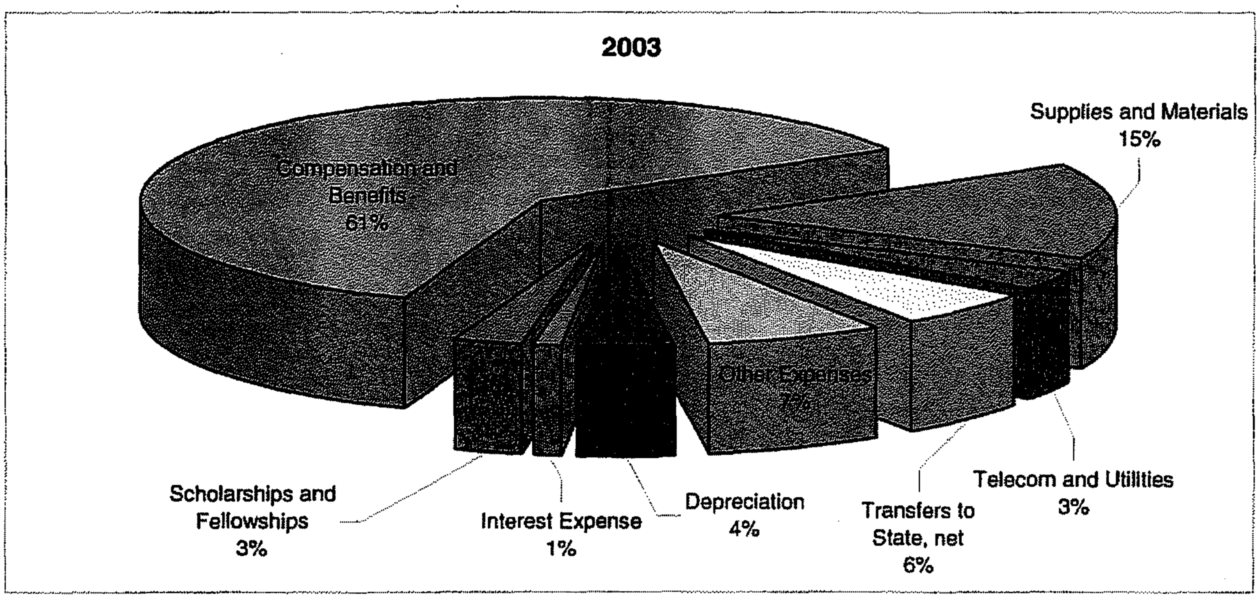




The following charts illustrate the allocation of individual components of expenses associated with the University's core activities for the years ended June 30, 2005, 2004 and 2003:







The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Approximately 61.1 percent of the University's expenses were related to compensation and benefits during fiscal year 2005 compared to 62.0 percent in fiscal year 2004. Compensation and benefits increased by $38.9 million or 6.2 percent to $664.2 million in fiscal year 2005, and increased by $23.7 million or 3.9 percent to $625.3 million in fiscal year 2004. The increases for fiscal years 2005 and 2004 were attributable to scheduled pay rate increases under collective bargaining agreements, the addition of new faculty and administrative employees to support increases in student enrollment, other academic, research and public service programs, an increase in fringe benefits assessed by the state, and an increase in workers' compensation reserves. The accrual of termination benefits for the former president of the University, who resigned in the latter part of the fiscal year 2004, was also a contributing factor to the increase in compensation expense during fiscal year 2004.

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. In fiscal year 2005, scholarships and fellowships increased by $1.7 million or 5.1 percent to $35.4 million compared to $33.7 million in fiscal year 2004. The increase was primarily attributable to increased awards from the U.S. Department of Education, which includes Pell Grants and other training projects. For fiscal year 2004, scholarships and fellowships increased by $6.5 million or 23.8 percent to $33.7 million when compared to $27.2 million in fiscal year 2003. Increases in fiscal year 2004 was similarly attributable to increased awards from the U.S. Department of Education, which include Pell Grants and other training projects

The University depreciates capital assets over their estimated useful lives using the straight-line method of depreciation. Depreciation expense, which represents the estimated utilization of the University's capital assets each year, increased by $10.1 million or 23.2 percent to $53.7 million during fiscal year 2005 compared to $43.6 million in fiscal year 2004. Depreciation expense increased by $2.2 million or 5.3 percent to $43.6 million in fiscal year 2004 compared to $41.4 million in fiscal year 2003. The increases in fiscal years 2005 and 2004 were primarily attributable to a full year of depreciation expense on capital assets placed into service in the prior year, additional depreciation expense on capital assets transferred from the State and placed into service during the current year, and additional depreciation expense resulting from a change in fiscal year 2003 in the depreciable life of certain telecom infrastructure.

For fiscal year 2005, telecom and utilities expense decreased by $200,000 or 1.0 percent to $35.0 million compared to $35.2 million during fiscal year 2004. Telecom and utilities expense increased by $2.4 million or 7.3 percent to $35.2 million during fiscal year 2004 compared to $32.8 million in fiscal year 2003. The small net change in total telecom and utilities expense for fiscal year 2005 as compared to fiscal year 2004 reflects no material events occurring in this category. As for fiscal year 2004, the increase was primarily attributable to higher utility rates and an increase in utilized space.

Interest expense decreased in fiscal year 2005 by $800,000 or 22.4 percent to $2.6 million. The majority of the decrease is due to fiscal year 2005 repayment on the long-term debt balance and the issuance of new lower interest rate general obligation bonds to partially defease those carried in the prior year. Fiscal year 2004 interest expense on long-term debt decreased by $6.7 million to $3.3 million as compared to the fiscal year 2003 amount of $10 million. The decrease in fiscal year 2004 was the direct result of the recording of approximately $6.5 million of capitalized interest for Series 2002A bond-School of Medicine Kaka'ako campus construction.

Transfers to state are primarily attributable to the return of general state appropriations for debt service on general obligation debt, excess fringe benefit appropriations, executive restrictions, offset by transfers from the state to cover debt service on the University's Series 2002A revenue bonds. Transfers to state increased by $7.8 million or 15.5 percent to $58.4 million in fiscal year 2005. The increase is directly related to an increase in excess fringe benefit appropriation. For fiscal year 2005, a $14.2 million fringe benefit allotment increase was offset by only a $6.5 increase in actual fringe benefit expenses. This $7.7

million amount accounted for nearly all of the $7.8 million transfer to state increase. Transfers to state decreased by $6.5 million or 11.5 percent to $50.6 million in fiscal year 2004. The fiscal year 2004 decrease was attributable to a $10.8 million decrease in debt service transfers to the state related to general obligation bonds, offset by a $6.3 million increase in transfers to the state for non-imposed fringe benefits.

Other core activity expense includes repairs and maintenance, travel costs, rental expense, insurance expense, fixed asset acquisitions not meeting the University's capitalization threshold, bad debt expense, and other miscellaneous operating costs. For fiscal year 2005, other expenses increased by $11.6 million or 16.3 percent to $82.5 million, however, other expenses decreased by $2.9 million or 3.9 percent to $70.9 million in fiscal year 2004. The increase in fiscal year 2005 can be traced to increases in travel, repair and maintenance, rental and insurance expenses, offset by a decrease in bad debt expense. The fiscal year 2004 decrease was attributable to increases in travel, insurance and specialized service facility expenses related to increased research activities, offset by a decrease in repair and maintenance.

Other Nonoperating Activities

Other nonoperating activities are generally not available to be used to support the University's current operations, and comprised primarily of capital gifts and grants, and additions to permanent endowments. Capital gifts and grants, including 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. The most significant changes in other nonoperating activities during fiscal year 2005 compared to fiscal year 2004, and for fiscal year 2004 compared to 2003, were related to capital gifts and grants, including state capital appropriations and transfers.

Capital gifts and grants, including state capital appropriations and transfers, increased by $106.8 million to $136.5 million in fiscal year 2005 compared to $29.7 million in fiscal year 2004. A significant portion of the University's major construction projects are administered and financed by DAGS. Upon completion, the asset is turned over to the University. Construction or renovation projects completed and turned over to the University during fiscal year 2005, which amounted to approximately $62.6 million, included the Pacific Ocean Science and Technology (POST) building, Agriculture Science facility, Hawai'i Institute of Geophysics Lab and Lecture Hall addition, Bilger Hall Improvements, University of Hawai'i at Hilo Utility Grid and the Phase IV Mānoa campus Electrical Distribution System. In addition to the completed projects turned over to the University, the State of Hawaii appropriated $49.2 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 2005 were primarily attributable to federal capital grants of $21.8 million and private capital gifts and grants of $3 million.

Capital gifts and grants, including state capital appropriations and transfers, decreased by $90.2 million or 75.2 percent to $29.7 million in fiscal year 2004 compared to $119.9 million in fiscal year 2003. Construction or renovation projects completed and turned over to the University during fiscal year 2004, which amounted to approximately $275,000, included fire safety improvements to the Hale Kehau Dormitory building at the University of Hawai'i at Hilo. In addition to the completed projects turned over to the University, the State of Hawaii appropriated $22.9 million ($2.3 million of which lapsed) 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 2004 were primarily attributable to federal capital grants of $8.7 million and private capital gifts and grants of $71,000.

Repair and recovery continues for the University as a result of extensive flooding the Mānoa campus suffered due to heavy rains that fell on October 30, 2004. Of the approximately 35 buildings that sustained moderate to severe damage, Hamilton Library and the Biomedical Sciences building were the hardest hit by the flood. The flooding led to the destruction of valuable research, equipment and books and forced the relocation of faculty, staff, and students. An accounting loss of $22.8 million was taken during fiscal year 2005, of which $20 million was attributable to clean-up and repairs and the remainder was attributable to the write-down of the net book value of the capital assets affected. For fiscal year 2005, the University received disaster aid in the form of a $22 million emergency State appropriation and $500,000 from the State Insurance Reserve Fund to defray clean-up and repair costs. To keep the recovery process going strong, the University received an additional $31 million in general funds (operating budget) and $28.4 million in General Obligation Bond funds (CIP Budget) in fiscal year 2006 for disaster aid appropriation from the State of Hawai'i. An estimated $26.5 million of that fiscal year 2006 appropriation is earmarked for library book replacement. The diligent clean-up and repair efforts of the University community combined with the sorely needed disaster appropriations have the University on the path to recovery.

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, 2005 and 2004 is as follows (in thousands):

	2005	2004	FY 05 vs. 04 Change	2003	FY 04 vs. 03 Change
Cash received from operations	$ 584,536	$ 566,384	$ 18,152	$ 521,245	$ 45,139
Cash payments for operations	(1,036,639)	(944,527)	(92,112)	(913,125)	(31,402)
Net cash used in operating activities	(452,103)	(378,143)	(73,960)	(391,880)	13,737
Net cash provided by noncapital financing activities	462,410	416,920	45,490	414,564	2,356
Net cash used in capital and related financing activities	(89,636)	(79,710)	(9,926)	(16,809)	(62,901)
Net cash provided by (used in) investing activities	77,416	9,115	68,301	(85,966)	95,081
Net decrease in cash	(1,913)	(31,818)	29,905	(80,091)	48,273
Cash					
Beginning of year	131,285	163,103	(31,818)	243,194	(80,091)
End of year	$ 129,372	$ 131,285	$ (1,913)	$ 163,103	$ (31,818)

The University's cash and cash equivalents decreased by $1.9 million or 1.5 percent from $131.3 million at June 30, 2004 to $129.4 million at June 30, 2005. During fiscal year 2005, $452.1 million in cash was used for operating activities, offset by $462.4 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. In fiscal year 2004, the University's cash and cash equivalents decreased by $31.8 million or 19.5 percent from $163.1 million at June 30, 2003 to $131.3 million at June 30, 2004. During fiscal year 2004, $378.1 million in cash was used for operating activities, offset by $416.9 million in cash provided by noncapital financing activities.

Net cash used in capital and related financing activities amount to $89.6 million in fiscal year 2005, $79.7 million in fiscal year 2004 and $16.8 million in fiscal year 2003. The significant increase in net cash used in capital and related financing activities in fiscal years 2005 and 2004 as compared to fiscal year 2003 was primarily attributable to the University incurring capital asset costs related to the construction of the John A. Burns School of Medicine campus in Kaka'ako ("JABSOM") using the funds raised from the issuance of Series 2002A revenue bonds in June 2002. Correspondingly, net cash provided by investing activities amount to $77.4 million in fiscal year 2005 and $9.1 million in fiscal year 2004, while net cash used in investing activities amounted to $86 million in fiscal year 2003. The changes during the three year period were mainly due to the Series 2002A revenue bond proceeds being invested in fiscal year 2003, with these investments being liquidated in the subsequent years to fund the construction activities at JABSOM.

Cash and cash equivalents at June 30, 2005, 2004 and 2003 included cash balances in plant funds of $102.6 million, $100.0 million and $114.7 million, respectively. This cash is earmarked for capital asset and debt service activities.

Looking Forward

Looking toward the future, 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. The University remains committed to revenue diversification and cost containment, in order to provide the necessary resources to support and fuel its growth.

The University's support from the State of Hawai'i remains a crucial factor in providing an outstanding education for our students. There is a direct relationship between the level of state support and the University's ability to control tuition and fees. Declines in state appropriations generally result in increased tuition rates. While state support has not declined over the past few years, the University's Board of Regents recognized that additional resources would be needed to meet the University's future goals. On May 19, 2005, the University of Hawai'i's Board of Regents approved undergraduate/graduate and select advanced professional tuition schedules effective from fiscal year 2007 to fiscal year 2012. Average tuition rate increases for these schedules ranged between 5 and 13 percent. This steady increase in tuition coupled with gradual student enrollment increases will be critical to the University's ability to meet its mission in providing a high quality college education to students.

To execute its long-range plan to modernize and expand its aging teaching and research facilities and develop and construct new facilities, the University will need continued support from the State of Hawai'i capital improvement project ("State CIP") program. This strategy addresses the University's growth and the continuing effects of technology on teaching and research methodologies.

Authorized costs to complete construction and other projects totaled $122.6 million at June 30, 2005. Funding for these projects include $96.6 million from the State CIP and $26 million from the utilization of unexpended debt proceeds. At June 30, 2004, authorized costs to complete construction and other projects totaled $187.2 million. Funding for these projects include $97.5 million from the State CIP and $89.7 million from the utilization of unexpended debt proceeds.

In September 2005, the Board of Regents approved the University's fiscal year 2006-2007 supplemental budget request totaling $41.5 million in operating funds and $187 million in general obligation bonds for capital improvements. This supplemental budget request will continue to target biennium budget priorities, including serving Native Hawaiians, enhancing security on all campuses, expanding workforce development and projected increases in utilities cost related to the dramatic escalation in energy prices. The supplemental capital improvement budget will address renewal and deferred maintenance of the University's facilities, health, safety and code requirements and various new facilities at Mānoa, Hilo, West Oahu and the community college campuses. The supplemental budget request was forwarded to the Governor and Legislature on September 23, 2005. Upon further review of the University's request, the Governor approved a total increase of $42.1 million in operating funds and $76 million in general obligation bonds for CIP projects. These amounts were included in the Executive Supplemental Budget Request and submitted to the 2006 Legislature.

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 temporary market volatility.

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Assets
June 30, 2005 and 2004

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 115,929,711	$ 121,133,565
Operating investments	131,805,287	141,987,778
Due from State of Hawai'i	9,025,691	5,121,386
Accounts receivable, net	87,019,305	67,828,736
Current portion of notes and contributions receivable, net	7,696,969	6,849,385
Accrued interest receivable	2,261,818	2,470,125
Inventories	13,023,524	11,823,207
Prepaid expenses, deferred charges and other current assets	5,225,190	4,579,530
Total current assets	371,987,495	361,793,712
Noncurrent assets		
Restricted cash and cash equivalents	13,442,312	10,151,324
Endowment and other investments	240,660,879	288,352,174
Notes receivable and contributions receivable, net	20,170,887	18,123,659
Capital assets, net	969,626,364	799,336,005
Other noncurrent assets	13,844,714	13,320,074
Total noncurrent assets	1,257,745,156	1,129,283,236
Total assets	$1,629,732,651	$1,491,076,948
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 52,328,067	$ 35,594,771
Accrued payroll and fringe benefits	23,373,504	22,375,348
Advances from sponsors	29,361,748	29,120,678
Deferred revenue	23,511,570	22,570,098
Due to State of Hawai'i	9,165,063	9,151,045
Current portion of long-term liabilities	26,532,180	26,503,895
Investment trade settlements payable	202,802	1,090,991
Other current liabilities	3,970,600	4,036,058
Total current liabilities	168,445,534	150,442,884
Noncurrent liabilities		
Accrued vacation	31,439,600	29,186,556
Accrued workers' compensation liability	10,035,440	8,873,780
Due to State of Hawai'i	6,267,050	9,126,522
Capital lease obligation	14,670,000	15,065,000
Bonds payable	160,280,000	163,890,000
Premium on bonds payable	3,047,614	3,186,039
Notes payable	239,390	-
Installment contracts payable	274,378	368,196
Other noncurrent liabilities	5,981,392	5,886,978
Total noncurrent liabilities	232,234,864	235,583,071
Total liabilities	400,680,398	386,025,955
Net assets		
Invested in capital assets, net of related debt	803,237,280	692,610,126
Restricted		
Nonexpendable	104,948,837	97,383,923
Expendable	123,273,433	110,713,272
Unrestricted	197,592,703	204,343,672
Total net assets	1,229,052,253	1,105,050,993
Total liabilities and net assets	$1,629,732,651	$1,491,076,948

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, 2005 and 2004

	2005	2004
Operating revenues		
Student tuition and fees	$ 146,431,388	$ 137,990,843
Less: Scholarship allowances	30,926,368	27,738,275
Net student tuition and fees	115,505,020	110,252,568
Federal appropriations, grants and contracts	289,574,822	272,020,771
State and local grants and contracts	21,077,994	18,405,230
Nongovernmental sponsored programs	27,075,247	23,137,580
Sales and services of educational departments, other	29,301,959	26,551,941
Auxiliary enterprises		
Bookstores	27,548,578	26,524,643
Student housing (net of scholarship allowances of $922,286 and $949,487)	15,505,664	15,536,647
Other auxiliary enterprises revenues	24,717,384	25,164,328
Other operating revenues	1,342,205	1,723,854
Total operating revenues	551,648,873	519,317,562
Operating expenses		
Compensation and benefits	664,195,770	625,287,142
Supplies, services and cost of goods sold	155,030,533	145,691,806
Scholarships and fellowships	35,391,519	33,687,308
Depreciation	53,747,984	43,609,855
Telephone and utilities	35,020,714	35,183,647
Repairs and maintenance	21,931,509	18,750,096
Travel expenses	25,896,541	23,147,323
Other operating expenses	34,677,006	29,025,415
Total operating expenses	1,025,891,576	954,382,592
Operating loss	(474,242,703)	(435,065,030)
Nonoperating revenues (expenses)		
State appropriations	488,193,100	459,648,716
Private gifts	18,560,151	17,420,365
Net investment income	19,176,093	26,649,949
Interest expense	(2,591,589)	(3,341,510)
Transfers (to) from State of Hawai'i for		
Debt service	(45,405,122)	(45,661,764)
Fringe benefits	(23,002,792)	(15,306,896)
Interest paid on Tobacco settlement	(64,311)	-
Bridge to Hope	64,720	374,400
Loss on disposal of capital assets	(9,604,689)	(1,109,890)
Other nonoperating income (expenses), net	912,948	(670,679)
Net nonoperating revenues before capital and endowment additions	446,238,509	438,002,691
Capital state appropriations	49,184,944	20,655,923
Capital federal grants/subsidies	21,808,180	8,727,767
Capital gifts and grants	3,022,863	71,291
Net transfers from State of Hawai'i for capital assets	62,503,042	254,187
Transfers from State of Hawai'i, Tobacco settlement	10,012,110	10,035,536
Additions to permanent endowments	5,474,315	5,727,451
Total other revenues	152,005,454	45,472,155
Net nonoperating revenues	598,243,963	483,474,846
Increase in net assets	124,001,260	48,409,816
Net assets		
Beginning of year	1,105,050,993	1,056,641,177
End of year	$1,229,052,253	$1,105,050,993

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, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Student tuition and fees	$ 115,372,843	$ 113,345,022
Grants and contracts	368,916,323	360,350,265
Sales and services of educational and other departmental activities	25,025,907	22,678,316
Auxiliary – Bookstore	27,480,318	26,523,711
Auxiliary – Student residence fees	16,793,538	12,860,199
Auxiliary – other	25,509,480	23,750,958
Payments to employees	(524,804,632)	(499,333,616)
Payments for benefits	(139,477,981)	(127,423,128)
Payments to suppliers	(292,193,432)	(266,381,865)
Payments for scholarships and fellowships	(33,674,006)	(31,967,441)
Payments for program and support services	(19,667,761)	(15,718,820)
Payments for clean up efforts from Manoa flood	(21,780,153)	-
Student loans issued	(5,040,675)	(3,702,802)
Student loans collected	4,382,998	4,437,400
Other receipts, net	1,054,266	2,438,388
Net cash used in operating activities	(452,102,967)	(378,143,413)
Cash flows from noncapital financing activities		
State appropriations	486,565,114	460,339,666
Recoveries received from State for Manoa flood	22,500,000	-
Gifts and grants for other than capital purposes	16,592,106	13,139,461
Private gifts for endowment purposes	4,964,628	3,899,609
Transfer from State of Hawai'i - Bridge to Hope	64,720	374,400
Transfers to State of Hawai'i for		
Debt service	(45,405,122)	(45,661,764)
Fringe benefits	(23,002,792)	(15,306,896)
Interest on Tobacco settlement	(64,311)	-
Other payments	195,685	135,299
Net cash provided by noncapital financing activities	462,410,028	416,919,775
Cash flows from capital and related financing activities		
Capital appropriations	49,184,944	20,655,923
Capital gifts and grants	21,786,456	8,727,767
Proceeds from issuance of capital debt	592,207	-
Purchases of capital assets	(160,377,730)	(107,910,039)
Principal paid on capital debt and leases	(8,126,614)	(3,503,999)
Interest paid on capital debt and leases (net of amounts capitalized)	(2,707,114)	(7,715,067)
Transfer from State of Hawai'i - Tobacco settlement	10,012,110	10,035,536
Net cash used in capital and related financing activities	(89,635,741)	(79,709,879)
Cash flows from investing activities		
Interest and dividends on investments, net	12,549,127	14,793,742
Proceeds from sales and maturities of investments	522,079,926	749,296,457
Purchase of investments	(443,213,239)	(752,075,184)
Net increase in time certificate deposits	(14,000,000)	(2,900,000)
Net cash provided by investing activities	77,415,814	9,115,015
Net decrease in cash and cash equivalents	(1,912,866)	(31,818,502)
Cash and cash equivalents		
Beginning of year	131,284,889	163,103,391
End of year	$ 129,372,023	$ 131,284,889

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, 2005 and 2004

	2005	2004
Cash and cash equivalents presented in the accompanying consolidated statement of net assets		
Cash and cash equivalents	$ 115,929,711	$ 121,133,565
Restricted cash and cash equivalents	13,442,312	10,151,324
	$ 129,372,023	$ 131,284,889
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (474,242,703)	$ (435,065,030)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation expense	53,747,984	43,609,855
Bad debt expense	1,473,292	1,891,921
Payments for clean up efforts from Manoa flood - included in other nonoperating expenses, net	(21,780,153)	-
Changes in operating assets and liabilities		
Accounts receivable	(20,663,861)	11,392,335
Notes receivable	(495,923)	962,150
Inventories	(1,200,317)	(314,725)
Prepaid expenses and other assets	(53,339)	(2,001,289)
Accounts payable	5,470,994	699,857
Accrued payroll and fringe benefits	998,156	2,254,949
Accrued vacation	3,241,140	1,505,104
Accrued workers' compensation liability	668,967	215,601
Advances from sponsors	241,070	(2,295,283)
Deferred revenue	528,983	(569,014)
Other payables	(37,257)	(9,844)
Other payables – Due to State of Hawai'i	-	(420,000)
Net cash used in operating activities	$ (452,102,967)	$ (378,143,413)
Supplemental information of noncash transactions		
Noncash contributions	$ 1,441,145	$ 2,246,256
Net transfers from State of Hawai'i for capital assets	62,503,042	275,307
Partial defeasance of general obligation series CG bonds	149,358	1,298,689
Impairment loss from Manoa flood	2,583,814	-

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 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 the financial reporting entities of the University. The University has defined its reporting entities 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 accounts in the accompanying 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, and a component unit of 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 presented within the State's comprehensive annual financial report.

The University is classified as a state instrumentality under Internal Revenue Code 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 by GASB Statements No. 37 and No. 38. The financial statements of the University are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with standards for governmental colleges and universities. Accordingly, the University has adopted all GASB pronouncements and all Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, which do not contradict or conflict with existing GASB pronouncements.

The Foundation's accounting policies conform to generally accepted accounting principles ("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 enterprise activities of governmental units as promulgated by the GASB. The Research Corporation's financial information was converted to conform to the University's presentation.

Cash and Cash Equivalents
The University considers all highly liquid debt instruments, including short-term cash investments, purchased with an original maturity of three months or less to be cash equivalents. The carrying amounts reported in the Statements of Net Assets for cash equivalents approximate fair value due to the short maturity of these instruments.

Restricted Cash and Cash Equivalents
The University considers cash and cash equivalents obtained from the issuance of the University Health and Wellness Center revenue bonds which have not been invested to be restricted.

Investments
Investments are stated at fair value with unrealized gains and losses on investments being included in the 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 investment sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments.

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. Title of short-term investments, made from pooled cash, is vested in the name of the University or the Foundation.

Perpetual Trusts
The Foundation is the beneficiary of certain perpetual trusts held and administered by others. The present values 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 endowment and investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

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 (5% discount rate) 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.

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 do not meet eligibility requirements, as defined by GASB Statement No. 33, and 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. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 45 years) of the respective assets. 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.

The University evaluates the future service utility of their 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. In 2005, the University early implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* as a framework to address the diminished service utility of particular capital assets impacted by the Manoa flood. The adoption of GASB Statement No. 42 did not have a significant impact on the University.

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 ticket sales related to future years.

Bonds Payable
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.

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

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those 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 whose use by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- Unrestricted: Net assets that 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 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.

Revenue Recognition
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 with the Federal government as the related expenditures are incurred. Funds received in advance for these grants and contracts are recorded as an advance in the Statements of Net Assets until the related expenditures are incurred.

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.

Operating and Nonoperating Activities
The University's policy for defining operating activities as reported on the 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 payment 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.

Management's Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. These estimates, among others, include allowances for uncollectible accounts and workers' compensation liabilities.

The University uses third party analyses 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, 2005 and 2004 represents the University's best estimate of workers' compensation liabilities based on available information.

Allowance for doubtful accounts is a valuation account used to estimate the portion of accounts receivable that is considered uncollectible. Estimates for uncollectible accounts are based on the age of the receivable and likelihood of payment.

Reclassifications
The University invests a portion of its excess operating cash balances in student loan auction rate securities ("auction rate securities"). Prior to 2005, the University reported auction rate securities as cash equivalents based on the University's ability to sell these securities every 7 to 28 days as part of an auction process. During 2005, the University determined that auction rate securities should be reported as operating investments instead of cash equivalents since the auction rate securities are collateralized by student loans with original maturities greater than 90 days. In order to conform the 2004 consolidated financial statements to the 2005 presentation, $42.9 million in auction rate securities were reclassified from cash and cash equivalents to operating investments in the consolidated statement of net assets at June 30, 2004. In addition, the 2004 consolidated statement of cash flows was modified to reflect $124.8 million in purchases and $102.4 million in sales of auction rate securities during 2004. The reclassification of auction rate securities to operating investments had no effect on current, non-current or net assets at June 30, 2004, the increase in net assets during the year ended June 30, 2004, the classification of debt balances at June 30, 2004, or net cash used in operating activities during the year ended June 30, 2004, as previously reported.

2. Cash and Investments

At June 30, 2005 and 2004, information relating to the insurance and collateral of funds deposited with the State Treasury is not available since such information is determined on a statewide basis and not for individual departments. Cash deposits with the State Treasury are either federally insured or collateralized with obligations of the State or the United States. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The carrying amounts of cash and time certificates of deposit not on deposit in the State Treasury as of June 30, 2005 and 2004 were $65,073,516 and $48,500,053, with corresponding bank balances of $80,904,023 and $72,949,688, 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 $80,367,537 as of June 30, 2005 and $72,676,748 as of June 30, 2004. At June 30, 2005 and 2004, the remaining bank balances of $536,486 and $272,940, respectively, as managed by the Foundation, were uncollateralized. Additional cash equivalent balances of $11,357,020 as of June 30, 2005 and $8,896,930 as of June 30, 2004 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 risk in excess of amounts recorded in the financial statements. 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, 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 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 $306,425 and $269,725 at June 30, 2005 and 2004, 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. Use of the income is either restricted by the donor or unrestricted and designated by the Board of Regents.

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.

The University's and Foundation's endowment spending policy provided for an annual distribution of 3% to 6% of the preceding year's endowment fair value in fiscal year 2004. Effective fiscal year 2005, the University adopted a new spending rate policy that provides for an annual distribution ranging from 3% to 5% of the five-year moving average of the endowment fair value.

Investment management fees paid by the University during fiscal years 2005 and 2004 amounted to approximately $725,000 and $776,000, respectively.

At June 30, 2005 and 2004, the University's investments were comprised of the following:

	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Fixed income securities	$ 146,380,633	$ 162,875,224	$ 202,413,983	$ 219,283,028
Equity securities	101,845,539	87,443,131	101,497,357	87,301,816
Mutual funds	55,097,171	36,961,089	47,828,821	33,214,899
Time certificates of deposit	51,953,115	51,953,115	34,443,338	34,443,338
Other investments	17,189,708	17,147,954	44,156,453	44,114,699
Total investments	372,466,166	356,380,513	430,339,952	418,357,780
Less current portion	131,805,287	132,762,443	141,987,778	142,452,616
Total noncurrent investments	$ 240,660,879	$ 223,618,070	$ 288,352,174	$ 275,905,164

Changes in the endowment and other investments for the year ended June 30, 2005 are as follows:

	Fair Value	Cost Basis	Unrealized Net Gain/(Loss)	Realized Net Gain/(Loss)
University Endowment Pool				
End of year	$ 48,554,569	$ 45,261,442	$ 3,293,127	
Beginning of year	46,276,676	42,418,711	3,857,965	
Net increase (decrease)	2,277,893	2,842,731	(564,838)	$ 2,053,968
Foundation Endowment Pool				
End of year	127,191,678	112,474,557	14,717,121	
Beginning of year	116,482,002	105,682,773	10,799,229	
Net increase	10,709,676	6,791,784	3,917,892	2,705,096
Associated Students of the University of Hawai'i				
End of year	6,039,266	5,758,988	280,278	
Beginning of year	5,400,839	5,101,511	299,328	
Net increase (decrease)	638,427	657,477	(19,050)	231,641
School of Medicine				
End of year	29,533,702	30,667,299	(1,133,597)	
Beginning of year	94,672,249	97,056,914	(2,384,665)	
Net increase (decrease)	(65,138,547)	(66,389,615)	1,251,068	(2,518,666)
Operating investments				
End of year	131,805,287	132,762,443	(957,156)	
Beginning of year	141,987,778	142,452,616	(464,838)	
Net increase (decrease)	(10,182,491)	(9,690,173)	(492,318)	82,842
Other				
End of year	29,341,664	29,455,784	(114,120)	
Beginning of year	25,520,408	25,645,255	(124,847)	
Net increase	3,821,256	3,810,529	10,727	194,434
Total investments				
End of year	372,466,166	356,380,513	16,085,653	
Beginning of year	430,339,952	418,357,780	11,982,172	-
Net increase (decrease)	$ (57,873,786)	$ (61,977,267)	$ 4,103,481	$ 2,749,315

Summary of investment income	**2005**	**2004**
Change in unrealized net gain	$ 4,103,481	$ 8,860,541
Realized net gain	2,749,315	5,621,932
	6,852,796	14,482,473
Interest in perpetual trusts	174,058	399,306
Split interest agreements	97,515	(999,023)
Amounts held for others	(48,037)	(212,556)
Investment income used to finance construction costs	(1,427,179)	(1,012,366)
Net interest and dividend income	13,526,940	13,992,115
Net investment income	$ 19,176,093	$ 26,649,949

Changes in the endowment and other investments for the year ended June 30, 2004 are as follows:

	Fair Value	Cost Basis	Unrealized Net Gain/(Loss)	Realized Net Gain/(Loss)
University Endowment Pool				
End of year	$ 46,276,676	$ 42,418,711	$ 3,857,965	
Beginning of year	39,486,026	38,306,809	1,179,217	
Net increase	6,790,650	4,111,902	2,678,748	$ 2,459,256
Foundation Endowment Pool				
End of year	116,482,002	105,682,773	10,799,229	
Beginning of year	93,623,281	91,957,138	1,666,143	
Net increase	22,858,721	13,725,635	9,133,086	6,430,922
Associated Students of the University of Hawai'i				
End of year	5,400,839	5,101,511	299,328	
Beginning of year	5,270,709	5,316,082	(45,373)	
Net increase (decrease)	130,130	(214,571)	344,701	353,632
School of Medicine				
End of year	94,672,249	97,056,914	(2,384,665)	
Beginning of year	127,548,292	128,511,725	(963,433)	
Net decrease	(32,876,043)	(31,454,811)	(1,421,232)	(3,532,990)
Operating investments				
End of year	141,987,778	142,452,616	(464,838)	
Beginning of year	113,967,604	112,733,608	1,233,996	
Net increase (decrease)	28,020,174	29,719,008	(1,698,834)	(54,148)
Other				
End of year	25,520,408	25,645,255	(124,847)	
Beginning of year	27,355,186	27,304,105	51,081	
Net decrease	(1,834,778)	(1,658,850)	(175,928)	(34,740)
Total investments				
End of year	430,339,952	418,357,780	11,982,172	
Beginning of year	407,251,098	404,129,467	3,121,631	-
Net increase	$ 23,088,854	$ 14,228,313	$ 8,860,541	$ 5,621,932

The Board of Regents is responsible for the establishment of policies over and monitoring of operating investments and endowments held by the University. Investments authorized by the Board of Regents 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% of the fixed income investments may be graded with an S&P quality rating below "A".

The composition of fixed income securities at June 30, 2005 and 2004, along with credit quality ratings is summarized below:

		Credit Quality Rating				
	FY2005 Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB
U.S. treasury	$ 23,017,684	$ 23,017,684	$ -	$ -	$ -	$ -
U.S. government agencies	113,562,618	140,367	113,422,251	-	-	-
Corporate bonds	9,653,424	-	1,822,834	3,402,118	4,050,392	378,080
Other	146,907	-	-	146,907	-	-
Total fixed income securities	$ 146,380,633	$ 23,158,051	$ 115,245,085	$ 3,549,025	$ 4,050,392	$ 378,080

		Credit Quality Rating				
	FY2004 Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB
U.S. treasury	$ 21,731,455	$ 21,731,455	$ -	$ -	$ -	$ -
U.S. government agencies	170,063,925	290,250	169,773,675	-	-	-
Corporate bonds	10,472,249	-	1,418,782	2,615,858	2,884,374	3,553,235
Other	146,354	-	-	146,354	-	-
Total fixed income securities	$ 202,413,983	$ 22,021,705	$ 171,192,457	$ 2,762,212	$ 2,884,374	$ 3,553,235

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, 2005 and 2004, the composition of the University's fixed income investments and maturities are summarized below:

	2005 Fair Value	Investment Maturities (in Years) less than 1	1 to 5	6 to 10	More than 10
U.S. treasury	$ 23,017,684	$ 12,381,476	$ 8,113,228	$ 2,334,400	$ 188,580
U.S. government agencies	113,562,618	42,311,784	64,302,707	5,432,393	1,515,734
Corporate bonds	9,653,424	762,186	6,434,268	2,171,850	285,120
Other	146,907	-	146,907	-	-
Total fixed income securities	$ 146,380,633	$ 55,455,446	$ 78,997,110	$ 9,938,643	$ 1,989,434

	2004 Fair Value	Investment Maturities (in Years) less than 1	1 to 5	6 to 10	More than 10
U.S. treasury	$ 21,731,455	$ 4,418,522	$ 16,218,488	$ 1,052,952	$ 41,493
U.S. government agencies	170,063,925	75,171,565	89,781,840	4,137,779	972,741
Corporate bonds	10,472,249	841,062	6,453,154	3,178,033	-
Other	146,354	-	146,354	-	-
Total fixed income securities	$ 202,413,983	$ 80,431,149	$ 112,599,836	$ 8,368,764	$ 1,014,234

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 5% of the total fixed income portion of the portfolio. Individual equities are limited to not 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.

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, 2005 and 2004, the University's exposure to foreign currency risk expressed in U.S. dollars is as follows:

	2005	2004
Equity securities		
British pound	$ 999,489	$ 222,052
Euro	-	46,577
Mutual fund		
British pound	9,601,153	8,102,741
Total exposure to foreign currency risk	$ 10,600,642	$ 8,371,370

3. Accounts Receivable

The composition of accounts receivable at June 30, 2005 and 2004 are summarized as follows:

	2005	2004
U.S. government	$ 52,682,797	$ 42,101,576
State and local government	13,040,269	7,424,189
Private agencies	9,011,182	6,603,916
Other	19,353,027	18,216,551
	94,087,275	74,346,232
Less: Allowance for doubtful accounts	(7,067,970)	(6,517,496)
	$ 87,019,305	$ 67,828,736

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 $30,857,000 and $28,377,000 in fiscal years 2005 and 2004, respectively. The University expends 98.95%, and 1.05% of the 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 condition of the University.

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2005 and 2004 are summarized as follows:

	2005	2004
Student notes		
Federal loan programs	$ 18,183,338	$ 17,161,949
State loan programs	8,025,147	8,568,515
University loan funds	55,581	56,195
Other notes receivable	165,131	146,615
Total student and other notes outstanding	26,429,197	25,933,274
Less: Allowance for doubtful notes receivable	5,251,394	5,234,310
Total student and other notes receivable, net	21,177,803	20,698,964
Contributions receivable	6,977,414	4,608,452
Less: Allowance for uncollectible pledges	240,829	315,969
Less: Discount to present value	46,532	18,403
Total contributions receivable, net	6,690,053	4,274,080
Total notes receivable and contributions receivable, net	27,867,856	24,973,044
Less: Current portion, net	7,696,969	6,849,385
	$ 20,170,887	$ 18,123,659

The allowance for doubtful notes receivable at June 30, 2005 and 2004 are comprised of:

	2005	2004
Federal Perkins loan program	$ 2,786,357	$ 2,803,699
State of Hawai'i Higher Education loans	2,345,412	2,336,885
Nursing/Health Profession loans	67,595	42,131
Short-term loans	52,030	51,595
	$ 5,251,394	$ 5,234,310

Payments on contributions receivable at June 30, 2005 are expected to be collected in:

Less than one year	$ 3,088,767
One year to five years	3,888,647
	$ 6,977,414

The principal repayment and interest rate terms of federal and university loans vary considerably. The allowance for doubtful notes receivable only applies to University funded notes and the University 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 General Counsel.

As discussed in Note 1 to the financial statements, pledges for permanent endowment do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $2,576,000 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets 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.

6. Inventories

The inventories and the methods of valuation at June 30, 2005 and 2004 are comprised of:

		2005	2004
University of Hawai'i Bookstore merchandise inventory	At the lower of cost (determined by the weighted average cost method) or market.	$ 10,205,530	$ 9,031,790
University of Hawai'i Press merchandise inventory	Job order or specific identification method. Books remaining in inventory after the first year of publication are written off on the straight-line basis over a five-year period.	1,095,548	1,225,206
University of Hawai'i other inventories	Cost, applied on the first-in, first-out basis.	1,722,446	1,566,211
		$ 13,023,524	$ 11,823,207

7. Capital Assets

A summary of capital assets at June 30, 2005 and 2004 are as follows:

2005	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Non depreciable capital assets					
Land	$ 11,787,160	$ 40,135	$ -	$ -	$ 11,827,295
Construction in progress	164,705,516	141,020,965	1,059,153	(121,041,532)	183,625,796
Total capital assets not being depreciated	176,492,676	141,061,100	1,059,153	(121,041,532)	195,453,091
Depreciable capital assets					
Land improvements	41,774,870	159,640	1,543,091	16,059,925	56,451,344
Infrastructure	29,515,422	6,924,968	-	8,867,244	45,307,634
Buildings	823,017,458	60,106,592	18,508,595	89,175,417	953,790,872
Equipment	214,146,412	18,869,549	13,277,467	6,938,946	226,677,440
Library materials	146,298,417	8,072,939	7,363,166	-	147,008,190
Total capital assets being depreciated	1,254,752,579	94,133,688	40,692,319	121,041,532	1,429,235,480
Less: Accumulated depreciation	631,909,250	53,747,984	30,595,027	-	655,062,207
Capital assets, net	$ 799,336,005	$ 181,446,804	$ 11,156,445	$ -	$ 969,626,364

2004	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Non depreciable capital assets					
Land	$ 10,215,703	$ 1,571,457	$ -	$ -	$ 11,787,160
Construction in progress	100,528,144	91,917,372	279,000	(27,461,000)	164,705,516
Total capital assets not being depreciated	110,743,847	93,488,829	279,000	(27,461,000)	176,492,676
Depreciable capital assets					
Land improvements	41,598,682	22,892	-	153,296	41,774,870
Infrastructure	28,318,444	-	-	1,196,978	29,515,422
Buildings	817,641,045	651,503	2,603,911	7,328,821	823,017,458
Equipment	191,464,807	15,824,892	11,925,192	18,781,905	214,146,412
Library materials	141,568,749	5,192,351	462,683	-	146,298,417
Total capital assets being depreciated	1,220,591,727	21,691,638	14,991,786	27,461,000	1,254,752,579
Less: Accumulated depreciation	601,205,085	43,609,855	12,905,690	-	631,909,250
Capital assets, net	$ 730,130,489	$ 71,570,612	$ 2,365,096	$ -	$ 799,336,005

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 appraised value at the date of the gift. Land parcels comprising 1,581 acres or 93% of the

University's property are recorded at the State's value of $1 per parcel. Assets owned by the Federal Government, although in the custody of the University, are not included in the capital asset total.

The State Department of Accounting and General Services ("DAGS") administers most of the University's construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. Net capital assets transferred to the University from DAGS amounted to $62,503,042 and $275,307 in 2005 and 2004, respectively.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2005 and 2004 are comprised of:

	2005	2004
Interest in perpetual trusts held by others	$ 11,649,455	$ 10,940,941
Deferred bond refunding and issuance costs	2,195,259	2,379,133
	$ 13,844,714	$ 13,320,074

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

Amounts due from and due to State of Hawai'i at June 30, 2005 and 2004 are as follows:

	2005		2004	
	Due from	Due to	Due from	Due to
Amounts due for State appropriations	$ 8,903,090		$ 5,062,974	
Employer fringe adjustments	122,601		58,412	
Total due from State of Hawai'i	$ 9,025,691		$ 5,121,386	
Imprest/petty cash advances		$ 302,465		$ 287,915
Refund of prior year expenditure		2,664		-
Advance		6,000,000		6,000,000
General obligation bonds – current		2,856,930		2,857,869
Agency – other		3,004		5,261
Due to State of Hawai'i – current		9,165,063		9,151,045
General obligation bonds – noncurrent		6,267,050		9,126,522
Total due to State of Hawai'i		$ 15,432,113		$ 18,277,567

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 obligations for the year ended June 30, 2005 is as follows:

	Original Amount	Beginning Balance	Additions	Principal Repayment	Ending Balance
Series X (interest rate, 4.00% to 5.00%)					
Mānoa Student Housing Phase II	$ 3,000,000	$ 685,000	$ -	$ 158,000	$ 527,000
Mānoa Campus Center	2,125,000	485,000	-	112,000	373,000
	5,125,000	1,170,000	-	270,000	900,000
Series CG (interest rate 4.10% to 5.00%)					
Student Housing					
Mānoa	11,916,584	1,596,268	-	864,270	731,998
Hilo	2,324,697	311,401	-	168,602	142,799
Parking Structure Phase I	6,920,761	927,060	-	501,940	425,120
Mānoa Campus Center	423	57	-	31	26
	21,162,465	2,834,786	-	1,534,843	1,299,943
Series CS (interest rate, 5.00% to 5.25%)					
Student Housing					
Mānoa	5,019,114	3,762,024	-	678,494	3,083,530
Hilo	979,133	733,898	-	132,361	601,537
Parking Structure Phase I	2,914,936	2,184,860	-	394,047	1,790,813
Mānoa Campus Center	178	134	-	24	110
	8,913,361	6,680,916	-	1,204,926	5,475,990
Series DB (interest rate, 2.80% to 5.25%)					
Student Housing					
Mānoa	731,292	731,292	-	-	731,292
Hilo	142,661	142,661	-	-	142,661
Parking Structure Phase I	424,710	424,710	-	-	424,710
Mānoa Campus Center	26	26	-	-	26
	1,298,689	1,298,689	-	-	1,298,689
Series DG (interest rate, 5.00%)					
Student Housing					
Mānoa	81,978	-	81,978	-	81,978
Hilo	15,992	-	15,992	-	15,992
Parking Structure Phase I	47,610	-	47,610	-	47,610
Mānoa Campus Center	3	-	3	-	3
	145,583	-	145,583	-	145,583
Series DH (interest rate, 5.00%)					
Student Housing					
Mānoa	2,126	-	2,126	-	2,126
Hilo	415	-	415	-	415
Parking Structure Phase I	1,234	-	1,234	-	1,234
	3,775	-	3,775	-	3,775
	$ 36,648,873	$ 11,984,391	$ 149,358	$ 3,009,769	$ 9,123,980

Activity related to amounts due to the State of Hawai'i for general obligations for the year ended June 30, 2004 is as follows:

	Original Amount	Beginning Balance	Additions	Principal Repayment	Ending Balance
Series X (interest rate, 4.00% to 5.00%)					
Mānoa Student Housing Phase II	$ 3,000,000	$ 834,500	$ -	$ 149,500	$ 685,000
Mānoa Campus Center	2,125,000	590,500	-	105,500	485,000
	5,125,000	1,425,000	-	255,000	1,170,000
Series CG (interest rate 4.10% to 5.00%)					
Student Housing					
Mānoa	11,916,584	2,338,976	-	742,708	1,596,268
Hilo	2,324,697	456,289	-	144,888	311,401
Parking Structure Phase I	6,920,761	1,358,400	-	431,340	927,060
Mānoa Campus Center	423	83	-	26	57
	21,162,465	4,153,748	-	1,318,962	2,834,786
Series CS (interest rate, 5.00% to 5.25%)					
Student Housing					
Mānoa	5,019,114	4,406,672	-	644,648	3,762,024
Hilo	979,133	859,658	-	125,760	733,898
Parking Structure Phase I	2,914,936	2,559,250	-	374,390	2,184,860
Mānoa Campus Center	178	156	-	22	134
	8,913,361	7,825,736	-	1,144,820	6,680,916
Series DB (interest rate, 2.80% to 5.50%)					
Student Housing					
Mānoa	731,292	-	731,292	-	731,292
Hilo	142,661	-	142,661	-	142,661
Parking Structure Phase I	424,710	-	424,710	-	424,710
Mānoa Campus Center	26	-	26	-	26
	1,298,689	-	1,298,689	-	1,298,689
	$ 36,499,515	$ 13,404,484	$ 1,298,689	$ 2,718,782	$ 11,984,391

The general obligation bonds are payable in annual installments, including semi-annual interest payments, ranging from $129,000 to $3,393,000 with the final installment 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, DG, and DH is due on September 1, 2008, July 1, 2009, and June 1, 2006, respectively. The interest and principal payments are due as follows:

	Principal	Interest
Series X	August 1	February 1 and August 1
Series CG	July 1	January 1 and July 1
Series CS	April 1	April 1 and October 1
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1
Series DH	June 1	June 1

At June 30, 2005, principal and interest maturities of reimbursable State of Hawai'i general obligation bonds for each of the next five years, the next subsequent five-year payments and thereafter are as follows:

Years ending June 30	Principal	Interest
2006	$ 2,856,930	$ 388,223
2007	1,634,674	237,647
2008	1,716,533	158,399
2009	1,589,736	81,572
2010	136,256	7,175
2011–2015	792,435	16,743
2016–2018	397,416	2,636
	$ 9,123,980	$ 892,395

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

The U.S. Department of Housing and Urban Development, under its College Housing Program subsidizes the University for interest payments, which represent the excess of the average annual debt service costs on the bonds over the average annual debt service that would have been required during the life of the bonds at an interest rate of 3%. Such subsidies amounted to $278,900 and $326,770 for the years ended June 30, 2005 and 2004, respectively.

In June 2005, the State issued $772.6 million and $18.7 million in general obligation Series DG and DH bonds (refunding bonds), respectively, of which the University's portion was approximately $146,000 and $4,000, with a 5% interest rate to advance refund approximately $152,000 (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 $188.7 million in general obligation Series DB bonds (refunding bonds) of which the University's portion was approximately $1.3 million, with interest rates ranging from 2.80% to 5.25% to advance refund approximately $1.3 million (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.

Due to the State of Hawai'i for general obligation bonds does not include approximately $1.5 million and $1.3 million of defeased liabilities at June 30, 2005 and 2004, respectively.

Act 259-SLH 2001, Section 58 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 $45,405,122 and $45,661,764 for the years ended June 30, 2005 and 2004, respectively.

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2005 and 2004 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2005					
Leases and bonds payable					
Revenue bonds payable	$ 167,385,000	$ -	$ 3,495,000	$ 163,890,000	$ 3,610,000
Capital lease payable	15,445,000	-	380,000	15,065,000	395,000
Total leases and bonds payable	182,830,000	-	3,875,000	178,955,000	4,005,000
Notes payable – RCUH	-	442,850	58,935	383,915	144,525
Installment contract payable (Note 14)	1,558,524	382,572	1,218,034	723,062	448,684
Other liabilities					
Workers' compensation	13,545,250	4,938,179	4,269,211	14,214,218	4,178,778
Compensated absences	45,953,653	18,059,489	14,818,349	49,194,793	17,755,193
Total other liabilities	59,498,903	22,997,668	19,087,560	63,409,011	21,933,971
Total long-term liabilities	$ 243,887,427	$ 23,823,090	$ 24,239,529	$ 243,470,988	$ 26,532,180
2004					
Leases and bonds payable					
Revenue bonds payable	$ 168,275,000	$ -	$ 890,000	$ 167,385,000	$ 3,495,000
Capital lease payable	15,805,000	-	360,000	15,445,000	380,000
Total leases and bonds payable	184,080,000	-	1,250,000	182,830,000	3,875,000
Notes payable – RCUH	4,783	-	4,783	-	-
Installment contract payable (Note 14)	2,027,861	16,500	485,837	1,558,524	1,190,328
Other liabilities					
Workers' compensation	13,329,649	3,927,143	3,711,542	13,545,250	4,671,470
Compensated absences	44,448,549	16,852,728	15,347,624	45,953,653	16,767,097
Total other liabilities	57,778,198	20,779,871	19,059,166	59,498,903	21,438,567
Total long-term liabilities	$ 243,890,842	$ 20,796,371	$ 20,799,786	$ 243,887,427	$ 26,503,895

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2005 and 2004 are as follows:

	Series	Date Issued	Authorized	2005	2004
Student Housing System at Mānoa (interest rate, 3.0% to 3.5%)	2001A	December 19, 2001	$ 655,000	$ 270,000	$ 400,000
Student Housing System at Mānoa Telecommunications System (interest rate, 3.0% to 5.25%	2001B	December 19, 2001	18,665,000	16,195,000	16,985,000
University Health & Wellness Center (interest rate, 2.70% to 5.5%)	2002A	June 27, 2002	150,000,000	147,425,000	150,000,000
			$ 169,320,000	$ 163,890,000	$ 167,385,000

In June 2002, the University issued University Bond Series 2002A to finance the construction of the new John A. Burns School of Medicine buildings in Kaka'ako. The proceeds of the 2002A bonds were placed with an escrow agent to be invested until they are used to pay for the cost of construction.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $250,700 to $12,451,900 with the final installment due in July 2033. Series 2001A and 2001B 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 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 bonds, interest and premiums (if any). Condensed financial statements for the special and revolving funds of the University excluding the Revenue Undertakings fund as well as a summary of the changes in net assets related to the Series 2002A bond proceeds are included in the supplementary information section on pages 64 and 65.

The University capitalizes interest costs net of related investment income on any unspent financing proceeds in connection with the John A. Burns School of Medicine construction project. During the years ended June 30, 2005 and 2004, interest costs of $7,032,454 and $6,490,014, net of related investment income of $1,427,179 and $1,012,366, respectively were capitalized.

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 revenue bonds. The funds received from the State of Hawai'i Tobacco Settlement Special Fund amounted to $10,012,110 and $10,035,536 in 2005 and 2004, respectively.

At June 30, 2005, the annual maturities of the revenue bonds are as follows:

Years ending June 30	**Principal**	**Interest**
2006	$ 3,610,000	$ 8,144,831
2007	3,720,000	8,033,608
2008	3,835,000	7,903,357
2009	3,990,000	7,758,872
2010	4,130,000	7,607,561
2011-2015	23,430,000	35,231,218
2016-2020	26,935,000	28,654,688
2021-2025	28,710,000	21,466,003
2026-2030	37,620,000	12,552,113
2031-2033	27,910,000	2,194,525
	$ 163,890,000	$ 139,546,776

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2005 and 2004 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2005					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 229,956	$ -	$ 40,976	$ 188,980
John A. Burns School of Medicine	2002A	2,871,205	-	102,393	2,768,812
General obligation	DB	84,878	-	9,224	75,654
General obligation	DG	-	13,913	90	13,823
General obligation	DH	-	361	16	345
Total bond premiums		$ 3,186,039	$ 14,274	$ 152,699	$ 3,047,614
2004					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 313,235	$ -	$ 83,279	$ 229,956
John A. Burns School of Medicine	2002A	2,973,598	-	102,393	2,871,205
General obligation	DB	-	91,268	6,390	84,878
Total bond premiums		$ 3,286,833	$ 91,268	$ 192,062	$ 3,186,039

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2005 and 2004 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2005					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 742,693	$ -	$ 132,340	$ 610,353
John A. Burns School of Medicine	2002A	1,570,417	-	56,004	1,514,413
General obligation	DB	66,023	-	7,175	58,848
General obligation	DG	-	11,434	73	11,361
General obligation	DH	-	297	13	284
Total deferred refunding and issuance costs		$ 2,379,133	$ 11,731	$ 195,605	$ 2,195,259
2004					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 1,011,661	$ -	$ 268,968	$ 742,693
John A. Burns School of Medicine	2002A	1,626,421	-	56,004	1,570,417
General obligation	DB	-	70,994	4,971	66,023
Total deferred refunding and issuance costs		$ 2,638,082	$ 70,994	$ 329,943	$ 2,379,133

Capital Lease Obligation

On November 1, 1995, the Housing Finance and Development Corporation ("HFDC") issued $17,680,000 in revenue bonds with interest rates ranging from 4.00% to 5.75%. The revenue bonds are payable by HFDC in annual installments, including semiannual interest payments, with the final installment due in October 2025. The revenue bonds were issued to provide permanent financing for the University's Kau'iokahaloa Nui Faculty Housing Project. At the time of issuance, HFDC entered into a Lease and Sublease Agreement with the University. The University agreed to give a ground lease for 30 years and 8 months to HFDC and HFDC agreed to lease the improvements and sublease the ground lease to the University for the same term.

Pursuant to the agreement, the University agreed to operate the Kau'iokahaloa Nui Faculty Housing Project at its own expense and make lease rental payments to HFDC sufficient to pay the principal, premium, if any, and interest on the revenue bonds as they become due and payable. Upon retirement of the revenue bonds, HFDC's rights, title and interest in the Kau'iokahaloa Nui Faculty Housing Project will terminate and the University will be the owner of the Kau'iokahaloa Nui Faculty Housing Project.

The lease agreement has been accounted for as a capital lease by the University. The capitalized cost of $20,130,000 and accumulated depreciation as of June 30, 2005 and 2004 of $5,032,500 and $4,516,346, respectively, are included in capital assets.

At June 30, 2005, the future minimum lease payments are as follows:

	Lease Amount
Years ending June 30	
2006	$ 1,235,031
2007	1,235,078
2008	1,232,414
2009	1,232,130
2010	1,235,292
2011-2015	6,152,541
2016-2020	6,122,886
2021-2025	6,091,575
2026-2028	1,213,630
	25,750,577
Less: Amount representing interest	10,685,577
	$ 15,065,000

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $2,000,000 for short-term working capital, expiring on December 1, 2005. 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 outstanding is 75% of the bank's reference rate (6.25% and 4.25% at June 30, 2005 and 2004, respectively). At June 30, 2005 and 2004, there were no borrowings under this line.

13. Notes Payable (Research Corporation)

A summary of the Research Corporation's notes payable at June 30, 2005 and 2004, is as follows:

		2005		2004
Note payable to First Hawaiian Bank at 3.57%, collateralized by an IBM Processor, monthly payments of $12,991 including interest due January 2008, by the University of Hawaii, Information Technology Services	$	383,915	$	-
Less: Current installments of long-term debt		144,525		-
	$	239,390	$	-

14. Installment Contracts and Property Leases

The University purchased certain equipment on installment with interest ranging from 6.000% to 12.896% per annum and annual maturities as follows:

	Installment Contracts			
	Principal		Interest	
Years ending June 30				
2006	$	448,681	$	14,381
2007		92,182		15,245
2008		86,740		9,583
2009		86,077		3,605
2010		9,382		157
	$	723,062	$	42,971

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

		Lease Amount
Years ending June 30		
2006	$	2,190,754
2007		1,797,596
2008		1,559,966
2009		966,453
2010		961,201
2011-2015		1,557,440
2016-2020		66,740
	$	9,100,150

Lease expenditures for outside space for the years ended June 30, 2005 and 2004 amounted to approximately $3,780,300 and $3,325,800, respectively.

15. 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. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. Prior to June 30, 1984, the plan consisted of only a contributions 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"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

The University's payroll for employees covered by the plan and total personal services, including student payroll, for the years ended June 30, 2005 and 2004 were approximately $341,702,691 and $334,397,000, and $454,597,000 and $432,406,000, respectively. The University is required to contribute an actuarially determined amount to the ERS. Contributions made to the ERS for the years ended June 30, 2005 and 2004 were $31,232,000 and $29,661,000, respectively, approximately 9% of covered payroll.

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

Employee's 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, 2004 are as follows:

Number of employers as of March 31, 2004 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 is 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 $90,893,503 and $84,389,994 for fiscal years 2005 and 2004, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days 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 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 one and three-quarters working days 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 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.

University 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 2005 and 2004 were $2,671,389 and $1,883,476, respectively. Temporary wage loss payments for fiscal years 2005 and 2004 amounted to $450,821 and $280,889, respectively.

16. Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees who retire from the University on or after age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory option and age 55 with at least 5 years of service under the contributory option. Retirees hired before July 1, 1996 and credited with at least 10 years of service or have a total of 25 years of service, excluding sick leave credit, qualify for free medical, dental, drug, vision and life insurance premiums; however, retirees hired or rehired after June 30, 1996 who retire with 10 but less than 25 years of service must assume a portion of the monthly premiums. All disability retirees who retired after June 30, 1984 with less than 10 years of service also qualify for free medical insurance premiums.

Free life insurance coverage and dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The University's share of the post-retirement health care and life insurance benefits expense was approximately $24,124,000 and $24,077,000 for the years ended June 30, 2005 and 2004, respectively.

17. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2005 and 2004 are comprised of:

	2005	2004
Liabilities under split interest agreements	$ 3,390,482	$ 3,400,334
Amounts held for others	2,590,911	2,486,644
	$ 5,981,393	$ 5,886,978

18. 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 2001, 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, 2005 and 2004 were $488,193,100 and $49,184,944, and $459,648,716 and $20,655,923, respectively.

Net general and capital appropriations for the year ended June 30, 2005 are as follows:

General appropriations	
Act 200, SLH 2003 - Appropriation Warrant # 038	$ 475,172,131
Act 51, SLH 2004 - Appropriation Warrant # 061	500,000
Act 149, SLH 2004 - Appropriation Warrant #102	286,112
Act 223, SLH 2004 - Appropriation Warrant #124	500,000
Act 236, SLH 2004 - Appropriation Warrant #128	142,000
Act 238, SLH 2004 - Appropriation Warrant #129	250,000
Others	
Allotments for salary increases and other adjustment	
Act 143, SLH 2003; Acts 53 & 74, SLH 2004; Act 24, SLH 2005	11,531,646
	488,381,889
Total funds lapsed	(188,789)
Total general fund appropriations	$ 488,193,100
Capital appropriations	
Act 200, SLH 2003, Section 77	$ 10,006,500
Act 200, SLH 2003, Section 77, 111 & 119, as amended by Act 41, SLH 2004	39,196,500
Total funds lapsed	(18,056)
Total state capital appropriations	$ 49,184,944

Net general and capital appropriations for the year ended June 30, 2004 are as follows:

General appropriations	
Act 200, SLH 2003 – Appropriations Warrant #013	$ 458,176,837
Others	
Allotments for salary increases and other adjustment	
Act 143, SLH 2003 and Act 260, SLH 2004	1,703,007
	459,879,844
Total funds lapsed	(231,128)
Total general fund appropriations	$ 459,648,716
Capital appropriations	
Act 200, SLH 2003, Section 77	$ 21,544,000
Act 259, SLH 2001, amended by Act 177, SLH 2002	1,393,330
Total funds lapsed	(2,281,407)
Total state capital appropriations	$ 20,655,923

19. 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 of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic and research programs and initiatives, and capital programs. Some designated unrestricted net assets may be used to fund certain unfunded liabilities included in the undesignated unrestricted net assets.

The unrestricted net assets at June 30, 2005 and 2004 are as follows:

	2005	2004
Unrestricted net assets		
Designated		
Capital projects	$ 118,162,616	$ 124,165,606
Research and training	40,207,220	40,152,305
Quasi-endowment	36,282,565	35,963,746
Bond System	19,426,603	19,044,968
Contract commitments	16,441,905	12,132,773
Other designated net assets	8,095,622	7,475,171
Total designated	238,616,531	238,934,569
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc.)	(41,023,828)	(34,590,897)
Total unrestricted net assets	$ 197,592,703	$ 204,343,672

20. 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 outstanding debt was issued pursuant to a Master Resolution as amended in November 2001. The Master Resolution 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 Master Resolution provides 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.

The following summary financial information as of June 30, 2005 and 2004 are presented before elimination of certain intra-University transactions.

	2005	2004
Condensed statement of net assets		
Assets		
Current assets	$ 42,257,651	$ 42,913,366
Capital assets, net	87,805,121	90,419,968
Other assets	10,430,846	8,808,717
Total assets	$ 140,493,618	$ 142,142,051
Liabilities		
Current liabilities	$ 16,112,325	$ 15,839,531
Noncurrent liabilities	37,781,721	42,263,164
Total liabilities	53,894,046	58,102,695
Net assets		
Invested in capital assets, net of related debt	46,744,233	44,237,669
Restricted expendable	3,414,635	3,297,035
Unrestricted	36,440,704	36,504,652
Total net assets	86,599,572	84,039,356
Total liabilities and net assets	$ 140,493,618	$ 142,142,051

	2005	2004
Condensed statement of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	$ 27,560,217	$ 26,722,663
Room and other rentals	16,416,496	15,818,972
Parking	4,567,120	4,662,188
Telecommunications	3,298,872	3,725,160
Other operating revenues	2,880,880	2,584,203
Total operating revenues	54,723,585	53,513,186
Operating expenses (including $5,261,228 and $5,220,317 in depreciation expense in 2005 and 2004, respectively)	(54,277,932)	(53,250,713)
Operating income	445,653	262,473
Nonoperating revenues	4,418,978	2,543,544
Nonoperating expenses	(2,304,415)	(2,486,070)
Increase in net assets	2,560,216	319,947
Net assets		
Beginning of year	84,039,356	83,719,409
End of year	$ 86,599,572	$ 84,039,356

	2005	2004
Condensed statement of cash flows		
Net cash flows provided by operating activities	$ 5,624,391	$ 4,106,937
Net cash flows provided by non-capital financing activities	360,311	327,484
Net cash flows used in capital and related financing activities	(7,027,941)	(7,051,965)
Net cash flows provided by investing activities	(2,005,539)	374,679
Net decrease in cash and cash equivalents	(3,048,778)	(2,242,865)
Cash and cash equivalents		
Beginning of year	30,242,916	32,485,781
End of year	$ 27,194,138	$ 30,242,916

21. Litigation, Other Contingent Liabilities and Commitments

Hawai'i Revised Statute §304-6 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. Effective June 25, 1999, Hawai'i Revised Statute §304 was amended by Act 102 of the 1999 Session Laws of Hawai'i which states that the University 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 an 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 University has significant construction commitments related to the John A. Burns School of Medicine Kaka'ako project, Mauna Kea Astronomy Education Center and Pan-Star Project in the amounts of $16,900,000, $3,500,000, and $6,200,000, respectively at June 30, 2005.

22. New Accounting Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other post-employment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the University, this may result in increased expenses and a related liability which will likely be significant. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements.

The GASB has issued Statement No. 46, an amendment of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The University is currently evaluating the effect that Statement No. 46 will have on its financial statements.

In June 2005, the GASB has issued Statement No. 47, *Accounting for Termination Benefits*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 47 requires that liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The University is currently evaluating the effect that Statement No. 47 will have on its financial statements.

23. Manoa Flood

The University of Hawai'i at Mānoa campus experienced significant flooding as a result of heavy rains that fell on October 30, 2004. Approximately 35 buildings and their contents sustained moderate to severe damage. Clean-up and repair expenditures made up approximately $20 million or 87.7 percent of the $22.8 million flood loss total. During fiscal year 2005, the University received $22.5 million in disaster aid from the State, of which $22 million was in the form of emergency State appropriations and $500,000 was from the State Insurance Reserve Fund.

Casualty loss	
Rent of temporary facilities	$ 222,524
Clean-up costs	10,190,363
Repairs and other	9,803,599
Impairment loss	2,583,814
	22,800,300
Recoveries	
State appropriation	(22,000,000)
State Insurance Reserve Fund	(500,000)
	(22,500,000)
Loss from Manoa flood, net of recoveries	$ (300,300)

For fiscal year 2006, an additional $31 million was appropriated by the State Legislature to the University for on-going flood repairs. The University expects the economic loss from capital assets and other intangibles to far exceed the accounting loss. Any third party insurance recoveries and federal aid attributable to the flood will be remitted to the State.

Supplementary Information

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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 basic consolidated financial statements of the University of Hawai'i as of June 30, 2005 and 2004, and for the years then ended, appears on page 2 of this document. 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 and II) 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.

PricewaterhouseCoopers LLP

Honolulu, Hawai'i
February 7, 2006

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, 2005 and 2004 — Schedule I

	2005	2004
Condensed statements of net assets		
Assets		
Current assets	$ 130,890,687	$ 136,346,364
Noncurrent assets	1,093,862	1,760,296
Total assets	$ 131,984,549	$ 138,106,660
Liabilities		
Current liabilities	$ 72,948,197	$ 74,814,757
Noncurrent liabilities	2,033,025	1,916,125
Total liabilities	74,981,222	76,730,882
Net assets		
Unrestricted	57,003,327	61,375,778
Total net assets	57,003,327	61,375,778
Total liabilities and net assets	$ 131,984,549	$ 138,106,660
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 190,713,115	$ 182,571,533
Operating expenses	(191,020,903)	(182,301,645)
Operating income (loss)	(307,788)	269,888
Nonoperating revenues	13,891,701	11,178,259
Nonoperating expenses and transfers	(17,956,364)	(13,611,682)
Decrease in net assets	(4,372,451)	(2,163,535)
Net assets		
Beginning of year	61,375,778	63,539,313
End of year	$ 57,003,327	$ 61,375,778

1. **Basis of Presentation**

The accompanying condensed statements of net assets and related 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 are presented on the accrual basis of accounting.

University of Hawai'i
State of Hawai'i
Schedule of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2005 and 2004 — Schedule II

	2005	2004
Beginning balance	$ 91,316,182	$ 137,122,681
Additions		
Interest income	2,694,778	5,966,587
Other	102,393	102,393
Total additions	2,797,171	6,068,980
Deductions		
Payments-building, construction in progress	69,568,836	46,769,038
Investment-realized/unrealized loss	1,267,599	4,954,221
Other	106,290	152,220
Total deductions	70,942,725	51,875,479
Ending balance	$ 23,170,628	$ 91,316,182

1. Basis of Presentation

The accompanying schedule of Series 2002A revenue bond proceeds activity presents 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.

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 Hawaii (the "Board") on May 17, 2002, entitled "A RESOLUTION CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, AND PROVIDING FOR THE SECURITY FOR AND PAYMENT OF SAID BONDS AND LIMITING SUCH PAYMENT TO MONEYS DERIVED FROM THE OWNERSHIP AND OPERATION OF THE UNIVERSITY OF HAWAII AND CERTAIN OTHER MONEYS MADE AVAILABLE TO THE UNIVERSITY OTHER THAN MONEYS HERETOFORE PLEDGED TO OTHER OBLIGATIONS OF THE BOARD; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE 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" (the "*Resolution*") and the supplemented resolution adopted by the Board on September 21, 2006 entitled: "A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, UNIVERSITY BONDS, REFUNDING SERIES FROM TIME TO TIME AND IN AN AGGREGATE PRINCIPAL AMOUNT SUFFICIENT TO PROVIDE FOR THE REFUNDING OF ALL OR A PORTION OF THE OUTSTANDING UNIVERSITY BONDS; AUTHORIZING THE PLEDGE OF CERTAIN AUXILIARY MONEYS AS SUPPLEMENTAL SECURITY FOR THE AFORESAID SERIES OF BONDS; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; AND PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS" (the "Supplemental Resolution") authorizing the Series 2006A Bonds. 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

"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.

"Auxiliary Moneys, 2006A" means any moneys on credit to the Auxiliary Account, 2006A in the University Revenue-Undertakings Fund appropriated by the Legislature of the State for the purpose of the payment of the principal of and interest on the Series 2006A Bonds.

"Available Moneys" means any and all moneys from time to time on deposit in any special fund or revolving fund of the University derived from the ownership and operation of the University or any part thereof, but shall not include moneys in the University Revenue-Undertakings Fund pledged to the payment of bonds issued under a separate resolution adopted on November 16, 2001.

"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.

"Debt Service" means, with respect to any series of Bonds, the total, as of any particular date of computation and for any particular period or year, of the aggregate amount required for the payment of (i) the interest to become due on Bonds of such series during such period or year, less the amount of such interest becoming due on Bonds of such series during such period or year which is provided for from accrued interest received upon the sale of Bonds of such series or from the proceeds of the sale of Bonds of such series (*i.e.*, capitalized interest); (ii) the principal to become due on Bonds of such series issued in the form customarily known as "serial bonds" by reason of stated maturity during such period or year; and (iii) the amount required to meet the sinking fund installment payments (if any) to become due during such period or year with respect to any of the Bonds of such series issued in the form customarily known as "term bonds", plus the amount of premium (if any) payable upon the redemption of Bonds of such series from such sinking fund installments. For the purposes of computing Debt Service with respect to Bonds of a series issued as Variable Rate Bonds or an Integrated Swap Agreement that provides for variable rate payments to be made by the Board, the interest rate per annum thereon shall be determined as follows: (1) with respect to a series of Variable Rate Bonds or an Integrated Swap Agreement at the time of calculation then Outstanding or entered into, the interest rate shall be the higher of (a) the current interest rate per annum borne by or the current variable rate payment payable under such series of Variable Rate Bonds or Integrated Swap Agreement, and (b) the weighted average interest rate per annum borne by or the variable rate payment payable under such series of Variable Rate Bonds or Integrated Swap Agreement (computed on an actual day basis) for the twelve month period then ended at the time of calculation, and (2) with respect to a series of Variable Rate Bonds or an Integrated Swap Agreement then proposed to be issued or entered into, the interest rate per annum shall be assumed to be either (I) the higher of (w) the initial interest rate per annum (if established and binding) to be borne by or the initial variable rate payment payable under such series of Variable Rate Bonds or Integrated Swap Agreement, and (x) the weighted average interest rate per annum borne by or the variable rate payment payable under any Outstanding series of Variable Rate Bonds or existing Integrated Swap Agreement (computed on an actual day basis) for the twelve month period then ended at the time of calculation (which is calculated in the same manner as the interest rate or variable rate payment on such series of Variable Rate Bonds or Integrated Swap Agreement then proposed to be issued or entered into), or (II) the BMA Index; *provided, however,* that if the Board enters into an Integrated Swap Agreement with respect to a series of Variable Rate Bonds that provides for fixed payments to be made by the Board, the interest rate thereon shall be determined as follows: (y) with respect to a series of Variable Rate Bonds at the time of calculation then Outstanding for which the Integrated Swap Agreement is in effect, the interest rate shall be the sum of (A) the fixed interest rate established under the Integrated Swap Agreement, and (B) to the extent that variable rate payments under the Integrated Swap Agreement are based on an interest index and not the Board's actual variable rate on series of the Variable Rate Bonds, the greatest difference between such index and the variable interest rates actually paid during the prior twelve or three months, which ever is highest, and (z) with respect to the series of Variable Rate Bonds then proposed to be issued, the fixed interest rate established under the Integrated Swap Agreement. With respect to any payment under certain agreements, which payments are payable from Available Moneys and secured by a lien on and pledge of Available Moneys on a parity with the lien on and pledge of the Available Moneys created for the payment and security of the Bonds, "Debt Service" shall include the full amount of any such payments.

"Debt Service Reserve Requirement" means, with respect to any series of Bonds, the amount, if any, established in a Supplemental Resolution or Certificate of Determination authorizing such series of Bonds.

"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, Hawaii Revised Statutes.

"Fiscal Year" means the fiscal year for the State as established from time to time by the 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" or "holder" or "Bondholder" means the registered owner of a Bond or the duly authorized attorney-in-fact, representative or assigns or such registered owner, as shown on the Bond Registry maintained pursuant to the Resolution.

"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.

"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.

"Interest Payment Date" means, with respect to any particular series of Bonds, any date on which interest is payable on such series of Bonds as such date shall be established in the Supplemental Resolution or Certificate of Determination authorizing the issuance of such series of Bonds.

"Investment Securities" means, subject to any limitation contained in the Supplemental Resolution or Certificate of Determination authorizing a series of Bonds, 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) fixed rate obligations of any state or territory of the United States of America or any political subdivision thereof; provided, that at the time of purchase such obligations are rated in the highest rating category by at least two nationally recognized bond rating agencies (whether by reason of credit enhancement or otherwise); (ii) variable rate demand obligations or so-called auction rate obligations of any state or territory of the United States of America or any political subdivision thereof; provided, that at the time of purchase such obligations are rated in the highest rating category by at least two nationally recognized bond rating agencies (whether by reason of credit enhancement or otherwise); (iii) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (iv) 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; (v) 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 Ratings ("Fitch") issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation; (vi) 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 and maturing not more than 360 days after the date of purchase; (vii) commercial paper rated "A-1+" by S&P and/or "P-1" by Moody's and/or "F-1+" by Fitch at the time of purchase and which matures not more than 270 days after the date of purchase; (viii) investments in a money market fund rated "AAAm" or AAm-G" or better by S&P; (ix) 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 and such Bank has long-term uninsured, unsecured and unguaranteed debt rated "Aa" or better by Moody's and "AA" or better by S&P or "AA" or better by Fitch, provided: (a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (b) the securities are held free and clear of any lien of the Resolution or of an independent third party acting solely as agent ("Agent) for the Board, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the Board shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Board; and (c) a security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Bondholders; and (d) the Board will be provided with a valuation for the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (e) the Board has the option of terminating the repurchase agreement in the event that the long-term debt ratings of the provider, are reduced below "Baa3" by Moody's and/or "BBB-" by S&P, and/or "BBB" by Fitch if such provider is a Broker/Dealer and below "A3 "by Moody's and/or "A-" by S&P and/or "A-" by Fitch if such provider is a Bank; (x) 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 and 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 or by Fitch, the Board shall have the option to terminate the agreement; and (xi) such other investments as may from time to time to be permitted by the laws of the State but are not described above.

"Outstanding" (and whether or not such word begins with a capital letter) when used with respect to any Bond shall have the construction given to such word in the Resolution, i.e., a Bond shall not be outstanding under the Resolution if such Bond is at the time not deemed to be outstanding thereunder by reason of the operation and effect of the Resolution.

"Paying Agent" or "Paying Agents" (and whether or not such words begin with capital letters) means for all Bonds the Director of Finance as provided in Section 306-15, Hawaii Revised Statutes, and any additional paying agent or agents for any series of Bonds appointed in or pursuant to the Resolution.

"Remarketing Agent" means with respect to a series of Variable Rate Bonds the Remarketing Agent appointed by the Board in the Supplemental Resolution or Certificate of Determination authorizing the issuance of the Bonds of such series and serving as such under the Remarketing Agreement for such series, including any successors or assigns.

"Remarketing Agreement" means with respect to any series of Variable Rate Bonds the agreement entered into by the Board with a Remarketing Agent which provides for the purchase and remarketing of such Variable Rate Bonds, as such agreement may be supplemented and amended from time to time.

"Resolution" means the Resolution as originally adopted by the Board on May 17, 2002 as it may from time to time be supplemented, modified or amended by any resolution supplemental thereto.

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

"Support Agreement" means any agreement entered into by the Board which provides for a Support Facility, and any and all modifications, alterations, amendments and supplements thereto.

"Support Facility" means any instrument, contract or agreement entered into or obtained in connection with a series of Variable Rate Bonds such as a letter of credit, a committed line of credit, insurance policy, surety bond or standby bond purchase agreement, or any combination of the foregoing, and issued or otherwise provided by a bank or banks, insurance company or companies, other financial institution or institutions, or any combination of the foregoing, which Support Facility provides for the payment of (i) the purchase price equal to the principal of and accrued interest on Bonds delivered to the Remarketing Agent or any depository, tender agent or other party pursuant to a Remarketing Agreement or Supplemental Resolution or Certificate of Determination and discount, if any, incurred in remarketing such Bonds, and/or (ii) principal of and interest on all Bonds becoming due and payable during the term thereof.

"University" means and includes the University of Hawaii, each community college established and governed by the Board pursuant to Chapter 305, Hawaii Revised Statutes, and any and every other educational institution now or hereafter under the control of or governed by the Board.

"University Project" means any undertaking or improvement constructed, maintained, or both, by the Board, in furtherance of the purposes of the University. 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.

"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.

(Section 1.01; Section 101 of Supplemental Resolution)

Authorization of Bonds; Equal Security; Validity

The Resolution establishes an issue 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.

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. See "PLEDGE" below.

The Bonds shall not constitute general or moral obligations of the State of Hawaii 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.

(Section 2.01)

Authorization and Issuance of Bonds

For the purpose of financing the costs of construction of Phase I of the Project, there may be issued one or more series of the Bonds. Subsequent to the issuance of the first series of Bonds the Board may issue Additional Bonds upon compliance with certain requirements, including without limitation:

(1) The issuance of the Additional Bonds shall have been authorized by law for a lawful purpose and issued pursuant to a Supplemental Resolution or Certificate of Determination;

(2) The Supplemental Resolution or Certificate of Determination authorizing the issuance of the Additional Bonds shall set forth the University Project to be financed, in whole or in part, from the proceeds of such Additional Bonds, and shall provide that any accrued interest received upon the sale of the Additional Bonds shall be paid into the Debt Service Fund and credited to the Interest Account established for the Bonds of such series therein; and

(3) 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 Debt Service fund or the Debt Service Reserve Fund.

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 to the redemption date, 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.

The Board has authorized the Designated Financial Officer to cause to be issued one or more series of Additional Bonds for the purpose of refunding any Outstanding Bonds of the Board by means of a Certificate of Determination, provided 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; except in the case of the issue of one or more series of Additional 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 (3%) percent of the principal amount of the Bonds to be refunded; and, the Bonds to be refunded and the date or dates, if any, of the retirement or redemption thereof.

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.

(Sections 2.02, 2.03 and 2.04)

Variable Rate Bonds

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.

(Section 2.05)

Hedge, Support and Other Financial Agreements

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 Available Moneys and secured by a lien on and pledge of Available Moneys on a parity with the lien on and pledge of the Available Moneys created for the payment and security of the Bonds; *provided* such payments shall meet the requirements of Section 2.02 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 Available Moneys on a parity with the lien on and pledge created for the payment and security of the Bonds, a separate account shall be established in the Debt Service Fund for the payment thereof and payments to such account shall be made ratably from Available Moneys at the time such moneys are disbursed to the other accounts in the Debt Service Fund pursuant to Section 5.02 of the Resolution. For the purposes of the Resolution, any obligation to make payments which are payable from Available Moneys and secured by a lien on and pledge of Available Moneys on a parity with the lien on and pledge of Available Money created for the payment and security of the Bonds as provided in the Resolution shall be deemed and treated as a "Bond" under the Resolution.

(Section 2.06)

Pledge

The Bonds, together with interest and premium (if any) thereon, shall be payable from and secured by the Available Moneys, and, except for any separate account established in the Debt Service Reserve Fund for a particular series of the Bonds, the funds and accounts established under the Resolution. The pledge shall constitute a lien on Available Moneys prior and paramount to any claim or obligation of any nature against such moneys subsequently arising or subsequently incurred and shall be valid and binding from and after the adoption of the Resolution without physical delivery of the Available Moneys or the necessity of any further action by the State or the Board or any officer or agent of either the State or the Board, but, to the extent required by law, subject to the appropriation by the Legislature of the State. All the Bonds shall rank *pari passu*, and shall be equally and ratably secured hereunder without priority by reason of series, number, date, or maturity of the Bonds, date of sale, date of issuance, date of execution, or delivery thereof.

Notwithstanding anything herein to the contrary, the Board may, by Supplemental Resolution, authorizing a particular series of Bonds grant as supplemental security therefor a pledge of and lien on, and a security interest in, (i) all or a portion of the moneys appropriated by the Legislature of the State for deposit in the University Revenue-Undertakings fund for the purpose of paying all or a portion of the principal of, and interest on, a such series of Bonds issued thereunder; or (ii) all or any portion of the proceeds of such series of Bonds, or (iii) both.

As supplemental security for the Series 2006A Bonds, the Board has granted a pledge of and lien on, and security interest in, Auxiliary Moneys, 2006A and the proceeds of the Series 2006A Bonds pending application thereof to the purpose for which such Bonds are issued.

Notwithstanding that one or more Supplemental Resolutions providing for the issuance of Bonds grants supplemental security for a particular series of the Bonds, all Bonds shall continue to be secured by a pledge of, and lien upon, Available Moneys equally and ratably.

Nothing in the Resolution shall restrict or be deemed to restrict the application of moneys in any special or revolving fund under the jurisdiction of the University or the Board to the purposes for which such funds are established pending application as provided in the Resolution.

(Section 5.01; Section 203 of Supplemental Resolution)

Debt Service Fund and Accounts Therein

There is established a separate trust fund to be designated the "Board of Regents of the University of Hawaii University Bond Debt Service Fund" to be held by the Board and applied as hereafter provided. In order to provide for the punctual payment of principal of, and interest on, the Bonds, the Board shall pay or cause to be paid to the Paying Agent for each series of the Bonds from Available Moneys an amount equal to the principal of, and interest on, the Bonds for deposit in the Debt Service Fund on or before each Interest Payment Date at such time so that payment of the principal and interest on the Bonds (including any required redemptions from sinking fund installments) may be made as and when the same become due.

(a) *Interest Accounts*. There shall be established a separate account in the Debt Service Fund for each series of Bonds issued under the Resolution, each account to be known as a "Interest Account" 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 Account was established as the same becomes due 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 two (2) calendar days prior to an Interest Payment Date for the Bonds of such series, there shall be credited to the Interest Account for Bonds of the series for which such Interest Account 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 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 Account, 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 an Interest Account in the Debt Service Fund or other lawfully available moneys credited to an Interest Account; provided that in any event there shall be credited to each Interest Account in the Debt Service Fund 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) *Serial Bond Principal Accounts*. There shall be established a separate account in the Debt Service Fund for each series of Bonds issued under the Resolution, each account to be known as a "Serial Bond Principal Account" 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 Account was established as the same becomes due 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 on 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 two (2) calendar days prior to the stated maturity of a principal payment of any such Bonds of such series maturing serially, there shall be credited to the Serial Bond Principal Account for such Bonds of the series for which such Serial Bond Principal Account 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 Serial Bond Principal Account in the Debt Service Fund 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 maturing serially then outstanding.

(c) *Term Bond Principal Accounts*. There shall be established a separate account in the Debt Service Fund for each series of Bonds issued under the Resolution, each account to be known as a "Term Bond Principal Account" 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 Account was established as the same becomes due 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 on 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 two (2) 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 Account for such Bonds of the series for which such Term Bond Principal Account 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 Account 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 Account 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 Account 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 Account on such sinking fund installment dates. The Designated Financial Officer may also apply the moneys credited to this Account 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 Account; 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 Account 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 Debt Service Fund such amount as shall be necessary to permit the retirement of Bonds on the next succeeding sinking fund installment date.

The moneys on deposit in the Debt Service Fund on credit to any Interest Account, Serial Bond Principal Account and Term Bond Principal Account shall be transferred to 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 Account or upon declaration, as hereinafter provided, or otherwise.

(Section 5.02)

Debt Service Reserve Fund

There is established a separate trust fund to be designated the "Board of Regents of the University of Hawaii University Bond Debt Service Reserve Fund" to be held by the Board and applied as hereafter provided. There may be established a separate account in the Debt Service Reserve Fund for each series of Bonds issued under the Resolution for which the Supplemental Resolution or Certificate of Determination authorizing such series of Bonds establishes a Debt Service Reserve Requirement greater than zero (0), each account to be known as a "Debt Service Reserve Account" and separately identified, which shall be disbursed by the Board solely for the purpose of paying principal of and interest on Bonds of the series for which such Account was established for the payment of which there shall be insufficient money in the Debt Service Fund. In the event a separate account is established for a particular series of Bonds, the Director of Finance shall transfer moneys from such account to the Paying Agent for such series of Bonds in sufficient time so that the principal of and interest on such series of Bonds may be paid as and when the same become due; provided that the moneys on credit to the Interest Account, Serial Bond Principal Account and Term Bond Principal Account established for such series shall first be applied to the payment of such principal and interest before applying thereto the moneys on credit to the Debt Service Reserve Account established for such series.

The Resolution permits the use of a surety bond, insurance policy or letter of credit to fund a Debt Service Reserve Account and prescribes the methodology for treating deficiencies or excess in such an account.

No separate account is created for the Series 2006A Bonds.

(Section 5.03)

Investment of Moneys in Accounts

Moneys on deposit in the Debt Service Fund and Debt Service Reserve Fund for credit to the several accounts and subaccount therein established by the Resolution shall be invested in Investment Securities maturing as follows: (i) moneys on credit to the Debt Service Fund 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 Account in the Debt Service Fund 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 Debt Service Reserve Fund shall be invested so as to mature by no later than the earlier of eight (8) 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 Debt Service Fund.

(Section 5.04)

Construction Fund and Accounts Therein

There shall be established a separate trust fund, to be known as the "Board of Regents of the University of Hawaii Construction Fund". In the event of the issuance of a series of Bonds under the Resolution for the purposes of paying cost of construction of one or more University Projects the Board or the Designated Financial Officer shall in the Supplemental Resolution or Certificate of Determination authorizing such series of Bonds create a Construction Account in the Construction Fund 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 Account in the Construction Fund, to which shall be credited the amount of the proceeds so specified.

The moneys on credit from time to time in a Construction Account or Construction Interest Account in the Construction Fund shall be held under and subject to the Resolution may 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 Accounts were established, and shall be used and applied solely to the payment of cost of construction of the University Project financed or to be financed from the proceeds of the Bonds for which such Accounts were established, in accordance with law.

Proceeds of any series of Bonds may be credited in the Construction Fund 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.

Moneys in the Construction Fund on credit to a Construction Interest Account therein shall be applied by the Board as follows: on each Interest Payment Date until the moneys in such Construction Interest Account are exhausted there shall be withdrawn from the moneys credited to such account and credited to the Debt Service Fund 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 Account an amount, together with accrued interest received upon the sale of the series of Bonds with respect to which such Construction Interest Account 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 Account.

(Section 5.05; Section 203 Supplemental Resolution)

Covenants to Secure Bonds

The Board covenants with the purchasers and holders of the Bonds that so long as the Bonds remain outstanding under the Resolution, the Board will (i) warrant and defend title to all property constituting a part of the University (ii) complete construction of any University Project included or to be included as part of the University as planned and provide the furnishings and moveable equipment necessary to the full enjoyment and occupancy of each University Project; (iii) operate and maintain the University 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 in good repair and to make additions and improvements thereto which are economically sound so that the University is properly and advantageously operated in an efficient manner and at a reasonable cost.

In addition, the Board covenants, to the extent permitted by law, to impose and collect rates, rents, fees and charges for the use or enjoyment and services of the facilities of the University, and, to revise such rates, rents, fees and charges from time to time whenever necessary, so that the University shall be and always remain self-sustaining; provided that neither such covenant nor any other portion of the Resolution shall preclude the making of appropriations to the Bond to pay all or part of the cost of construction, maintenance, or both, of the University, or any or all University Projects; and provided further that failure to comply with this covenant shall not constitute an Event of Default under the Resolution if the Board, to the extent permitted by law, shall promptly take such action as the Board, in its discretion, may deem necessary to comply with such covenant.

In addition, the Board covenants (i) to pay and discharge all taxes, assessments and other governmental charges or surcharges imposed upon the Board, the properties comprising the University, or any part thereof, or upon any fund or account established under 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 University or upon any fund or account established under 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 University, which shall be open to inspection by the Bondholders and their agents and representatives; (iv) within 270 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 University 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 University or the Available Moneys, 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 Available Moneys prior to or on a parity with the Bonds or which will be secured by or be a lien and charge on the Available Moneys prior to or on a parity with the lien and charge on the Available Moneys pursuant to the Resolution; (ii) not to sell, convey, dispose of or lease any properties constituting the University, 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 University 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 University; and (iv) to pay solely out of Available Moneys 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 University or any University Project; and (iii) to take all actions required to preserve the lien created by the Resolution and to carry out the provisions of the Resolution.

(Article VI)

Adoption of Supplemental Resolution

(a) Without the consent or concurrence of any Bondholder, the Board may adopt one or more Supplemental Resolutions (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.

(b) 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; or (f) authorize the creation of any pledge of the Available Moneys, 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 any fund or account created therein 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 Available Moneys required to be credited to the Debt Service Fund.

HOLDERS OF BONDS WHICH ARE INSURED OR SECURED BY A LETTER OF CREDIT AS TO PRINCIPAL AND INTEREST SHALL BE DEEMED TO HAVE DELEGATED THEIR RESPECTIVE RIGHT TO CONSENT TO AMENDMENTS TO THE PROVIDER OF SUCH INSURANCE OR LETTER OF CREDIT, AND THE CONSENT OF SUCH PROVIDER TO AMENDMENTS OR SUPPLEMENTS TO THE RESOLUTION SHALL BE IN LIEU OF AND SUBSTITUTION FOR THE CONSENT OF HOLDERS OF BONDS PROVIDED IN THE RESOLUTION.

(Sections 8.01 and 8.02)

Events of Default and Remedies

(a) The following constitute "Events of Default":

(1) If payment of the principal and of premium (if any) on 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 after the same becomes due and payable;

(3) 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 (other than failure under (1) or (2) above), 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;

(4) If any proceedings shall be instituted, with or without 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 any of the Available Moneys or any other moneys pledged and charged in the Resolution or any supplemental resolution, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or State statute;

(5) If any order or decree is entered with or without the consent of the Board or the State, appointing a receiver for the University or any of the buildings and facilities thereof and such order or decree is not vacated or discharged or stayed on appeal within 60 days after entry;

(6) If, under any laws for the relief of debtors, any court assumes custody or control of the University or any buildings and facilities thereof and such custody is not terminated with 90 days after the date of assumption; or

(7) 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) or (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 University and apply all Available Moneys 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 holder of the Bonds under any applicable statute.

(Article IX)

Defeasance

(a) The obligations of the Board under the Resolution and any supplemental resolution, and the liens, pledges, charges and trusts and the 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 Paying Agent for cancellation or otherwise surrendered to the 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 thereon, either (i) has been made or (ii) has been provided by depositing with the 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.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed prior to the stated maturities thereof, no deposit under clause (ii) of subparagraph (b) above shall constitute such discharge and satisfaction as aforesaid,

(A) as to any such Bonds as are not at the time of the making of such deposit immediately redeemable in accordance with the provisions of the Resolution and of such Bonds, until either (1) such Bonds shall have been irrevocably called or designated for redemption on the first date thereafter such Bonds may be redeemed in accordance with the provisions of the Resolution and of such Bonds, or (2) until 90 days prior to the respective stated maturities thereof;

(B) as to any such Bonds as are at the time of the making of such deposit immediately redeemable in accordance with the provisions hereof or thereof, until (1) 90 days prior to the date fixed for their redemption or (2) 90 days prior to the respective stated maturities thereof; and

(C) as to all such Bonds which are to be redeemed prior to their respective stated maturities, until proper notice of such redemption shall have been previously mailed in accordance with the Resolution or irrevocable provision shall have been made for the mailing of such notice.

Any moneys so deposited with the paying agents as provided above may at the direction of the Board also be invested and reinvested in Governmental Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Governmental Obligations in the hands of the paying agents pursuant to such deposit which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be deposited in the Debt Service Fund as and when realized and collected and credited to the Accounts created herein for use and application as are other moneys credited to that account.

Notwithstanding the foregoing, the payment of (i) the purchase price of or accrued interest on any Variable Rate Bonds tendered for purchase pursuant to the terms of a Supplemental Resolution or Certificate of Determination or the Remarketing Agreement, or similar agreement, or (ii) principal of, redemption premium or price, if any, or interest on any Variable Rate Bonds upon redemption, acceleration or when due and payable with a draw, borrowing or payment under a Support Facility shall not be deemed payment pursuant to this provision; *provided, however*, that with respect to (ii) above, a reimbursement or other payment by the Board with respect to a draw, borrowing or payment under a Support Facility for the payment of principal of, premium, if any, or interest on Variable Rate Bonds upon redemption, acceleration or when due and payable may be deemed to be payment for the purposes of this provision.

For the purposes of this provision, the term "Governmental Obligations" shall mean the securities listed in clauses (i) through (v) of the definition of the term "Investment Securities", and any investments made in such Governmental Obligations shall be subject to the same conditions and limitations as set forth in said definition; *provided, however*, that the term "Governmental Obligations" shall in no event include securities listed in clauses (vi) through (xi) 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; provided any such payment shall be net of administrative expenses, if any, allocable to such Bond or Bonds.

(Article XI)

No Personal Liability

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.

(Section 12.02)

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Board of Regents
University of Hawaii
2444 Dole Street
Honolulu, Hawaii 96822
Members of the Board:

BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII,
UNIVERSITY BONDS, REFUNDING SERIES 2006A, $____________

At your request we have examined into the validity of ___________ Dollars ($____________) principal amount of University Bonds, Refunding Series 2006A, of the Board of Regents of the University of Hawaii (the "Bonds"). The Bonds are being initially issued in fully registered form; are numbered consecutively from R2006A-1 upwards; are dated as of the date of this opinion; bear interest from the date of authentication thereof, payable January 15, 2007, and each January 15, and July 15, thereafter at the rates per annum set forth in the schedule below; and mature and become payable as to principal on July 15 in each of the years and in the principal amounts as follows:

Year of Maturity	Principal Amount	Rate of Interest	Year of Maturity	Principal Amount	Rate of Interest

The Bonds are subject to redemption prior to maturity upon the terms and conditions and at the price or prices set forth therein.

The Bonds recite that they are authorized to be issued and are issued under and in full compliance with the Constitution and statutes of the State of Hawaii, including Chapter 306, Hawaii Revised Statutes, and under and pursuant to a resolution entitled: "A RESOLUTION CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, AND PROVIDING FOR THE SECURITY FOR AND PAYMENT OF SAID BONDS AND LIMITING SUCH PAYMENT TO MONEYS DERIVED FROM THE OWNERSHIP AND OPERATION OF THE UNIVERSITY OF HAWAII AND CERTAIN OTHER MONEYS MADE AVAILABLE TO THE UNIVERSITY OTHER THAN MONEYS HERETOFORE PLEDGED TO OTHER OBLIGATIONS OF THE BOARD; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE 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" duly adopted by the Board of Regents (the "Board") of the University of Hawaii (the "University") under the aforesaid Chapter 306 on May 17, 2002, and a resolution supplemental thereto authorizing the Bonds entitled: A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, UNIVERSITY BONDS, REFUNDING SERIES FROM TIME TO TIME AND IN AN AGGREGATE PRINCIPAL AMOUNT SUFFICIENT TO PROVIDE FOR THE REFUNDING OF ALL OR A PORTION OF THE OUTSTANDING UNIVERSITY BONDS; AUTHORIZING THE PLEDGE OF CERTAIN AUXILIARY MONEYS AS SUPPLEMENTAL SECURITY FOR THE AFORESAID SERIES OF BONDS; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; AND PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS duly adopted by the Board of the University under the aforesaid Chapter 306 and resolution on September 21, 2006 (herein, collectively, called the "Resolution").

We have examined the Constitution and statutes of the State of Hawaii, duplicate executed or certified copies of the proceedings of the Board authorizing the issuance of the Bonds, including the Resolution, such other proceedings and documents as we have considered necessary or advisable, and a certified specimen Bond.

From such examinations we are of the opinion that:

1. The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of Hawaii and constitute valid limited obligations of the Board, payable on a parity with the bonds hereafter issued under the Resolution, payable from and secured by a lien on Available Moneys (as such term is defined in the Resolution), such Available Moneys consisting of the moneys on deposit in any special fund or revolving fund of the University derived from its ownership or operation of the University, and, except for any separate account established in the Debt Service Reserve Fund under the Resolution for a particular series of bonds issued thereunder, the funds and accounts established thereunder. The Bonds are additionally payable from and secured by a lien on Auxiliary Moneys, 2006A (as such term is defined in the Resolution), consisting of a portion of the moneys in the Hawaii Tobacco Settlement Special Fund, and the proceeds of the Series 2006A Bonds pending application.

2. The Bonds are equally and ratably secured with the bonds hereafter issued under the Resolution, without priority by reason of series, number, date of maturity of the Bonds or the date of sale, issuance, execution or delivery thereof, by a prior and paramount lien and charge on the aforesaid Available Moneys.

3. The Resolution has been duly adopted by the Board and is a valid obligation of the Board, in accordance with its terms, and the holder or holders, from time to time, of the Bonds are entitled to the security and benefits thereof.

4. Assuming compliance by the Board with the tax covenants made in the proceedings relating to the issuance of the Bonds, (i) under existing statutes and court decisions, interest on the Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) under the Code, interest on the Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by the Code. It is also our opinion that under the existing laws of the State of Hawaii the Bonds and all income therefrom are exempt from all State of Hawaii, county or municipal taxation, except inheritance, transfer, and estate taxes and except to the extent such income may be included in the measure of the franchise tax imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii.

We express no opinion regarding any other Federal or state tax consequences with respect to the Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to the valid exercise of judicial discretion, the sovereign police powers of the State of Hawaii and the constitutional powers of the United States of America, and to valid bankruptcy, insolvency, reorganization, moratorium or other laws affecting the relief of debtors.

Very truly yours,

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APPENDIX E

INSURANCE

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ____________________________
Assistant Secretary

STD-R-7
01/05

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

MASTER CERTIFICATE
OF THE VICE PRESIDENT FOR ADMINISTRATION AND CHIEF FINANCIAL OFFICER
OF THE UNIVERSITY OF HAWAII
PROVIDING FOR CONTINUING DISCLOSURE

I, the undersigned, J.R.W. Sloane, being the duly appointed Vice President for Administration and Chief Financial Officer of the University of Hawaii, DO HEREBY CERTIFY as follows:

ARTICLE I
PURPOSE AND DEFINITIONS

Section 1.1. *Purpose.* This Certificate shall constitute a written undertaking for the benefit of the Holders of the Bonds, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule as defined below.

Section 1.2. *Definitions.* The following terms used in this Certificate shall have the following respective meanings:

"Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the Board for each fiscal year of the Board of the type included in the Series 2002 Official Statement of the Board in table 1 under the heading "THE UNIVERSITY SPECIAL AND REVOLVING FUNDS", and the tables in Appendix A (ii) the information regarding amendments to this Certificate required pursuant to Sections 3.2(c) and (d) of this Certificate. Audited Financial Statements, if available, or Unaudited Financial Statements shall be included in the Annual Financial Information as described in Section 2.1(c) of this Certificate.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations or agreements to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

"Audited Financial Statements" means the annual financial statements, if any, of the Board, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however,* that the Board may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(d) of this Certificate shall include a reference to the specific federal or State law or regulation describing such accounting principles.

"Board" means the Board of Regents of the University of Hawaii.

"Beneficial Owner" means any person who (i) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Bonds (including a person who holds Bonds through a nominee, depository or other intermediary), or (ii) is treated as the owner of any Bonds for federal income tax purposes.

"Bonds" means any revenue bonds issued by the Board under the Resolution and identified in a Series Certificate.

"Counsel" means Hawkins, Delafield & Wood or other nationally recognized bond counsel or counsel expert in federal securities laws.

"Designated Financial Officer" means the Vice President for Administration and Chief Financial Officer of the University of Hawaii.

"GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

"Holder" means any person who shall be the registered owner, or his duly authorized attorney-in-fact, representative or assign, of any Bond.

"Material Event" means any of the following events with respect to the Bonds, whether relating to the Board or otherwise, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on 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 or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities; and

(11) rating changes.

"Material Event Notice" means notice of a Material Event.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. A listing of the current NRMSIRs as of the date of this Certificate can be located at www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" means the "final official statement," as defined in paragraph (f)(3) of the Rule, relating to Bonds.

"Resolution" means that certain resolution of the Board, adopted May 17, 2002 entitled "A RESOLUTION CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, AND PROVIDING FOR THE SECURITY FOR AND PAYMENT OF SAID BONDS AND LIMITING SUCH PAYMENT TO MONEYS DERIVED FROM THE OWNERSHIP AND OPERATION OF THE UNIVERSITY OF HAWAII AND CERTAIN OTHER MONEYS MADE AVAILABLE TO THE UNIVERSITY OTHER THAN MONEYS HERETOFORE PLEDGED TO OTHER OBLIGATIONS OF THE BOARD; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE 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."

"Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, '240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

"SEC" means the United States Securities and Exchange Commission.

"Series" means a series of Bonds of the Board.

"Series Certificate" means any certificate executed by the Vice President for Administration and Chief Financial Officer as described in Section 3.3 of this Certificate extending the benefits of this Certificate to the Beneficial Owners, Holders and Underwriters of Bonds of a Series.

"Series 2002 Official Statement" means the Official Statement of the Board relating to its University Bonds, Series 2002A.

"SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

"State" means the State of Hawaii.

"Supplemental Certificate" means any certificate executed by the Vice President for Administration and Chief Financial Officer as described in Section 3.2 of this Certificate amending the provisions of this Certificate.

"Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

"Underwriter" means any original underwriter or underwriters of a Series of Bonds who is required to comply with the Rule and who is identified in a Series Certificate.

"Vice President for Administration and Chief Financial Officer" means the Vice President for Administration and Chief Financial Officer of the University of Hawaii.

ARTICLE II
THE UNDERTAKING

Section 2.1. *Annual Financial Information.* (a) The Board shall provide Annual Financial Information with respect to each fiscal year of the Board, commencing with the fiscal year ending June 30, 2002, by no later than nine months after the end of the respective fiscal year, to each NRMSIR and the SID. The Board may provide Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is an Official Statement, available from the MSRB. The Board may provide Annual Financial Information in one document or multiple documents comprising a package, and at one time or in part from time to time.

(b) The Board shall provide, in a timely manner, notice of any failure of the Board to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

(c) If Audited Financial Statements are not provided as part of Annual Financial Information by the date required by Section 2.1(a) of this Certificate, the Board shall provide (i) as part of the Annual Financial Information, Unaudited Financial Statements , and (ii) Audited Financial Statements, when and if available, to each NRMSIR and the SID.

(d) The Board's current fiscal year is July 1 of a calendar year to June 30 of the succeeding calendar year. The Board shall promptly notify (i) each NRMSIR, and (ii) the SID of each change in its fiscal year.

Section 2.2. *Material Event Notices.* (a) If a Material Event occurs, the Board shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR, and (ii) the SID.

(b) Upon any legal defeasance of any Bonds of a Series, the Board shall provide notice of such defeasance to (i) each NRMSIR or the MSRB and (ii) the SID, which notice shall state whether such Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

(c) Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.3. *Additional Disclosure Obligations.* The Board acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Board, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Board under such laws.

Section 2.4. *Additional Information.* Nothing in this Certificate shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the Board chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the Board shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

Section 2.5. *No Previous Non-Compliance.* The Board represents that since January 1, 1996, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Section 2.6. *Transmission of Information and Notices.* Unless otherwise required by law and, in the Board's sole determination, subject to technical and economic feasibility, the Board shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Board's information and notices.

ARTICLE III
TERMINATION, AMENDMENT, ENFORCEMENT, BENEFICIARIES AND DISSEMINATION AGENT

Section 3.1. *Termination.* (a) The Board's obligations under this Certificate with respect to the Bonds shall terminate upon (i) a prior redemption or payment in full of all of the Bonds of such Series, or (ii) a legal defeasance of all of the Bonds of such Series.

(b) This Certificate, or any provision of this Certificate, shall be null and void in the event that there is delivered (i) to the Vice President for Administration and Chief Financial Officer an opinion of Counsel, addressed to the Board, to the effect that those portions of the Rule which require this Certificate, or any of the provisions of this Certificate, respectively, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (ii) a copy of such opinion to each NRMSIR and the SID.

Section 3.2. *Amendment.* (a) This Certificate may be amended by a Supplemental Certificate of the Vice President for Administration and Chief Financial Officer, without the consent of the Holders of the Bonds, if all of the following conditions are satisfied:

(1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Board or the type of business conducted thereby;

(2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(3) there shall have been delivered to the Vice President for Administration and Chief Financial Officer, an opinion of Counsel, addressed to the Board, to the same effect as set forth in clause (2) above;

(4) there shall have been delivered to the Vice President for Administration and Chief Financial Officer, an opinion of Counsel or a determination by a person, in each case unaffiliated with the Board (such as bond counsel) and acceptable to the Board, addressed to the Board, to the effect that the amendment does not materially impair the interests of the Holders of the Bonds; and

(5) the Board shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived by a Supplemental Certificate of the Vice President for Administration and Chief Financial Officer, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Certificate which is applicable to this Certificate, (2) there shall have been delivered to the Vice President for Administration and Chief Financial Officer an opinion of Counsel, addressed to the Board, to the effect that performance by the Board under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule as amended or officially interpreted and (3) the Board shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Certificate results in a change in the type of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such amendment shall be provided by the Board to (i) either the MSRB or each NRMSIR and (ii) the SID.

Section 3.3. *Benefit; Third-Party Beneficiaries; Enforcement.* (a) By execution of a Series Certificate identifying the Underwriters and the Bonds of a Series, the provisions of this Certificate shall inure solely to the benefit of such Underwriters and the Holders from time to time of such Bonds. Beneficial Owners of such Bonds shall be third-party beneficiaries of this Certificate.

(b) Except as provided in this subsection (b), the provisions of this Certificate shall create no rights in any person or entity. The obligations of the Board to comply with the provisions of this Certificate shall be enforceable by any Holder of outstanding Bonds; *provided, however,* that such right to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Board's obligations under this Certificate. In consideration of the third-party beneficiary status of Beneficial Owners of Bonds pursuant to subsection (a) of this Section, Beneficial Owners shall be deemed to be Holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Board to perform in accordance with this Certificate shall not constitute a default under any ordinance or resolution of the Board authorizing the Bonds of any Series or any certificate of the Designated Financial Officer providing for the issuance of the Bond of a Series.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; *provided, however,* that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 3.4. *Dissemination Agent.* The Vice President for Administration and Chief Financial Officer, on behalf of the Board, shall disseminate the Annual Financial Information, the Audited Financial Statements, the Unaudited Financial Statements, the Material Event Notices and all other information and notices as described in this Certificate. The Vice President for Administration and Chief Financial Officer may appoint one or more agents to disseminate such information and notices.

Dated this 27th day of June, 2002.

/s/ J.R. W. Sloane
J.R.W. Sloane
Vice President for Administration
and Chief Financial Officer
University of Hawaii

SERIES CERTIFICATE
OF THE VICE PRESIDENT FOR BUDGET AND FINANCE/CHIEF FINANCIAL OFFICER OF THE UNIVERSITY OF HAWAII
PROVIDING FOR CONTINUING DISCLOSURE

I, the undersigned, Howard Todo being the duly appointed Vice President for Budget and Finance/Chief Financial Officer of the University of Hawaii, DO HEREBY CERTIFY that: (i) this Certificate is a Series Certificate as defined in Section 1.2 and described in Section 3.3 of the Master Certificate of the Vice President for Administration and Chief Financial Officer of the University of Hawaii, Providing for Continuing Disclosure, dated June 27, 2002 (the "Master Certificate"); (ii) UBS Securities LLC, the underwriter listed in the Official Statement related to the Board of Regents, University of Hawaii, University Bonds, Refunding Series 2006A dated October __, 2006 (the "Series 2006A Bonds"), shall be a beneficiary of the Master Certificate; (iii) the Holders of the Series 2006A Bonds shall also be beneficiaries of the Master Certificate; (iv) the Beneficial Owners of the Series 2006A Bonds shall be third-party beneficiaries of the Master Certificate; and (v) all capitalized terms used herein shall have the respective meanings as defined in the Master Certificate.

For so long as an insurance policy issued by ________________ shall remain in effect with respect to the Series 2006A Bonds, ________________ shall receive a copy of any notice required to be issued pursuant to the Master Certificate.

A listing of the current NRMSIRs as of the date of this Series Certificate can be located at www.sec.gov/info/municipal/nrmsir.htm.

Dated this ____ day of October, 2006

____
Howard Todo
Vice President for Budget
and Finance/Chief Financial Officer
University of Hawaii