NEW ISSUE
BOOK-ENTRY ONLY

RATING: Moody's Aaa
(See "RATING" herein)

In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the Department, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest with respect to the Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest with respect to the Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Special Counsel to the Department, under the existing laws of the State of Hawaii, the Certificates and the income with respect thereto is exempt from all taxation by the State of Hawaii or any county or other political subdivision 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. See "TAX MATTERS" herein.

$24,500,000
State of Hawaii
Department of Hawaiian Home Lands
Certificates of Participation
(Kapolei Office Facility)
2006 Series A

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

The State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2006 Series A (the "Certificates"), are being delivered: (i) to finance the construction of an office building and conference facility (the "Improvements") for the Department of Hawaiian Home Lands of the State of Hawaii (the "Department"); (ii) to fund a Certificate Reserve Fund; (iii) to fund capitalized interest on the Certificates; and (iv) to pay costs of execution and delivery of the Certificates. The Certificates will be executed and delivered as fully registered certificates in book entry form, initially registered in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), New York, New York, a security depository for the Certificates. The Certificates are being executed and delivered in denominations of $5,000 or any integral multiple thereof. Interest evidenced and represented by the Certificates is payable on May 1 and November 1 of each year, commencing May 1, 2007.

Individual purchases of the Certificates will be made exclusively in book-entry form. Purchasers of the Certificates will not receive physical certificates representing their interests in the Certificates purchased. The principal and interest evidenced and represented by the Certificates are payable directly to DTC by Wells Fargo Bank, National Association, as trustee (in such capacity, the "Trustee"). Upon receipt of payments of such principal and interest, DTC will in turn remit such principal and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry Only System."

The Certificates will be executed and delivered pursuant to a Trust Agreement (the "Trust Agreement") by and between the State of Hawaii (the "State"), by its Department of Budget and Finance on behalf of the Department, and the Trustee. The Certificates evidence and represent the interests of the registered owners thereof in the rental payments to be paid by the State, by its Department of Budget and Finance on behalf of the Department, as lessee (in such capacity, the "Lessee") under a Lease Agreement (the "Facility Lease") from Wells Fargo Bank, National Association, as lessor (in such capacity, the "Lessor"). Subject to the State's appropriation of funds as described herein, the Lessee's obligation to make such rental payments is absolute and unconditional regardless of delay in the completion of the Improvements or damage to the Improvements. Pursuant to the Facility Lease, the Department of Budget and Finance has delegated and assigned to the Department, and the Department has accepted, all of the obligations of the Lessee under the Facility Lease. Pursuant to an Assignment Agreement between the Lessor and the Trustee, the Lessor has assigned to the Trustee and the Trustee has accepted all of the Lessor's rights and obligations under the Facility Lease.

The Certificates are subject to extraordinary, mandatory and optional prepayment prior to their maturity dates, as described herein. See "THE CERTIFICATES - Prepayment Provisions."

The scheduled payments of principal of and interest with respect to the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by FINANCIAL SECURITY ASSURANCE INC.

FSA.

THE FACILITY LEASE RENTAL PAYMENTS DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE STATE IS OBLIGATED TO APPROPRIATE FUNDS OR TO LEVY ANY FORM OF TAXATION OR FOR WHICH THE STATE HAS LEVIED ANY FORM OF TAXATION. THE CERTIFICATES DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OR ANY STATUTE OF THE STATE.

THE STATE IS NOT REQUIRED TO APPROPRIATE FUNDS FOR THE FACILITY LEASE RENTAL PAYMENTS. ALL OBLIGATIONS OF THE LESSEE UNDER THE FACILITY LEASE ARE LIMITED TO FUNDS APPROPRIATED OR OTHERWISE MADE AVAILABLE, FROM TIME TO TIME, BY THE STATE LEGISLATURE TO PAY AMOUNTS DUE UNDER THE FACILITY LEASE. IF THE LEGISLATURE FAILS TO APPROPRIATE FUNDS FOR LEASE RENTAL PAYMENTS, AND NO OTHER MONEYS OF THE LESSEE ARE AVAILABLE FOR SUCH PURPOSE, THE LESSOR MAY TERMINATE THE FACILITY LEASE WITHOUT PENALTY. SUCH FAILURE TO APPROPRIATE AND TERMINATION DOES NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE FACILITY LEASE.

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

The Certificates are offered when, as and if issued and received by the Underwriter, and are subject to the approval of validity by Hawkins Delafield & Wood LLP, Special Counsel to the Department. Certain legal matters will be passed upon for the State of Hawaii by the Attorney General and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Certificates in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about December 12, 2006.

UBS Investment Bank

Dated: November 20, 2006

$24,500,000
STATE OF HAWAII
Department of Hawaiian Home Lands
Certificates of Participation
(Kapolei Office Facility)
2006 Series A

CERTIFICATE PAYMENT SCHEDULE

Serial Maturities

Principal Payment Date (November 1)	Principal Amount	Interest Rate	Yield
2009	$650,000	4.000%	3.610%
2010	680,000	4.000	3.640
2011	705,000	4.000	3.660
2012	735,000	4.000	3.700
2013	400,000	5.000	3.730
2013	365,000	3.625	3.730
2014	800,000	4.000	3.750
2015	830,000	3.750	3.790
2016	860,000	3.750	3.850
2017	325,000	5.000*	3.900
2017	575,000	4.625*	3.920
2018	940,000	4.000	4.040
2019	980,000	4.000	4.080
2020	1,015,000	4.000	4.120
2021	1,060,000	4.000	4.160

Term Maturities

$2,255,000 4.125% Term Certificates due November 1, 2023, yield 4.250%
$3,755,000 4.250% Term Certificates due November 1, 2026, yield 4.310%
$7,570,000 5.000% Term Certificates due November 1, 2031, yield 4.210%*

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* Priced to call at par on November 1, 2016.

STATE OF HAWAII

Linda Lingle, Governor
James R. "Duke" Aiona, Jr., Lieutenant Governor

DEPARTMENT OF HAWAIIAN HOME LANDS

Micah A. Kane, Chairman of
the Hawaiian Homes Commission

Benjamin H. Henderson	Deputy to the Chairman
Linda L. Chinn	Administrator, Land Management Division
Robert J. Hall	Acting Administrator, Homestead Services Division
Rodney K.M. Lau	Administrative Services Officer
James X.C. Pao	Fiscal Management Officer

HAWAIIAN HOMES COMMISSION

Micah A. Kane, Chairman

Malia P. Kamaka	Cynthia Mahina Martin
Stuart K. Hanchett	Trish Morikawa
Donald S.M. Chang	Milton Pa
Francis K. Lum	Rose Marie "Billie" Baclig

Special Counsel

Hawkins Delafield & Wood LLP
New York, New York

Trustee

Wells Fargo Bank, National Association

The information contained in this official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information, and nothing contained herein is, or shall be relied upon as, a promise of the State or a promise or representation of the Underwriter. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Certificates in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering of the Certificates, and, if given or made, such information or representation must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "CERTIFICATE INSURANCE" and APPENDIX F - "SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY", none of the information in this Official Statement has been supplied or verified by Financial Security, and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Certificates; or (iii) the tax exempt status of the interest on the Certificates.

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$24,500,000
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
CERTIFICATES OF PARTICIPATION
(KAPOLEI OFFICE FACILITY)
2006 SERIES A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto (this "Official Statement"), is to furnish information concerning the Department of Hawaiian Home Lands of the State of Hawaii (the "Department"), and certain other information in connection with the offering and sale of $24,500,000 aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2006 Series A (the "Certificates"). Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Trust Agreement or the Facility Lease referred to below and in Appendix C hereto.

AUTHORITY AND PURPOSE

The Certificates are being issued pursuant to Chapter 37D, Hawaii Revised Statutes: (i) to finance the construction of an office building and conference facility (the "Improvements") for the Department in the City and County of Honolulu, State of Hawaii; (ii) to fund a Certificate Reserve Fund; (iii) to fund capitalized interest on the Certificates; and (iv) to pay costs of execution and delivery of the Certificates. Reference is made to "THE PROJECT" herein for a description of the Improvements.

The Improvements will be located on a parcel of land (the "Site") owned by the State of Hawaii (the "State"), through the Department. In connection with the financing of the Improvements, the Site will be leased by the State, by the Department, as ground lessor, to Wells Fargo Bank, National Association, as ground lessee, pursuant to a Ground Lease dated as of December 1, 2006 (the "Ground Lease") between such parties. Pursuant to a Facility Lease Agreement dated as of December 1, 2006 (the "Facility Lease"), the Site and the Improvements to be constructed thereon (collectively, the "Facility") will be leased by Wells Fargo Bank, National Association, as lessor (in such capacity, the "Lessor"), to the State, by its Department of Budget and Finance on behalf of the Department, as lessee (in such capacity, the "Lessee").

The Certificates will be executed and delivered pursuant to a Trust Agreement dated as of December 1, 2006 (the "Trust Agreement") by and between the Lessee and Wells Fargo Bank, N.A, as trustee (in such capacity, the "Trustee"), and will evidence and represent the proportionate interests of the registered owners thereof (the "Owners") in the base rental payments (the "Base Rental Payments") to be paid by the Lessee under the Facility Lease. Pursuant to an Assignment Agreement dated as of December 1, 2006 (the "Assignment"), the Lessor will assign to the Trustee for the benefit of the Owners all the Lessor's right, title and interest in the Facility Lease, including the rights to receive the Base Rental Payments under the Facility Lease, enforce the payment of amounts due thereunder and otherwise protect the interests of the Owners therein.

Pursuant to the Facility Lease, all duties and obligations of the Lessee thereunder will be delegated and assigned to the Department, and the Department will accept and assume such duties and obligations by joining in the Facility Lease; provided that such delegation and assignment may be revoked by the Lessee if the Facility Lease is terminated or if an event of default occurs thereunder. Consequently, unless such delegation and assignment is revoked, all references to the Lessee under the Facility Lease are deemed to refer to the Department.

The Base Rental Payments and additional rental payments due under the Facility Lease (collectively, the "Rental Payments") do not constitute an obligation for which the State is obligated to appropriate funds or to levy any form of taxation or for which the State has levied any form of taxation. The Certificates do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the constitution or any statute of the State.

The State is not required to appropriate funds for Rental Payments. All obligations of the Lessee under the Facility Lease are limited to funds appropriated or otherwise made available from time to time by the State legislature to pay amounts due under the Facility Lease for the fiscal year in which such payments are due. If the legislature fails to appropriate funds for Rental Payments, and no other moneys of the Lessee are available for such purpose, the Lessor may terminate the Facility Lease without penalty. Such failure to appropriate and termination does not constitute an event of default under the Facility Lease. If the Facility Lease is terminated, the Trustee has the right to repossess and relet the Facility. See "CERTAIN RISK FACTORS" herein.

Subject to the State's appropriation of funds, the Lessee's obligation to make Rental Payments is absolute and unconditional, and shall not be abated through accident or unforeseen circumstances (including any delay in completion of the construction of the Improvements), or by reason of any defect in or damage to or loss or destruction of the Facility from whatever cause.

Brief descriptions of the Certificates, the Trust Agreement, the Ground Lease, the Facility Lease, the Assignment, the Department, and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Certificates, the Trust Agreement, the Ground Lease, the Facility Lease, the Assignment, and other documents are qualified in their entirety by reference to the actual documents.

THE CERTIFICATES

General

The Certificates will be executed and delivered in an aggregate principal amount of $24,500,000, will be dated as of the date of their initial execution and delivery, and will evidence and represent the principal components of the Base Rental Payments coming due on November 1 of the years (each, a "Certificate Payment Date"), and the interest components of such Base Rental Payments at the rates, set forth on the inside cover page of this Official Statement. The Certificates will be executed and delivered as fully registered certificates without coupons, in denominations of $5,000 or any integral multiple thereof.

Interest represented by the Certificates will be payable semiannually on May 1 and November 1 of each year (each, an "Interest Payment Date"), commencing May 1, 2007, and will be calculated based on a 360-day year of twelve 30-day months. The interest represented by the Certificates will be payable to the person whose name appears on the Certificate registration books of the Trustee as the Owner thereof as of the close of business on the 15th day of the month immediately preceding the month in which the Interest Payment Date occurs, whether or not such day is a business day, such interest to be paid by check or draft mailed on such Interest Payment Date to such Owner at such address as appears on such registration books or at such address as may have been filed with the Trustee for that purpose. So long as the DTC book-entry system is used for the Certificates, interest and principal shall be paid to DTC. See "Book-Entry Only System" below.

Prepayment Provisions

The Certificates are subject to prepayment on any date prior to their respective Certificate Payment Dates, as a whole or in part, from prepaid Base Rental Payments made by the Lessee from funds received by the State due to a casualty loss or governmental taking of the Facility or portions thereof, if such amounts are not used to repair or replace the Facility in accordance with the provisions of the Facility Lease, under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and in the Facility Lease, at a prepayment price equal to the sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium.

The Certificates payable on or after November 1, 2017 shall be subject to prepayment prior to their respective stated Certificate Payment Dates, at the option of the Lessee, as a whole or in part, on any date, from any source of available funds, including purchase price payments made by the Lessee pursuant to the Facility Lease, on or after November 1, 2016, at a prepayment price equal to 100% of the principal amount called for prepayment plus accrued interest to the date fixed for prepayment, without premium.

The Certificates payable on November 1 of the years 2023, 2026 and 2031 are also subject to scheduled mandatory sinking fund prepayment prior to their respective payment dates, at a prepayment price equal to the principal amount thereof plus accrued interest to the prepayment date, on November 1 of the years and in the principal amounts indicated below:

Certificates Payable on November 1, 2023

Year	Principal Amount
2022	$1,105,000
2023*	1,150,000

Certificates Payable on November 1, 2026

Year	Principal Amount
2024	$1,200,000
2025	1,250,000
2026*	1,305,000

Certificates Payable on November 1, 2031

Year	Principal Amount
2027	$1,365,000
2028	1,435,000
2029	1,510,000
2030	1,590,000
2031*	1,670,000

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* Final maturity.

Selection of Certificates for Prepayment. Whenever less than all the Outstanding Certificates are to be prepaid, subject to the approval of Financial Security, the Trustee shall select the Certificates to be prepaid from those bearing such Certificate Payment Dates as shall be selected by the Lessee. Whenever less than all the Outstanding Certificates bearing any particular Certificate Payment Date are to be prepaid on any date, the Trustee shall select the Certificates to be prepaid from the Outstanding Certificates bearing such Certificate Payment Date by lot in any manner of selection that the Trustee deems fair.

Notice of Prepayment. Notice of prepayment will be sent by first class mail, postage prepaid, to the respective Owners of any Certificates (i.e., Cede & Co., as nominee for DTC, so long as the DTC book-entry system is used for the Certificates) designated for prepayment at their addresses as they appear on the books of the Trustee not less than 30 nor more than 60 days prior to the prepayment date. Such notice will set forth, among other things, the prepayment date, the place of prepayment and the prepayment price and will state that the interest represented by the Certificates designated for prepayment shall cease to accrue from and after such prepayment date and that on such prepayment date there will become due and payable on each of the Certificates designated for prepayment the prepayment price represented thereby. Failure of the Trustee to mail notice of any prepayment will not affect the validity of proceedings for prepayment of the Certificates not affected by such failure. A conditional notice of prepayment may be provided and, if so provided, shall include a description of the conditions to prepayment.

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid and moneys for the payment of the prepayment price on the Certificates to be prepaid are held by the Trustee, then on the prepayment date designated in such notice the Certificates so called for prepayment shall become payable at the prepayment price specified in such notice; and from and after the date so designated interest represented by the Certificates so called for prepayment shall cease to accrue, such Certificates shall cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates shall have no rights in respect thereof except to receive payment of the prepayment price represented thereby. The Trustee shall, upon surrender for payment of any of the Certificates to be prepaid on or after the specified prepayment date, pay such Certificates at the prepayment price thereof.

Book-Entry Only System

Unless otherwise noted, the following description of the procedures and record-keeping with respect to beneficial ownership interests in the Certificates, payment of interest and other payments on the Certificates to Participants (defined below) or Beneficial Owners (defined below) of the Certificates, confirmation and transfer of beneficial ownership interests in the Certificates and other bond-related transactions by and among DTC, the Participants and Beneficial Owners of the Certificates is based solely on information furnished by DTC. Accordingly, the Department and the Underwriter do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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. More information about DTC can be found at www.dtcc.com. Such website is not incorporated herein by this reference.

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

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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

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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of redemption proceeds, principal and interest with respect to the Certificates 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 issuer or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department, 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 depository with respect to the Certificates at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository), subject to DTC's rules. In the event of such discontinuation, Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

In reviewing this Official Statement it should be understood that while the Certificates are in the book-entry system, references in other sections of this Official Statement to Owners should be read to include the person for which a Direct or Indirect Participant acquires an interest in the Certificates, but: (i) all rights of ownership must be exercised through DTC and the system of book-entry; and (ii) notices that are to be given to Owners by the Department will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Direct Participants by its usual procedures so that the Direct and Indirect Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

The Department will have no responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or any Indirect Participants, or (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest with respect to the Certificates, or (iii) any notice which is permitted or required to be given to

Owners under the Trust Agreement, or (iv) the selection by DTC of any Direct Participant to receive payment in the event of a partial redemption of the Certificates, or (v) any consent given or other action taken by DTC as Owner of the Certificates, or (vi) any other event or purpose.

THE PROJECT

The Improvements, known as the "Department of Hawaiian Home Lands Kapolei Office Facility," will be constructed on a 9.2-acre parcel of land owned by the Department in East Kapolei, Oahu. The site is currently vacant and undeveloped.

The Improvements will consist of a main office building and a conference building with a combined floor area of 48,322 square feet. The facility will serve as the head office of the Department and will house approximately 110 of the Department's employees. The conference facilities will be used for meetings and public use with client groups. There will be a total of 184 standard parking stalls and 3 loading parking stalls.

The Department solicited construction bids for the Improvements in September 2006, and opened the bids received in response to this solicitation on October 31, 2006. The Department selected Kiewit Building Group Inc. as general contractor for the Improvements at a contract price of $20,874,500, subject to verification of the contractor's bid. The Department expects that the construction contract will be in place by the end of December 2006. The contract will require the general contractor to provide builder's risk insurance and payment and performance bonds in the amount of the contract price.

The Department anticipates that construction of the Improvements will commence in January 2007, and will be completed in January 2008. There can be no assurance that the Improvements will be completed as scheduled or budgeted. Pursuant to the Facility Lease, the Department will covenant to take all reasonable steps to complete the construction of the Improvements.

Table 1
ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Certificates are expected to be applied as follows:

Sources	
Principal Amount of Certificates	$24,500,000.00
Net Original Issue Premium	504,382.80
Total Sources	$25,004,382.80
Uses	
Construction and Acquisition Fund Deposit	$21,470,386.90
Reserve Fund Deposit	1,711,750.00
Lease Payment Fund Deposit[a]	1,434,058.49
Costs of Issuance[b]	388,187.41
Total Uses	$25,004,382.80

[a] Amounts deposited into the Lease Payment Fund will be used to pay capitalized interest with respect to the Certificates through May 1, 2008.
[b] Includes Underwriter's discount and premium for the municipal bond insurance policy for the Certificates.

Table 2
CERTIFICATE PAYMENT SCHEDULE

The following is the payment schedule for the Certificates (assuming no prepayment of Base Rental Prepayments).

Period Ending June 30	Principal Component	Interest Component	Annual Base Rentals
2007	---	$ 414,357.55	$ 414,357.55
2008	---	1,073,156.26	1,073,156.26
2009	---	1,073,156.26	1,073,156.26
2010	$ 650,000.00	1,060,156.26	1,710,156.26
2011	680,000.00	1,033,556.26	1,713,556.26
2012	705,000.00	1,005,856.26	1,710,856.26
2013	735,000.00	977,056.26	1,712,056.26
2014	765,000.00	945,740.63	1,710,740.63
2015	800,000.00	913,125.00	1,713,125.00
2016	830,000.00	881,562.50	1,711,562.50
2017	860,000.00	849,875.00	1,709,875.00
2018	900,000.00	812,328.13	1,712,328.13
2019	940,000.00	772,106.26	1,712,106.26
2020	980,000.00	733,706.26	1,713,706.26
2021	1,015,000.00	693,806.26	1,708,806.26
2022	1,060,000.00	652,306.26	1,712,306.26
2023	1,105,000.00	608,315.63	1,713,315.63
2024	1,150,000.00	561,806.25	1,711,806.25
2025	1,200,000.00	512,587.50	1,712,587.50
2026	1,250,000.00	460,525.00	1,710,525.00
2027	1,305,000.00	406,231.25	1,711,231.25
2028	1,365,000.00	344,375.00	1,709,375.00
2029	1,435,000.00	274,375.00	1,709,375.00
2030	1,510,000.00	200,750.00	1,710,750.00
2031	1,590,000.00	123,250.00	1,713,250.00
2032	1,670,000.00	41,750.00	1,711,750.00
Totals	$24,500,000.00	$17,425,817.04	$41,925,817.04

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Lease Payments

Pursuant to the Facility Lease, the Lessor will lease the Facility to the Lessee for a term expiring on November 1, 2031, subject to extension or early termination in accordance with the terms of the Facility Lease. The Base Rental Payments under the Facility Lease are equal to the principal and interest components represented by the Certificates. Base Rental Payments are due on each May 1 and November 1 during the term of the Facility Lease, commencing May 1, 2007. The Lessee will be required to deposit each semiannual Rental Payment with the Trustee on or before the 25th day of the preceding April or October, as applicable. Subject to the State's appropriation of funds as described herein, the Lessee's obligation to make Rental Payments is absolute and unconditional, and shall not be abated through accident or unforeseen circumstances (including any delay in completion of the construction of the Improvements), or by reason of any defect in or damage to or loss or destruction of the Facility from whatever cause.

Pursuant to the Assignment, the Lessor will assign to the Trustee for the benefit of the Owners all its right, title and interest in the Facility Lease, including its rights to receive and enforce payment of the Base Rental Payments. Pursuant to the Trust Agreement, the Base Rental Payments are held in trust for the benefit of the Owners and will be used for the punctual payment of the interest and principal evidenced and represented by the Certificates and will not be used for any other purpose while any of the Certificates remain Outstanding.

Budget and Appropriations Process

Chapter 37D, Hawaii Revised Statutes, requires that there will be included in the executive budget request to the State legislature, for each fiscal period, amounts sufficient to permit the payment of all amounts that will be due on the Facility Lease during that fiscal period. However, the State legislature is not obligated to appropriate funds for Rental Payments and, in the event that the State legislature does not appropriate funds for Rental Payments and no other moneys of the Lessee are available for such purpose, the Lessor will be permitted to terminate the Facility Lease without penalty. Reference is made to "CERTAIN RISK FACTORS" herein for a discussion of certain potential consequences of a failure by the State legislature to appropriate funds for Rental Payments.

Pursuant to Senate Concurrent Resolution No. 128, adopted in 2006, the Senate of the State legislature, with the House of Representatives concurring, requested that the Department enter into the financing for the Improvements through the issuance of the Certificates, and stated that the debt service on the Certificates shall come from the Hawaiian Home Administration Account of the Department (the "Administration Account") established pursuant to the Hawaiian Homes Commission Act of 1920 (such Act, as further described under "THE DEPARTMENT" herein, being referred to as the "HHCA"). Consistent with such resolution, the anticipated source of funds to be appropriated for Rental Payments under the Facility Lease (and corresponding payments of debt service on the Certificates) is the Administration Account. No other funds of the Department are expected to be available for such purpose.

The Administration Account consists of all receipts derived by the Department from any leasing or other disposition of available lands pursuant to the HHCA, together with income from the investment of the Administration Account and certain appropriations by the State to the Department. In addition, a portion of the investment income on certain other funds of the Department, initially deposited in the Hawaiian Home Receipts Fund, may be transferred to the Hawaiian Home Administration Account on a quarterly basis. Reference is made to "THE GENERAL LEASES AND AVAILABLE LANDS -- Cash Flows from Rentals" for information regarding the Department's income from the leasing or other disposition of available lands, which represents the primary source of moneys deposited in the Administration Account.

Expenditures from the Administration Account, including expenditures for Rental Payments, are subject to appropriation by the State legislature pursuant to the HHCA. Pursuant to the Facility Lease, the Department will covenant to submit to the Department of Budget and Finance, for inclusion in the executive budget request to the State legislature pursuant to Chapter 37D, Hawaii Revised Statutes, an operating budget of the Department for each fiscal period that includes scheduled Base Rental Payments and Additional Rental Payments.

The State legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of

30 days. Any session may be extended by no more than 15 days. At least 30 days before the legislature convenes in regular session in an odd-numbered year, the Governor shall submit to the legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch and the legislative branch are submitted by their respective leaders to the legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, shall have been transmitted to the Governor.

In each regular session in an even-numbered year, the Governor may submit to the legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill. In such session to which the Governor submits to the legislature a supplemental appropriations bill, no other appropriations bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the legislature, shall be passed on final reading until the supplemental appropriations bill shall have been transmitted to the Governor. To become law, a bill must pass three readings in each house on separate days.

Each bill passed by the legislature shall be certified by the presiding officers and clerks of both houses and thereupon be presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the legislature. Except for items appropriated to be expended by the judicial and legislative branches, the Governor may veto any specific item or items in any bill that appropriates money for specific purposes by striking out or reducing the same; but the Governor shall veto other bills only as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the legislature *sine die*, and if any such bill is neither signed nor returned by the Governor within that time, it shall become law in like manner as if the Governor had signed it.

The Governor has forty-five days, after the adjournment of the legislature *sine die*, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill shall become law on the forty-fifth day unless the Governor by proclamation shall have given ten days' notice to the legislature that the Governor plans to return such bill with the Governor's objections on that day. The legislature may convene on or before the forty-fifth day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. In case the legislature shall fail to so convene, such bill shall not become law. Any such bill may be amended to meet the Governor's objections and, if so amended and passed, only one reading being required in each house for such passage, it shall be presented again to the Governor, but shall become law only if the Governor shall sign it within ten days after presentation.

The Certificate Reserve Fund

A Certificate Reserve Fund (the "Reserve Fund") has been established under the Trust Agreement and will be maintained by the Trustee for so long as the Certificates remain Outstanding. The Reserve Fund is required to be maintained in an amount (the "Reserve Fund Requirement") equal to the greatest amount of principal and interest payable on any Certificate Payment Date for any of the Certificates; provided that all or a portion of such Reserve Fund Requirement may be provided by a Reserve Fund Surety Bond (as described below).

The Trustee shall apply the moneys on deposit in the Reserve Fund solely for the payment of Base Rental Payments due and payable by the Lessee if and when moneys of the Lessee are not otherwise available to make such Base Rental Payments. In such event or if the balance in the Reserve Fund otherwise falls below the Reserve Fund Requirement at any time, the Lessee shall pay as additional Rental Payments pursuant to the Facility Lease the amount necessary to increase the balance in the Reserve Fund to the Reserve Fund Requirement.

With the written consent of Financial Security, the Lessee may satisfy all or a portion of the Reserve Fund Requirement by delivering to the Trustee for deposit in the Reserve Fund a surety bond, an insurance policy or letter of credit (or any combination thereof) meeting the following requirements:

Surety Bond or Insurance Policy. A surety bond or insurance policy (a "Reserve Fund Surety Bond") issued to the Trustee, on behalf of the Owners, by a company licensed to issue an insurance policy guaranteeing the timely payment of principal and interest represented by the Certificates may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of such insurer shall be rated "Aaa" by Moody's Investors Service or "AAA" by Standard & Poor's Ratings Services.

Letter of Credit. A letter of credit may be deposited in the Reserve Fund to meet the Reserve Fund Requirement, provided that any such letter of credit must be issued or confirmed by a state or national bank or a foreign bank with an agency or branch located in the United States which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category (disregarding rating subcategories) by Moody's Investors Service or Standard & Poor's Ratings Services.

Insurance

Pursuant to the Facility Lease, the Lessee will be required to procure and maintain or cause to be procured and maintained, throughout the term of the Facility Lease, such insurance for the Facility as the Lessee deems advisable or necessary to protect its interests and the interests of the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with buildings owned by the Lessee. The Facility Lease further provides that any such insurance may be maintained in the form of self-insurance or under a master insurance policy or policies of the Lessee.

It is currently anticipated that the Facility will be included in the statewide blanket real and personal property insurance policy of the State. The policy provides "all risk" coverage of physical loss to State properties, subject to applicable deductibles, including coverage of losses from windstorm ($100 million per occurrence), flood ($50 million annual aggregate), earthquake ($50 million annual aggregate), terrorism ($50 million per occurrence), and boiler and machinery ($50 million per occurrence). The Facility Lease does not require, however, that the Department continue to maintain the types of insurance and in the coverage amounts described in this paragraph or that the Department maintain any rental interruption insurance on the Facility.

CERTIFICATE INSURANCE

Payment of the principal and interest with respect to the Certificates when due will be insured by a municipal bond insurance policy (the "Policy") to be issued concurrently with the delivery of the Certificates by Financial Security Assurance Inc ("Financial Security"). The information under this caption has been furnished by Financial Security for use in this Official Statement. Such information has not been independently confirmed or verified by the State or the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix F hereto for a specimen of the Policy.

The Policy

Concurrently with the issuance of the Certificates, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an Appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Certificates, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Certificates or the advisability of investing in the Certificates. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

CERTAIN RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Certificates. The following discussion of possible risks is not meant to be an exhaustive list of the risks associated with the purchase of the Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Certificates. There can be no assurance that other risk factors will not become material in the future.

Limited Obligation; Right to Terminate Facility Lease

The purchase of the Certificates offered hereby is without recourse to the Lessor, and the purchasers must assume the entire risk that the Lessee will meet its obligations under the Facility Lease and that funds will be appropriated by the State legislature for payments due thereunder. The Lessee has an unconditional obligation to make the Rental Payments specified in the Facility Lease for each fiscal year for which the Facility Lease is in force, but only to the extent to which the State legislature appropriates funds therefor.

The anticipated source of funds to be appropriated for Rental Payments is the Administration Account of the Department. The primary source of moneys deposited in the Administration Account is the income received by the Department from the leasing or other disposition of available lands. Reference is made to "THE GENERAL LEASES AND AVAILABLE LANDS" for further information regarding the Department's income from the leasing or other disposition of available lands, including certain factors that may affect such income. Reference is also made to "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES - Budget and Appropriations Process" for certain information regarding the appropriation of funds for Rental Payments from the Administration Account.

The Rental Payments do not constitute an obligation for which the State is obligated to appropriate funds or to levy any form of taxation or for which the State has levied any form of taxation. The Certificates do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the constitution or any statute of the State.

The State is not required to appropriate funds for Rental Payments. All obligations of the Lessee under the Facility Lease are limited to funds appropriated or otherwise made available from time to time by the State legislature to pay amounts due under the Facility Lease for the fiscal year in which such payments are due. If the State legislature fails to appropriate funds for Rental Payments, and no other moneys of the Lessee are available for such purpose, the Lessor may terminate the Facility Lease without penalty. Such failure to appropriate and termination does not constitute an event of default under the Facility Lease. If the Facility Lease is terminated the Trustee has the right to repossess and relet the Facility. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - FACILITY LEASE - Nonappropriation."

Sovereign Immunity

Under the doctrine of sovereign immunity, a state of the union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state of the union (including the State) cannot be sued by citizens of another state of the union or by citizens or subjects of any foreign state. A state may waive its immunity and consent to a suit against itself. However, such waiver and consent may subsequently be withdrawn by the state. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that, in the event the Lessee fails to make timely payment of Base Rental Payments from appropriated funds, a suit could be brought against State officials to enforce such payment

Alternative Office Space

The proceeds of the Certificates will be used to finance the construction of an office building and conference facility for the Department. See "THE PROJECT" herein for a description of the proposed office building. There currently exists other office space in the Honolulu area owned by private entities which is available for use by the Department, and it can be anticipated that additional office space will become available during the term of the Facility Lease. Such alternative office space could, under certain circumstances, be deemed by the Department to be more suitable or desirable or cost effective than the Facility.

The State is not required to appropriate Rental Payments and the State legislature, for the reasons described above or other reasons, could choose to move Department employees to other office space owned by the State or by private entities and could decide not to appropriate the Base Rental Payments. In such an event, the Trustee has the right to repossess and relet the Facility.

Remedies; Enforceability Risk

In the event of default or termination by the Lessee under the Facility Lease, the remedies provided in the Facility Lease may be limited by or rendered unenforceable due to the application of principles of equity or State and federal laws relating to bankruptcy, moratorium, reorganization and creditors' rights generally. Moreover, due to the essential governmental nature of the Facility, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto.

The enforcement of any remedies provided in the Facility Lease could prove both expensive and time consuming. The Facility Lease provides a procedure by which the Trustee may take possession of the Facility and lease or sell it if the Lessee elects to terminate the Facility Lease or if there is a default by the Lessee. The Facility may not be easily recoverable and, even if recovered, could be of little value to others. Further, the Trustee may be unable to relet or sell the Facility at a rental or purchase price that will provide sufficient funds for timely payment of all principal and interest due with respect to the Certificates.

In addition, the enforceability of the rights and remedies of the Owners of the Certificates, and the obligations of the Lessee under the Facility Lease, may become subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose.

No opinion has been rendered with respect to the applicability of the registration requirements of the Securities Act of 1933, as amended, to any Certificate subsequent to termination of the Facility Lease due to an event of default. If the Facility Lease is terminated following a default, no assurance can be given that the Certificates may be transferred by their owner without compliance with the registration provisions of the Securities Act of 1933, as amended, or that an exemption from such provisions will be available.

No Acceleration Upon Default

In the event of a default or termination of the Facility Lease, there is no remedy of acceleration of the Rental Payments due over the term of the Facility Lease. The Lessee will only be liable for Rental Payments for the then-current fiscal year to the extent of funds already appropriated. The Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's Rental Payments. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - FACILITY LEASE - Default by Facility Lease Lessee."

THE DEPARTMENT OF HAWAIIAN HOME LANDS

Purpose of the Department

On July 9, 1921, President Warren G. Harding signed into law the Hawaiian Homes Commission Act of 1920 (the "HHCA") passed by the United States Congress. The purpose of the HHCA was to rehabilitate native Hawaiians by placing them on lands set aside as Hawaiian home lands. The term "native Hawaiian" is defined in the HHCA as "any descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian Islands previous to 1778."

The HHCA was originally implemented and administered by the Territorial government of Hawaii through the Hawaiian Homes Commission. At the time of statehood in 1959, the State of Hawaii, pursuant to the Admission Act (Pub. L. No. 86-3, 73 Stat. 4) (the "Admission Act"), entered into a compact with the United States to assume the management and disposition of the Hawaiian home lands and to adopt the HHCA as a provision of the State Constitution.

The Admission Act requires that, with certain exceptions, amendment to or repeal of the HHCA be made only with the consent of the United States. Amendments that increase benefits to lessees of Hawaiian home lands do not require consent. On the other hand, consent is expressly required for any changes in the qualifications of lessees. In 1986, the United States consented to amendments to the HHCA adopted by the State between 1959 and 1985 (Pub. L. No. 99-557, 100 Stat. 3143). In 1997 the United States consented to two additional amendments to the HHCA (Pub. L. 105-21, 111 Stat. 235), including a change to Section 209 of the HHCA relating to qualifications to succeed to a homestead lease. There have been twenty-nine other amendments to the HHCA since 1985. Two have been repealed (Act 75, SLH 1986; Act 152, SLH 1994), and the State Attorney General has opined that twenty-four other amendments fall within the exceptions to the consent requirements. There are three amendments, including the "purpose clause", that are subject to a separate hearing by the Senate Committee on Energy and Natural Resources.

Hawaiian Home Lands and Available Lands

Upon the State of Hawaii's admission into the Union, the United States granted to the State title to certain public lands including lands defined as "available lands" by Section 203 of the HHCA to be held in trust. Pursuant to Section 204 of the HHCA, these "available lands" assumed the status of "Hawaiian home lands" under the Department's control to be used and disposed of in accordance with the provisions of the HHCA.

The following table shows the distribution and uses of documented acreage of Hawaiian home lands:

Table 3
DEPARTMENT OF HAWAIIAN HOME LANDS
Distribution and Use of Hawaiian Home Lands
(As of June 30, 2005)*

	Hawaii	Kauai	Maui	Molokai	Lanai	Oahu	Total Acreage
Homesteads	27,309	815	2,588	11,005	14	968	42,699
General Leases	11,000	1	512	1,767	0	46	13,326
Licenses	16,284	13,078	7,335	306	0	322	37,325
Others	60,563	6,671	21,361	12,691	36	5,927	107,249
Totals:	115,156	20,565	31,796	25,769	50	7,263	200,599

*As of October 1, 2006 with respect to general leases.

Source: Department of Hawaiian Home Lands
Annual Report, Fiscal Year 2004-2005

Organization of the Department

The Department is one of the State's principal executive departments, headed by an executive board known as the Hawaiian Homes Commission (the "Commission"). Commission members are appointed by the Governor and confirmed by the State Senate. At least four of the nine members of the Commission must be ethnic Hawaiians having not less than one-fourth part of the blood of the races that inhabited the Hawaiian Islands previous to 1778. The Chairman of the Commission serves as the full-time administrator of the Department. Towards fulfilling the objectives of the HHCA, the Commission establishes policies regarding the homestead and general lease programs, the management of land under the HHCA, and other administrative issues. Policies and programs approved by the Commission are carried out by the Department.

The Department has 134 employees working in its administrative offices and three operating divisions: the Homestead Services Division, the Land Development Division, and the Land Management Division.

Administration of the homestead lease program is vested in the Homestead Services Division. Homestead leases run for ninety-nine years and are classified as residential, agricultural and pastoral. At present the Homestead Services Division has approved and offered approximately 8,400 leases on 42,000 acres. About 82 percent of these leases are residential leases.

In addition to leases, the Homestead Services Division offers direct loans to lessees for construction, repair, and replacement of residences and for the development and maintenance of farms and ranches. It also provides advisory services to lessees on a broad range of programs.

The Land Development Division is responsible for undertaking infrastructure development for homestead lands and developing lands for a variety of uses.

The Land Management Division undertakes archeological, environmental and topographical-mapping studies to protect properly those lands not slated for development and better manage the Department's land inventory system. Since 1965, the Land Management Division has offered general, non-homestead leases to serve a variety of purposes, including leases for commercial and industrial purposes. These general leases are offered at competitive market rates through a public auction. Though few in number, general leases make up a substantial share of total rental income. As of October 1, 2006, there were approximately 13,326 acres of Hawaiian home lands under general leases. Additionally, the Land Management Division also leases land to other State agencies, including the Department of Land and Natural Resources, for the establishment of environmental preservation reserves. Land has also been leased to public utilities.

In addition to long term leases, income is also generated through the issuance of licenses and permits for temporary uses of lands by community, government, and military agencies. As of June 30, 2005, approximately 37,325 acres of land were being utilized under licenses, approximately 68,292 acres under permits and approximately 38,957 acres under other uses.

Goals and Plans of the Department

Slightly more than 21 percent of Hawaiian home lands (42,699 acres) are being used for homestead purposes, representing approximately 8,400 leases. Because the number of applicants seeking homestead leases exceeds the number of homesteads available for lease, the Department has adopted a strategic plan which establishes a goal to award approximately 6,000 new homestead leases over a 5-year period. Many of these awards will be offered as part of master-planned communities, and will include turnkey and owner-built homes, vacant lots, and undivided interest awards. Master-planned communities will also contain commercial areas to provide local employment opportunities to residents.

Another goal of the Department's strategic plan is to pursue financial self-sufficiency by increasing the revenue generated from the Department's income properties. The immediate goal is to generate income to replace the $30 million received annually under the Act 14 settlement with the State, which will end in 2015. See "Management Discussion" below for a discussion of the Act 14 settlement.

The Land Management Division of the Department has identified a selection of land inventory on every major island for commercial/industrial development in order to achieve self-sufficiency by 2013. These include proposed projects such as the 67.7-acre parcel in Kapolei for major retail development, 43-acre parcel in Wailua, Kauai for resort/time-share development, 80-acre parcel in Puunene, Maui for industrial park development, and a 16.5-acre parcel in Waiakea, Hawaii, for a potential big box development.

Members of the Commission

Micah A. Kane – Chairman, Oahu; Appointed as Chairman of the Hawaiian Homes Commission, Department of Hawaiian Home Lands, on January 1, 2003.

Cynthia Mahina Martin – Maui; Self-employed non-profit services consultant, with 18 years experience. (term expires 2007)

Trish Morikawa – Oahu; Currently employed as an attorney with the City Prosecutor's office. (term expires 2007)

Milton Pa – Molokai; Retired teacher with the State Department of Education. (term expires 2008)

Rose Marie "Billie" Baclig – Hawaii; Retired from the Hawaii County Council as legislative assistant. (term expires 2009)

Malia P. Kamaka – Hawaii; Customer service representative with Hawaii Electric Light Company. (term expires 2009)

Stuart K. Hanchett – Kauai; Self-employed for the last 15 years. (term expires 2009)

Donald S.M. Chang – Oahu; Retired as Fire Chief with Honolulu Fire Department after 35 years. (term expires 2007)

Francis K. Lum – Oahu; Recently retired as Chief of Protocol for five Hawaii governors. (term expires 2010)

Management Personnel

The following are the senior executives responsible for the management of the Department.

Ben H.K. Henderson, Deputy to the Chairman, was appointed in 2003. Prior to 2003, Mr. Henderson served as the Department Executive Assistant to the Chairman (1991-2003); Project Manager for a private utility company (1988-1991); Private Planning Consultant (1986-1988); Acting Administrator, Assistant Administrator, and Planning and Development Officer of the Office of Hawaiian Affairs (1981-1985); and Executive Assistant, Senior Planner, and Manpower Planner in the City and County of Honolulu Office of Human Resources (1971-1981). Mr. Henderson graduated from Arizona State University with a B.S. in Mathematics in 1971.

Kaulana H. R. Park, Executive Assistant to the Chairman, was appointed in 2003. Prior to 2003, Mr. Park served as Business Loan Manager for the Office of Hawaiian Affairs (1997-2003); Branch Manager & Assistant Vice-President, Bank of America, FSB (1994-1997); Assistant Branch Manager, First Hawaiian Bank (1992-1994); and Business Banking Officer, Wells Fargo Bank (1987-1992). Mr. Park graduated from Stanford University with a B.S. in Petroleum Engineering in 1985.

Rodney K.M. Lau, Administrative Services Officer, was appointed in 1992. From 1982 to 1991, Mr. Lau also held the following positions within the Department: Acting Fiscal Management Officer (1988-1992), Systems and Internal Control Supervisor (1985-1988), and Accountant (1982-1985). Mr. Lau graduated from Eastern Washington University with a B.A. in Professional Accounting in 1973 and is a Licensed Certified Public Accountant in Hawaii and a member of the American Institute of Certified Public Accountants (AICPA).

James X. C. Pao, Fiscal Management Officer, was appointed in 1997. Prior to 1997, Mr. Pao served as Accounting Staff Supervisor of the Department (1988-1997); Liquor Commission Auditor for the City and County of Honolulu (1987-1988); and Accountant for a CPA firm in Hawaii (1980-1987). Mr. Pao graduated from Chaminade University of Honolulu with a M.B.A. in 1979. Mr. Pao is a Licensed Certified Public Accountant in Hawaii and a member of the American Institute of Certified Public Accountants (AICPA) and the Hawaii Society of Certified Public Accountants.

Darrell C. Yagodich, Planning Program Manager, was appointed in 1995. Prior to 1995, Mr. Yagodich also held the following positions within the Department: Manager for settlement of Department land title and related claims (1991-1994); Manager for income generation and land management (1985-1990); Manager for federal, community, and economic development programs (1980-1984); and Planner at the State Department of Planning and Economic Development (1975-1979). Mr. Yagodich graduated from the University of Hawaii, Manoa with a B.A. in History and the University of California at Los Angeles with a M.A. in Architecture and Urban Planning in 1974.

Robert J. Hall, Acting Homestead Services Division Administrator, was appointed in 2005. Prior to 2005, Mr. Hall served within the Department as Finance and Development Specialist (2003-2005) and Homestead Development Coordinator and Project Manager (1976-1977); Acting Executive Director and Executive Assistant of the Housing and Community Development Corporation of Hawaii (2002-2003), and Public Housing Manager, Supervisor and Specialist (1978-2002). Mr. Hall attended the University of Hawaii, Manoa.

Larry M. Sumida, Land Development Division Administrator, was appointed in 2005. Prior to 2005, Mr. Sumida served as Real Estate Development Specialist for the Department (2003-2005); and Principal Broker, General Manager, and Sales Manager for realty firm (1973-2003). Mr. Sumida received his Real Estate Broker License after graduating from the University of Hawaii, Manoa in 1971 with a B.A. in Business Administration.

Linda L. Chinn, Land Management Division Administrator, was appointed in 2003. In her previous position, Ms. Chinn was manager of the Land Management Branch and prior to that, of all lands not in homestead use on the island of Hawaii. Ms. Chinn joined the department in 1986 after many years in real estate brokerage and appraisal work in the private sector.

Employee Relations and Pension Benefits

Employee Relations. The State Constitution grants public employees the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawaii Revised Statutes, provides for 13 recognized bargaining units for all public employees throughout the State, including Department employees. Each of these bargaining units designates an employee organization as the exclusive representative of all employees of such unit in negotiations with the public employer.

In the case of bargaining units which represent both State and county employees, the State and the counties are required to bargain jointly with the bargaining units. Decisions by the employer representatives are determined by a majority of the votes cast, with the Governor having varying numbers of votes depending on the bargaining unit involved. In the event of an impasse, the only union representing Department employees that is permitted by law to conduct an employee strike is bargaining unit 1, which represents the Department's blue collar, non-supervisory employees. In the case of all other bargaining units, an impasse is required to be resolved through mediation, fact finding, and compulsory "final and binding arbitration." Although HRS Chapter 89 characterizes arbitration as "final and binding," it also provides that all cost items are subject to approval by the respective legislative bodies of the State and each county.

As of June 30, 2006, the Department had 134 employees, 132 of whom were represented by the eight public employee bargaining units referenced below, and two of whom (*i.e.*, the Chairman of the Hawaiian Homes Commission, and the Deputy to the Chairman of the Hawaiian Homes Commission) were not represented by any bargaining unit. The bargaining units representing Department employees were:

Bargaining Unit	Employees Covered
1	Blue Collar, Non-Supervisory
3	White Collar, Non-Supervisory
13	White Collar, Non-Supervisory, Professional and Scientific
23	White Collar, Supervisory, Professional and Scientific
35	White Collar, Managerial
63	White Collar
73	White Collar, Non-Supervisory, Professional and Scientific
93	White Collar, Supervisory

Bargaining units 1, 3, 13 and 23 are subject to two-year collective bargaining agreements expiring June 30, 2007; bargaining units 35, 63, 73 and 93 are subject to two-year executive orders expiring June 30, 2007.

Pensions. The Employees' Retirement System of the State of Hawaii (the "State Retirement System") began operation on January 1, 1926. The State Retirement System is a cost-sharing, multiple-employer defined benefit pension plan. The State Retirement System covers all regular employees of the State (including the Department) and each of its counties, including judges and elected officials. As of June 30, 2005, the State Retirement System's membership was comprised of approximately 63,073 active employees, 4,938 inactive vested members and 33,301 pensioners and beneficiaries. As of June 30, 2005, the State Retirement System's actuarial certification of assets was $8.9 billion, and its unfunded actuarial accrued liability was $4.1 billion.

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

The State Retirement System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the State Retirement System. Act 327, SLH 1997, amended Section 88-107, Hawaii Revised Statutes, so that, beginning with the June 30, 1997 valuation, the State Retirement System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. For those two valuations, the investment earning in excess of a 10% actuarial return is to be applied as a reduction to the employer contributions.

In accordance with the statutory funding provisions (Section 88-122 of Chapter 88, Hawaii Revised Statutes, as amended by Act 147 SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund is comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement is determined in the aggregate for all employers in the State Retirement System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation is paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the State Retirement System during the 2000-2001 fiscal year. The actuarial cost method used to calculate employer contributions was changed by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation.

Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the State Retirement System. Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers will contribute 13.75% of their employees' compensation (15.75% for police officers and firefighters).

The Department's share of the State Retirement System expense for the year ended June 30, 2005 was included as an item to be expended by the Department of Budget and Finance and is not reflected in the Department's financial statements. The Department's special revenue funds expended approximately $477,000 for employer contribution for that year.

Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the State Retirement System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The number and percentage of noncontributory plan members may decrease in the future because of the implementation of the new hybrid plan discussed below.

In 1998, legislation was passed (Act 151, SLH 1998) modifying the administration of the State Retirement System, including its actuarial valuation methods and actuarial assumptions. Since the State Retirement System is a cost-sharing, multiple-employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. Act 179, SLH 2004, established a new defined benefit hybrid contributory plan effective July 1, 2006. The new plan provides certain current and new employees with the opportunity to participate in a defined benefit contributory plan. It provides portability for shorter-term employees and is expected to improve recruitment for and retention of public sector employees. The State Retirement System's actuary has determined that the new program is cost neutral, an important factor given the escalating costs of the retirement program.

Post-Retirement Benefits. In addition to the pension benefits provided to Department employees by the State Retirement System, retired Department employees also receive certain health care (medical, prescription drug, vision and dental) and life insurance benefits from the State of Hawaii Public Employer-Union Health Benefit Trust Fund. Contributions to the Fund are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage.

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 local 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 local 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 governmental entity 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 local 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 Department) beginning in the fiscal year ending June 30, 2008. The State has commissioned an actuarial study of the obligations for post-retirement benefits funded by the Public Employers-Union Health Benefit Trust Fund.

Summary Combined Statements of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types

The following combined statements of revenues, expenditures and changes in fund balance of the Department for the three years ended June 30, 2003 through 2005 are taken from the audited financial statements of the Department for such years. The statement of revenues, expenditures and changes in fund balances as set forth below for the year ended June 30, 2006 has not been audited by independent auditors and remains subject to audit adjustments. Management of the Department has presented this statement in the manner below, which is not in accordance with generally accepted accounting principles, in order to facilitate comparison to results of operations of the prior years on a summarized basis.

Table 4
DEPARTMENT OF HAWAIIAN HOME LANDS
Combined Statements of Revenues, Expenditures and Changes in Fund Balances – All Fund Types

	Years Ended June 30			
	2003	2004	2005	2006 (Unaudited)
Revenues:				
General Leases	$5,385,979	$6,189,378	$5,739,010	$ 6,418,560
Licenses and Permits	1,708,632	1,725,201	1,928,037	3,911,577
Interest and Investment income	7,839,222	8,766,842	9,212,037	11,466,160
Allotted appropriations	1,344,603	1,897,007	823,857	3,148,523
Sales of Homes	153,435	0	0	0
Intergovernmental revenues	301,092	6,079,935	9,008,371	3,794,600
Other revenues	587,899	1,076,884	1,115,770	1,422,076
Total Revenues	$17,320,862	$25,735,247	$27,827,082	$30,161,496
Expenditures:				
Operating	$11,444,014	$14,040,613	$19,217,764	$17,933,445
Capital projects/Home construction	13,977,536	16,602,737	30,357,325	40,828,209
Principal on notes payable	1,218,250	1,256,144	1,300,083	1,419,342
Interest on notes payable	597,190	549,262	498,627	440,404
Total Expenditures	27,236,990	32,448,756	51,373,799	60,621,400
Excess (deficiency) of revenues over (under) expenditures	(9,916,128)	(6,713,509)	(23,546,717)	(30,459,904)
Other Financing Sources (Uses)	30,000,000	30,000,000	30,000,000	30,000,000
Lapsed appropriations	(220,959)	(145,088)	(168,175)	(169,133)
Net change in fund balances	$19,862,913	$23,141,403	$6,285,108	($629,037)
Fund Balances	$241,856,212	$264,997,615	$271,282,723	$270,653,686

Outstanding Indebtedness

As of October 1, 2006, there were $1,055,231 aggregate principal amount of outstanding reimbursable general obligation bonds of the State allocated to the Department. Principal and interest payments on such reimbursable general obligation bonds are made from the General Fund of the State. The Department reimburses the General Fund for its allocable share of such payments from the Hawaiian Home Operating Fund established under the HHCA. The Hawaiian Home Operating Fund is not expected to be available for Rental Payments under the Facility Lease.

In October 2006, the Department obtained an $80 million temporary loan from the Department of Budget and Finance to finance home construction in phases I, II, and III of the Kaupe'a homestead project in Kapolei. The term of the loan is one year and the Department expects to repay the loan from the proceeds of home sales within the project. If the proceeds from these home sales are insufficient to repay the loan in full by the end of its term, the Department will repay the balance from the Hawaiian Home Trust Fund, Native Hawaiian Rehabilitation Fund, and/or the Hawaiian Home Lands Trust Fund.

The Department also guarantees certain loans obtained by lessees of homestead property from the Department and as of August 31, 2006 was contingently liable under such guarantees for $29.9 million of loans. The HHCA limits the Department's authority to incur liability under such guarantees to a maximum of $50 million. In the event that the Department is required to perform under any of these guarantees, funds are drawn from the Hawaiian Home General Loan Fund. The Hawaiian Home General Loan Fund is not available for Rental Payments under the Facility Lease. For a more complete discussion of these guaranteed loans, see Note K - Commitments and Contingencies to the Department's audited financial statements for the fiscal year ended June 30, 2005, included as Appendix A hereto.

In 1999, the Department issued $13,370,000 aggregate principal amount of Revenue Bonds, Refunding Series 1999. Although reflected in certain financial statements of the Department included in this Official Statement, all such bonds have been defeased and are no longer outstanding.

Management Discussion

The Department's primary sources of revenue include revenues from leasing and licensing of Department lands, interest and investment income, and annual appropriations from the State.

Revenues from licenses and permits consist primarily of church licenses, easements, and revocable commercial and pasture leases. Interest and investment income is derived primarily from interest earnings on the Department's cash investments, which, as of June 30, 2006, totaled about $7.9 million, and from interest payments to the Department on outstanding loans. These interest payments are from approximately 1,241 loans, totaling $51 million, made to native Hawaiian lessees for the purposes which are specified in the HHCA.

Allotted appropriations represent funds that have been appropriated by the State and spent in that year for administrative and operating costs as well as various capital projects. Each year the Department submits a budget to the State for review. In each of the years in which a budget has been submitted, the State has generally appropriated the administrative and operating amounts requested. General Fund support for administrative and operating costs has increased from $775,293 in fiscal year 2005 to $817,559 in fiscal year 2006. Capital project funding has not been appropriated to the Department in recent years.

Operating expenditures for all governmental fund types and enterprise funds include salaries, supplies and other expenses related to the operation of the Department. Planning and design costs associated with projects that are determined to be unfeasible are expensed. Operating expenditures for all governmental fund types and enterprise funds have averaged approximately $15.66 million over the past four years.

As mentioned above, the State appropriates funds to the Department for its administrative and operating costs and various capital projects. However, revenue is recognized only to the extent that authorized expenditures are incurred. Accordingly, the Department has spent a range of $11.4 million in fiscal year 2003, up to $19.2 million in fiscal year 2005 for administrative and operating costs.

Since the passage of the HHCA in 1921 and continuing with Hawaii's acceptance of the trust in 1959, thousands of acres on Hawaiian home Lands were used or withdrawn by the Territory of Hawaii and the State. In 1995, Act 14 SpSLH, was enacted to resolve the disputed lands claims and brought to a close long-standing controversies associated with the trust since 1959. Highlights of the settlement included: 1) Payment of $600 million at $30 million a year over a period of 20 years (ending in 2015) into a non-lapsing "Hawaiian Home Lands Trust Fund." In the event an annual payment is not made, interest would accrue on the unpaid amount. 2) Compensation for past public uses of Hawaiian home lands. 3) Land exchanges for roads and highways on Hawaiian home lands and 4) Clearing land disputes in specified areas by land transfers.

THE GENERAL LEASES AND AVAILABLE LANDS

Legislative Basis for General Leases

Since 1965, Section 204(a)(2) of the HHCA has authorized the Department to retain for management any "available lands" not required to be leased pursuant to Section 207(a) to "native Hawaiians" for residential, agricultural or pastoral purposes (the homestead leases). In its management of any retained available lands, the Department may dispose of those lands to the public, including native Hawaiians, by way of lease, license or permit, on the same terms, conditions, restrictions and uses applicable to the disposition of public lands in Chapter 171, Hawaii Revised Statutes. The Department may not, however, sell or dispose of those lands in fee simple, except under certain limited circumstances. The non-homestead leases issued by the Department pursuant to Section 204(a)(2) of the HHCA are referred to as "general leases" and the granting of such leases as "general leasing." The Department is authorized to enter into and carry out contracts to develop "available lands" for homestead, commercial, and multipurpose projects.

General leases are sold at public auction, except for general leases issued directly to other governmental agencies. Section 204(a)(2) of the HHCA requires that general leases for business purposes be leased in accordance with the lease rental limitation imposed by Section 171-17(b), Hawaii Revised Statutes. Sections 171-17(b), Hawaii Revised Statutes, provides that the lease rental of lands "shall be no less than the value determined by a disinterested appraiser or appraisers."

Nature of the General Leases

As of October 1, 2006, there were 113 general leases of land generating approximately $6.56 million of revenue annually. The Department has a few additional leases under negotiation. See APPENDIX B - "SCHEDULE OF EXISTING GENERAL LEASES" for detailed information. The typical general lease has a term of 55 years. Section 171-36(b), Hawaii Revised Statutes, provides the Department with an option to extend industrial and commercial leases that were issued for less than 55 years authorized under Section 171-36(a)(2), Hawaii Revised Statutes, so that the aggregate of the original term and the extended term span 55 years.

The following table presents a summary of the general leases by classification:

Table 5
DEPARTMENT OF HAWAIIAN HOME LANDS
General Leases by Classification
(As of October 1, 2006)

	Number of Leases	Annual General Lease Revenues	% of Annual General Lease Revenues
Agriculture	3	$ 87,550	1.34%
Church	2	2,982	0.04
Commercial	6	2,353,408	35.90
Industrial	82	3,642,569	55.56
Military	2	2	0.00
Park	1	200,000	3.10
Pasture	2	45,925	0.70
Public Service	4	62,005	0.95
Residential	2	2	0.00
School	3	3	0.00
Telecommunication	2	63,600	0.97
Utility	4	96,938	1.47
Totals:	113	$6,554,983	100.00%*

*Total may not add due to rounding.

Source: State of Hawaii; Department of Hawaiian Home Lands
Based on APPENDIX B – "SCHEDULE OF EXISTING GENERAL LEASES"

The following presents the lease revenue attributed to each island, based on the distribution of current general lease revenues. Approximately 77.3% of the revenues are concentrated in one site on Hawaii and one site on Oahu, as discussed in "Concentration of Lease Revenues" below.

Table 6
DEPARTMENT OF HAWAIIAN HOME LANDS
Geographic Distribution of General Leases
(As of October 1, 2006)

	Number of Leases	% of General Lease Revenues
Hilo, Hawaii	58	50.48%
Shafter Flats, Oahu	19	26.82%
Other, Hawaii	16	6.67%
Other, Oahu	11	11.11%
Kauai	1	0.01%
Molokai	6	3.85%
Maui	2	1.07%
Totals:	113	100.00%

Source: State of Hawaii; Department of Hawaiian Home Lands
Based on APPENDIX B – "SCHEDULE OF EXISTING GENERAL LEASES"

Lease Criteria

The qualification guidelines established by the Department to identify applicants qualified to negotiate a lease for commercial, industrial, or other business purposes, in accordance with the HHCA, requires the applicant to meet the following general criteria:

1. The applicant is required to substantiate that it has the necessary experience and is able to successfully complete a commercial or commercial/industrial mixed-use development. To meet this criterion the applicant must demonstrate each of the following:

    a) The applicant must have worked in such capacity that will demonstrate experience in the specific area/field of operation as the applicant's principal activity for not less than two of the last five years. The applicant may establish eligibility through production of a resume or income tax returns;

    b) The applicant must demonstrate knowledge of and personal experience in dealing with federal and state regulations and agencies governing such proposed project. The applicant may establish compliance by documenting applicant's participation in land use issues and the permitting process.

    c) The applicant must submit a current Certificate of Good Standing (corporations only) and/or a current Tax Clearance Certificate.

    d) Sensitivity to and understanding of the HHCA and its mission, and the effect of the development on its beneficiaries.

2. The applicant is required to demonstrate that completion of the applicant's proposed project within a set time frame (depending on the proposed plan) is feasible. To enable the Department to determine whether the applicant meets this criterion, the applicant must submit reports, studies, plans and other documents described below:

a) The applicant's proposed plan (project can be developed in phases);

b) A business profile on each entity which will be a principal member of the applicant's development team showing the experience of each in the proposed project, the resources each is proposing to commit to the project, the role to be played by the entity in this project, and any letters of intent or other signed agreements evidencing the entity's commitment to the project;

c) A map or site plan of the proposed project with detailed infrastructure requirements; and

d) A time line which shows all major tasks that must be accomplished by the end of the projected development period. The applicant must detail how it expects to obtain the required Federal, State and/or County permits to complete this project.

3. The applicant must possess the financial capability to complete the proposed project. To enable the Department to determine whether the applicant meets this criterion, the applicant is required to submit each of the following:

   a) The applicant is required to submit a detailed budget/cost estimate showing the estimated cost of constructing and/or operating the proposed project;

   b) The applicant is also required to submit current financial statements or reports for the applicant and each entity relied on by the applicant either to provide financing or to assist in obtaining such financing (e.g., by signing on or guaranteeing the financing).

   c) The applicant must submit documents identifying all sources of financing upon which the applicant is relying to complete the proposed project together with evidence (such as a signed loan commitment or notice of intent to lease from prospective tenants) that the financing is committed to the project.

   d) The applicant is required to submit a statement authorizing the Department to order a credit report on each of the members of the applicant's development team.

   e) The applicant must submit a bid deposit equivalent to three month's of the upset annual rent for the first ten years, in the form of a cashier's check or certified check. The deposit from the applicant selected for negotiation will be non-refundable and will be applied to the lease rent upon signing of a lease. If no lease is entered into between the Department and the selected applicant, the deposit will be retained by the Department, provided only that the Department conducts all lease negotiation in good faith. Deposits from applicants not selected for negotiation will be returned.

4. The applicant must have a market and feasibility plan for the operation and management of the proposed development and related facilities after construction. To enable the Department to determine whether the proposed development is feasible, the applicant is required to submit pro forma financial statements showing income and expense items for the first ten years of operation of the proposed development.

The Department reviews the bids of all qualified applicants to determine the highest offer in terms of the rent to be paid to the Department.

Cash Flows from Rentals

The following table presents the Department's historical and projected cash flows from rentals under general leases, licenses and revocable permits of available lands for the fiscal years ending June 30, 2003 through June 30, 2011.

Table 7
DEPARTMENT OF HAWAIIAN HOME LANDS
Historical and Projected Rental Cash Flows

Fiscal Year Ending June 30	General Leases	Licenses & Revocable Permits	Totals
2003	$5,851,684	$1,531,595	$7,383,279
2004	6,165,240	1,687,044	7,852,284
2005	6,564,212	2,048,745	8,612,957
2006[a]	6,441,628	3,836,192	10,277,820
2007	6,554,983[b]	4,028,002[c]	10,582,985
2008	6,606,983[d]	4,229,402[c]	10,836,385
2009	16,969,433[e]	4,440,872[c]	21,410,305
2010	17,054,280[f]	4,662,915[c]	21,717,196
2011	17,139,552[f]	4,896,061[c]	22,035,613

[a] Figures for 2006 are unaudited.
[b] Reflects $113,355 adjustment due to the cancellation of five leases and the issuance of four new leases.
[c] Assumes a 5% increase in rent annually.
[d] Reflects commencement of rental payments ($52,000) under new industrial lease issued in November 2006.
[e] Reflects anticipated commencement of rental payments for the following projects (discussed under "THE DEPARTMENT OF HAWAIIAN HOME LANDS – Goals and Plans of the Department."):

Project	Rental Payments
Kapolei 67.7 acre retail development	$ 4,688,450
Wailua 43 acre resort development	3,700,000
Waiakea 16.5 acre big box development	1,050,000
Puunene 80 acre industrial development	924,000
	$10,362,450

[f] Assumes a 5% increase in rent due to reopening activities.

Note: Rental income figures on the above table are presented on a cash basis, and therefore differ from certain revenue figures presented on an accrual basis in this Official Statement (including amounts shown on Table 4).

Source: State of Hawaii; Department of Hawaiian Home Lands

Certain Factors Affecting General Lease Revenues

General. Receipt by the Department of payments due under the general leases may be affected by certain factors, including defaults by lessees, rent waivers and federal condemnation proceedings. Moreover, general economic circumstances, such as global, national and local economic conditions, and force majeure (including earthquake), which cannot be predicted, may adversely affect the performance beyond the reasonable control of the lessees of their duties and obligations under the general leases, including their ability to make required rental payments to the Department.

Concentration of Lease Revenues. Currently, approximately 54 percent of the Department's general lease revenues are derived from commercial and industrial properties in Hilo, Hawaii. In addition, approximately 27 percent of the general lease revenues are derived from commercial and industrial properties in the Fort Shafter Flats area on the island of Oahu. As such, economic conditions pertaining in such locales may affect the ability of the lessees in those areas to make the required lease payments.

Defaults and Termination. The revenues derived by the Department from the general leases will be affected if a lessee defaults in the payment of its rental obligations or the performance of any of its other obligations. Upon failure of the lessee to cure the default within 60 days from the date of receipt of notice of default, the Department may terminate the lease without prejudice to any other right or remedy for arrears of rent and interest or for any preceding or other breach or default.

Reopeners. The first rent reappraisal typically takes place at some point between the tenth and twelfth year of the general lease. The general lease describes the procedure to be followed by the lessee and the Department in the course of establishing a new lease amount after a reappraisal. In practice, the Department provides lessees with the results of appraisals, and the consequent change in rental rates, six months before those rates will go into effect. As a result, the Department and the lessee have a half year to resolve any disputes over changes in rental costs.

Lessee's Ability to Terminate. The lessee's right to terminate a general lease, if available at all, is limited to the circumstances in which the lessee determines that because of a change of condition it is impossible or impracticable to construct the on-site and off-site improvements within the initial construction period, normally within three years. The lessee may exercise its right to terminate the general lease, subject to the Department's acceptance of the termination, and provided the lessee pays an additional year's rent and satisfies all mortgages, claims and other encumbrances.

Assignments and Subletting. The Department allows the assignment of a general lease under certain circumstances upon prior Department approval. Under the general leases more recently entered into, the Department has the right to condition its consent to the assignment upon payment by the lessee of a premium based on the amount by which the consideration for the assignment exceeds the depreciated cost of improvements and trade fixtures being transferred to the assigned.

As with assignments, the lessee must obtain Department approval before subletting the leased property. The Department has the right to revise the lease rental paid by the lessee upward to reflect the rental the lessee will charge the sublessee.

Mortgage/Security Interest. With the Department's consent, the lessee may mortgage the lease or any interest therein or create a security interest in the leasehold.

Condemnation. The State and counties have no authority under the State condemnation laws to condemn Hawaiian home lands, but the general leases provide that the State may withdraw the premises thereunder for public purposes. There is no express limitation on the federal government, however, so the federal government may be able to condemn Hawaiian home lands under certain circumstances.

In the event of the condemnation or the State's withdrawal for a public purpose of any portion of the premises leased under a general lease, the rental shall be reduced in proportion to the value of the portion of the leased premises condemned or withdrawn. Furthermore, if the portion condemned or withdrawn renders the remainder unsuitable for the use for which the land was leased, the lessee shall have the option to surrender the lease and be discharged and relieved from any further liability under the lease.

Litigation Challenging General Leases. In *Ahia v. Dept. of Transportation*, 69 Haw. 538 (1988), the plaintiffs, "native Hawaiians" who were "qualified applicants for Hawaiian Home Land Leases", sought: (a) a declaration that General Lease No. 213, issued by the Commission to the State Department of Transportation ("DOT"), was null and void; and (b) injunctions against the disposition of Hawaiian home lands by general lease to the DOT or non-native Hawaiians until eligible native Hawaiians were given an opportunity to lease such lands. The lease in question, General Lease No. 213, covered approximately 4.3 acres within the 11,000 acre tract at Kamaoa-Puueo, Ka'u, on the island of Hawaii. In 1983, the Commission authorized the issuance of General Lease No. 213 to the DOT to facilitate the construction of a boat-launching facility. The Hawaii Supreme Court, with two of the five justices dissenting, upheld the Commission's authority to lease the lands in question and concluded that the Department had complied with the applicable leasing procedure imposed by law.

The court found "good reason" that the lands in question had never been leased to native Hawaiians for any of the Section 207(a) purposes. The court indicated that the Commission's decision to lease 4.3 acres to the DOT was founded in part on belief that "[t]he arrangement...is one that would enhance Ka'u by bringing water to the area for the benefit of the Ka'u residents and making it possible to start a homesteading community there." Based on the foregoing, the Court could find no basis for holding that the lands in question were not disposable by lease pursuant to Section 204(a)(2) of the HHCA. The Court concluded that the Commission's decision to issue the DOT lease was not incompatible with the mandate of the HHCA to rehabilitate native Hawaiians through a series of projects. The Court held that the authorization for preferential treatment for native Hawaiians is applicable when leases of Hawaiian home lands are issued "for commercial, industrial, or other business purposes" and is not applicable when lands are leased by the Commission to a government agency for the construction and maintenance of a boat-launching facility. Finally, the Court determined that the Commission complied with the applicable procedure in issuing the lease.

The dissent contended that the lease had commercial as well as public aspects to it, and, therefore, the Commission members, as fiduciaries, had a duty at least to give consideration to making the lease to beneficiaries of the HHCA. Furthermore, the dissenters would not have construed "public" as including the government, and did not agree that the Department had the unrestricted power that makes leases for public purposes to other government agencies.

In *Kaniho v. Padeken*, Civ. No. 6108, the Third Circuit Court denied plaintiff's claim for cancellation or rescission of a commercial lease (GL 202) issued to a non-native Hawaiian for the development and operation of a shopping center in Hilo, Hawaii. However, the Court, while recognizing the authority of the Department and Commission to make general leases to non-native Hawaiians, enjoined the Department and the Commission from further leasing of Hawaiian home lands to non-native Hawaiians unless and until they sought the necessary legislative appropriation and funding for the administrative and operating expenses of the Department from moneys other than that generated from the general leasing of Hawaiian home lands. The judgment further provided that upon seeking such legislative appropriation and funding, the Department and the Commission could lease to non-native Hawaiians only on the following pre-conditions:

1. That the Department and the Commission have a reasonable basis to believe that the legislature cannot provide sufficient funds for administrative and operating expenses; or

2. That even if the legislature provides sufficient funds to the Department, it is determined by the Department and the Commission that special circumstances or conditions exist as to the specific lease which will be beneficial to native Hawaiian beneficiaries.

The Court agreed with the plaintiff that the only purpose for the issuance of GL 202 was the generation of income, which purpose is no longer necessary because of the 1978 Constitutional Amendment providing, in part, that "the legislature shall make sufficient funds available for" the administrative and operating budget of the Department.

The Hawaii Supreme Court reversed the Third Circuit Court, indicating that the relief granted "went far beyond the pleadings" and remanded the case to the lower court with instructions to dismiss the case, which it did in June 1985. Consequently, the description of pre-conditions to leasing to non-native Hawaiians does not represent current Hawaii law but is included to advise the reader of the diversity of judiciary views on matters related to the Commission and the Department.

FINANCIAL STATEMENTS

The financial statements of the Department as of and for the fiscal year ended June 30, 2005, included in Appendix A to this Official Statement, have been audited by Akamine, Oyadomori & Kosaki Certified Public Accountants, Inc., independent auditors, as stated in their reports appearing herein.

The financial statements of the Department, as presented in this Official Statement and Appendix A hereto, include funds and accounts of the Department other than the Administration Account. However, such funds and accounts other than the Administration Account are not expected to be available for Rental Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES - Lease Payments."

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, execution or delivery of the Certificates or in any other manner affecting the validity of the Facility Lease or the Certificates or the proceedings or authority pursuant to which the Certificates are to be sold, executed and delivered.

TAX MATTERS

Opinion of Special Counsel

In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the Department, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest with respect to the Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest with respect to the Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Special Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Department in connection with the Certificates, and Special Counsel has assumed compliance by the Department with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest with respect to the Certificates from gross income under Section 103 of the Code.

In addition, in the opinion of Special Counsel to the Department, under the existing laws of the State of Hawaii, the Certificates and the income therefrom is exempt from all taxation by the State of Hawaii or any county or other political subdivision 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.

Special Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Certificates. Special Counsel renders its opinion under existing statutes and court decisions as of the date of execution and delivery of the Certificates, and assumes no obligation to update its opinion after the date of execution and delivery to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Special 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 with respect to the Certificates, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the execution and delivery of the Certificates in order that interest with respect to the Certificates be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Certificates, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest with respect to the Certificates to become included in gross income for Federal income tax purposes retroactive to their execution and delivery date, irrespective of the date on which such noncompliance occurs or is discovered. The Department has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest with respect to the Certificates from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters on the Certificates. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Certificate. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Certificates.

Prospective owners of the Certificates should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest with respect to which is excluded from gross income for Federal income tax purposes. Interest on the Certificates may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Certificate (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Certificates of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Certificates is expected to be the initial public offering price set forth on the cover page of the Official Statement. Special Counsel further is of the opinion that, for any Certificates having OID (a "Discount Certificate"), OID that has accrued and is properly allocable to the owners of the Discount Certificates under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest with respect to the Certificates.

In general, under Section 1288 of the Code, OID on a Discount Certificate accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Certificate. An owner's adjusted basis in a Discount Certificate is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Certificate. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Certificate even though there will not be a corresponding cash payment.

Owners of Discount Certificates should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Certificates.

Bond Premium

In general, if an owner acquires a Certificate for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable with respect to the Certificate after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Certificate (a "Premium Certificate"). In general, under Section 171 of the Code, an owner of a Premium Certificate must amortize the bond premium over the remaining term of the Premium Certificate, based on the owner's yield over the remaining term of the Premium Certificate determined based on constant yield principles (in certain cases involving a Premium Certificate callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Certificate must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Certificate, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Certificate may realize a taxable gain upon disposition of the Premium Certificate even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Certificates should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Certificates.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of execution and delivery of the Certificates will not have an adverse effect on the tax-exempt status or market price of the Certificates.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, execution, delivery and sale of the Certificates are subject to the approval of Hawkins Delafield & Wood LLP, Special Counsel to the Department. Copies of the approving opinion of Special Counsel will be available at the time of delivery of the Certificates. The form of opinion Special Counsel proposes to render is set forth in Appendix D hereto. Certain legal matters will be passed upon for the State by the Attorney General and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP.

RATING

Moody's Investors Service has rated the Certificates Aaa, based upon the assumption that the Insurer will, concurrently with the delivery of the Certificates, issue and deliver the Policy with respect to the Certificates. Moody's Investors Service has also assigned an underlying rating, determined without regard to the Policy, of A1 to the Certificates. Such ratings reflect only the respective views of Moody's Investors Service, and any explanation of the significance of such ratings should be obtained from such rating agency. There is no assurance that any 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 if, in its judgment, circumstances so warrant. The Department undertakes no responsibility to oppose any such downward revision, suspension or withdrawal. Any downward revision, suspension or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Underwriter, UBS Securities LLC, has agreed to purchase the Certificates at an aggregate purchase price equal to $24,788,307.80 (representing the principal amount of the Certificates, plus a net original issue premium of $504,382.80 and less an Underwriter's discount of $216,075.00). The Underwriter will be obligated to purchase all of the Certificates if any are purchased.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Certificates may be offered and sold to certain dealers (including dealers depositing such Certificates into investment trusts) at prices lower than the public offering prices appearing on the inside cover, and the public offering prices may be changed from time to time.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project" or similar words.

The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. The Department does not plan to issue any updates or revisions to those forward-looking statements if and when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur, unless such updates or revisions are made in the course of fulfilling its continuing disclosure obligation.

CONTINUING DISCLOSURE

The Department has entered into a Continuing Disclosure Certificate (the "Disclosure Certificate") for the benefit of the holders and Beneficial Owners of the Certificates to provide certain financial information and operating data relating to the State to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240. 15c2-12) (the "Rule"). See APPENDIX E – "CONTINUING DISCLOSURE CERTIFICATE."

The Department has not failed to comply with any of its previous continuing disclosure certificates under the Rule. A failure by the Department to comply with the Disclosure Certificate will not constitute an event of default of the Certificates, although any Certificate holder or any Beneficial Owner may bring an action to compel the Department to comply with its obligations under the Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Certificates in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Certificates and their market price.

MISCELLANEOUS

As far as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Certificates. The Department of Hawaiian Home Lands has prepared this Official Statement and has duly authorized the delivery hereof.

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

DEPARTMENT OF HAWAIIAN HOME LANDS

By: /s/ Micah A. Kane
Chairman

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

DEPARTMENT OF HAWAIIAN HOME LANDS

By: /s/ Micah A. Kane
Chairman

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APPENDIX A

DEPARTMENT OF HAWAIIAN HOME LANDS
STATE OF HAWAII

FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

AND

INDEPENDENT AUDITORS' REPORT

Akamine, Oyadomari & Kosaki
Certified Public Accountants, Inc.

DEPARTMENT OF HAWAIIAN HOME LANDS
STATE OF HAWAII

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Akamine, Oyadomari & Kosaki
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditors' Report

Chairman
Hawaiian Home Lands Commission
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Hawaiian Home Lands, State of Hawaii, as of and for the year ended June 30, 2005, which collectively comprise the Department's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Department of Hawaiian Home Lands, State of Hawaii. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the financial statements of the Department of Hawaiian Home Lands, State of Hawaii, are intended to present the financial position, and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Department of Hawaiian Home Lands, State of Hawaii, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

1440 Kapiolani Blvd., Suite 900, Honolulu, Hawaii 96814 Telephone (808) 941-0500 FAX 941-0004

The Management's Discussion and Analysis on pages 5 through 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Hawaiian Home Lands, State of Hawaii's, basic financial statements. The information on the Combining Balance Sheet - Nonmajor Governmental Funds and Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds, are presented for purposes of additional analysis and is not a required part of the basic financial statements. The Combining Balance Sheet - Nonmajor Governmental Funds and Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Akamine Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawaii
November 21, 2005

LINDA LINGLE
GOVERNOR
STATE OF HAWAII

MICAH A. KANE
CHAIRMAN
HAWAIIAN HOMES COMMISSION

BEN HENDERSON
DEPUTY TO THE CHAIRMAN

KAULANA H. PARK
EXECUTIVE ASSISTANT

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
P.O. BOX 1879
HONOLULU, HAWAII 96805

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) is designed to provide an overview of the financial performance of the Department of Hawaiian Home Lands (Department) for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report and the Department's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2005

- The Department's total net assets, the amount of assets exceeding liabilities, totaled $544.6 million. Of this amount, $273.2 million is unrestricted and $271.4 million is invested in capital assets, net of related debt.
- The Department's total net assets increased $31.4 million over the course of this year's operation.
- In fiscal year 2005, the Department's revenues exceeded expenditures by $1.4 million. In fiscal year 2004, expenditures exceeded revenues by $2.6 million.
- The total expenditures of the Department increased by $0.3 million, or 1.3%.
- The General Fund appropriation was $473,150 less than fiscal year 2004. This represents a 38.48% decrease in General Fund appropriations.
- The total fund balance of the Department's governmental funds increased by $6.3 million, which was largely due to the Department's $30 million annual settlement payment from the State of Hawaii.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the Department's basic financial statements. The basic financial statements are comprised of three components: (1) department-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information (combining financial statements – nonmajor governmental funds) in addition to the basic financial statements.

The first two statements are *department-wide financial statements* that provide both long-term and short-term information about the Department's overall financial status and operations.

The *fund financial statements* focus on individual parts of the Department, reporting the Department's status and operations in more detail than the department-wide financial statements. These statements tell how general departmental services were financed in the short term as well as what remains for future spending.

The statements are followed by a section of required supplementary information that further explains and supports the information in the fund financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Department-wide Financial Statements

The department-wide financial statements provide a broad view of the Department's operations. The statements provide both short-term and long-term information about the Department's financial position and activities, which assists in assessing the Department's economic condition at the end of the fiscal year and operations for the year then ended. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The department-wide financial statements include two statements:

The statement of net assets presents all of the Department's assets and liabilities. The difference between the assets and liabilities are reported as "net assets".

The statement of activities presents information showing how the Department's net assets changed during the fiscal year. This statement presents a comparison between direct expenses and program revenues for each division of the Department.

The activities of the Department are mostly supported by State Appropriation, rental income from commercial land leases and intergovernmental revenues. The Department's basic services fall under this type of activity.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with legal requirements.

The fund financial statements provide more detailed information about the Department's status and operations. Certain of the Department's funds were established under State Law or by bond covenants. Other funds of the Department are established by the Hawaiian Homes Commission. These funds manage money for particular purposes.

The Department only has Governmental Funds which finance the Department's basic services. Governmental funds are used to account for essentially the same functions reported as governmental activities in the department-wide financial statements. However, unlike the department-wide financial statements, the fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's short-term financing requirements.

Because the focus of fund financial statements is narrower than that of the department-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the department-wide financial statements. By doing so, readers may better understand the long-term impact of the department's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department has fourteen governmental funds, eight of which are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance. These funds are briefly described as follows:

General Fund – The general fund is authorized and appropriated by the State Legislature each year for planning, development, management and general support for Hawaiian Homestead Program.

Hawaiian Home General Loan Fund – This revolving loan fund was established from a consolidation of all loan funds other than the Hawaiian Home loan fund in 1986. The major source of receipts for this fund is through principal repayment. The Department can make loans from the revolving funds for the construction of homes, home repairs or additions, or for the development and operation of a farm, ranch or agriculture operation.

Hawaiian Home Lands Trust Fund – This fund was established by Act 14, Special Session 1995 which settles all claims made on behalf of the Hawaiian Home Lands Trust against the State between August 21, 1959 and July, 1988. It requires that the State make twenty annual deposits of $30,000,000 or their discounted equivalent into the Hawaiian Home Lands Trust Fund. Proceeds of the fund may be used by the Department for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920, as amended.

Hawaiian Home Operating Fund – This fund was established through a merger of Hawaiian Home Development fund and Hawaiian Home Operating fund in 1986. Any interest or earnings arising out of investments from the Hawaiian Home Loan Fund are to be credited to and deposited into the Hawaiian Home Operating Fund. All monies received by the department from any other source, other than those prescribed in other funds of the Hawaiian Homes Commission Act, are deposited into this fund. The Department uses the fund for construction operation and maintenance of revenue-producing activities that are intended to serve principally occupants on Hawaiian home lands. The fund is used to finance improvements and developments necessary to serve present and future occupants of Hawaiian home lands.

Hawaiian Home Receipts Fund – All interest monies from loans or investments received by the Department from any fund, except the Hawaiian Home Loan Fund, Hawaiian Home Administration Account, Native Hawaiian Rehabilitation Fund, Hawaiian Home Lands Revenue Bond Special Fund and Hawaiian Home Lands Trust Fund, are deposited into this fund. This fund serves as a clearing account at the end of each quarter, all monies in this fund are transferred to other funds as authorized by the Hawaiian Homes Commission Act.

Hawaiian Home Administration Account – The revenue sources of this fund are the entire receipts from any leasing or other dispositions of "available lands" and any interest or other earnings arising out of investments from this fund. The Department expends the monies for salaries and all other administrative expenses of the department, excluding capital improvements, in the absence of general funds appropriated for operating and administrative costs.

Federal Grants – The Department is the recipient of an annual block grant under the Native American Housing and Self-Determination Act (NAHASDA). The U.S. Department of Housing and Urban Development is the cognizant entity of the NAHASDA grant in carrying out affordable housing activities for Native Hawaiian families qualified for this program.

Temporary Deposits – This fund accounts for trust fund deposits relating to of Hawaiian Home Lands.

The accompanying Notes to the Financial Statements are part of the financial statement. The notes provide additional information that is essential to gain a full understanding of the data provided in the department-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes this report also presents other supplementary information consisting of the Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance in connection with non-major governmental funds and Schedule of Expenditures of Federal Awards.

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE

Net Assets

The Department's total net assets were increased $31.4 million to approximately $544.6 million between fiscal year 2004 and 2005. A large portion of the Department's net assets (50%) reflects its investment in capital assets such as land, buildings, infrastructure and construction-in-progress. The Department uses these capital assets to provide public lands which are leased to native Hawaiians, consequently, these assets are not available for future spending. Although the Department's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The following is a comparative statement of net assets:

Summary of Statement of Net Assets
(in millions)

	2005	2004	Increase (Decrease)
Current and Other Assets	$ 290.9	$ 277.9	$ 13.0
Capital Assets	313.3	259.0	54.3
Total Assets	$ 604.2	$ 536.9	$ 67.3
Long-term Debt Outstanding	$ 41.9	$ 11.8	$ 30.1
Other Liabilities	17.7	11.9	5.8
Total Liabilities	$ 59.6	$ 23.7	$ 35.9
Net Assets			
Invested in capital assets, net of related debt	$ 271.4	$ 246.6	$ 24.8
Unrestricted	273.2	266.6	6.6
Total Net Assets	$ 544.6	$ 513.2	$ 31.4

Change in Net Assets

The Department's total program revenues increased by 23.2% to $20.2 million. (See Statement of Activities). 16.3% of the Department's program revenues come from loan interest income and 39.1% of the Department's program revenues come from the general lease program. A large portion of the revenue, approximately 44.6% of the revenue, comes from grants and contributions. Total general revenues increased by 6.8% to $7.9 million due to an decrease in State appropriations of $1.1 million and a increase in investment income of $1.6 million. The total cost of the Department's program increased by $0.3 million, or 1.3%. The Department received $30.0 million as part of the annual settlement payment with the State of Hawaii in accordance with Act 14, SP SLH 1995. Cash was transferred from the Department of Budget and Finance for the Hawaiian Home Lands settlement payment.

Statement of Activities

The Statement of Activities presents how the Department's net assets changed during the current fiscal year. Revenues and expenses are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As such, the statement includes information for some items that will result in cash flows in future fiscal periods (e.g. uncollected lease payments).

The following is a comparative statement of changes in net assets:

Changes in Net Assets
(in millions)

	2005	2004	Increase (Decrease)
Revenues:			
Program Revenues			
Homestead Services	$ 3.3	$ 3.0	$ 0.3
Land Management	7.9	7.3	0.6
Intergovernmental Revenues	9.0	6.1	2.9
Appropriation (Net of Lapsed Appropriation)	0.7	1.8	(1.1)
Interest from Short-term Cash Investment	6.1	4.6	1.5
Other	1.1	1.0	0.1
Total Revenues	28.1	23.8	4.3
Expenses:			
Administration and support services	7.2	6.5	0.7
Homestead Services	12.6	17.2	(4.6)
Land Development	4.7	1.5	3.2
Land Management	2.2	1.2	1.0
Total Expenditures	26.7	26.4	0.3
Excess (deficiency) of revenues over expenditures	1.4	(2.6)	4.0
Other Financing Sources			
Operating Transfer in/out (net)	30.0	30.0	-
Change in Net Assets	31.4	27.4	4.0
Net Assets, Beginning Year, as previously reported	513.2	485.8	27.4
Net Assets, Ending Year	$ 544.6	$ 513.2	$ 31.4

As noted, net assets increased $31.4 million, a 6.1% growth this year. This amount is higher than fiscal 2004 when net assets increased $27.4 million, a 4.7% growth. Total revenue increased 18.1% over last year and expenses increased by 1.1%. Major factor in revenue increasing 18.1% was:

- In fiscal year 2005, the Department is the recipient of an annual block grant under the Native American Housing and Self-Determination Act (NAHASDA). The Department requested and received funding of $9.0 million from NAHASDA and other federal funds

As noted earlier, expenses increased by 1.1%, largely due to increase activities in land development.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

Governmental Funds

The focus of the Department's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2005, the Department's governmental funds reported a combined increase in fund balance of $6.2 million. The changes in fund balance for the governmental funds differ from the change in net assets for governmental activities. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported in the changes in net assets.

Comparison of Balance Sheets
(in millions)

	Assets			Liabilities			Fund Balances		
	2005	2004	Change	2005	2004	Change	2005	2004	Change
General Fund	$ 0.1	$ 0.1	$ -	$ 0.1	$ 0.1	$ -	$ -	$ -	$ -
General Loan Fund	65.2	63.2	2.0	5.2	3.0	2.2	60.0	60.2	(0.2)
Trust Fund	139.1	129.5	9.6	3.6	2.9	0.7	135.4	126.6	8.8
Federal Grants	2.6	0.8	1.8	2.6	0.8	1.8	-	-	-
Operating Fund	19.3	16.9	2.4	1.0	0.8	0.2	18.3	16.1	2.2
Receipts Fund	3.0	2.7	0.3	3.0	2.5	0.5	-	0.2	(0.2)
Administration Account	8.0	13.2	(5.2)	1.9	0.8	1.1	6.1	12.4	(6.3)
Temporary Deposits	2.4	2.0	0.4	2.2	1.8	0.4	0.2	0.2	-
Other Funds	51.2	49.4	1.8	-	0.1	(0.1)	51.2	49.3	1.9
Total	$290.9	$277.8	$13.1	$ 19.6	$ 12.8	$ 6.8	$271.2	$265.0	$ 6.2

Comparison of Statement of Revenues, Expenditures and Changes in Fund Balances (in millions)

	Revenues			Expenditures			Net Change in Fund Balances		
	2005	2004	Change	2005	2004	Change	2005	2004	Change
General Fund	$ 0.8	$ 1.3	$(0.5)	$ 0.7	$ 1.2	$ (0.5)	$ -	$ -	$ -
General Loan Fund	-	-	-	0.2	0.4	(0.2)	(0.2)	0.3	(0.5)
Trust Fund	3.6	3.0	0.6	24.8	9.8	15.0	8.8	23.2	(14.4)
Federal Grants	9.0	6.0	3.0	9.0	6.0	3.0	-	-	-
Operating Fund	0.8	0.4	0.4	8.3	5.8	2.5	2.1	2.5	(0.4)
Receipts Fund	4.5	5.2	(0.7)	-	-	-	(0.2)	1.0	(1.2)
Administration Account	8.0	8.3	(0.3)	5.6	4.9	0.7	(6.2)	4.4	(10.6)
Temporary Deposits	-	-	-	-	-	-	-	-	-
Other Funds	1.1	1.5	(0.4)	2.7	4.3	(1.6)	2.0	(8.3)	10.3
Total	$ 27.8	$ 25.7	$ 2.1	$ 51.3	$ 32.4	$ 18.9	$ 6.3	$ 23.1	$(16.8)

At the end of fiscal year 2005, the Hawaiian Home Lands Trust Fund reported an increase in the fund balance of $8.8 million. The increase in the fund balance is the result of the receipt of the $30 million from the Department of Budget and finance for the settlement. The fund balance of the Hawaiian Home Operating Fund increased by $2.1 million. The increase is the result of funds being transferred in from the Hawaiian Home Receipts Fund and the Hawaiian Home Administration Account. Overall, the assets for the Department increased by $13.1 million and fund balance increased by $6.3 million despite several funds declining in their values.

BUDGETARY HIGHLIGHTS

There was reduction between the original budget and the final budget. Actual expenditures were less than budgetary estimates by $98,306 or 12.7%. The favorable variance was created by expenditure control measures.

In the Hawaiian Home Administration Account, the actual revenue exceeded the budgeted amount by $187,837 and expenditures were $2.1 million less than the budgeted amount. The favorable variances were created by increased general lease collections and spending cuts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the Department had invested $402.5 million in a broad range of capital assets, including land, building, improvements, equipment and infrastructure. This amount represents a net increase (including additions, deductions and reclassifications) of $62.9 million, or 18.5%, over last year.

Capital Assets
(in millions)

	2005	2004	Increase (Decrease)
Buildings and Improvements	$ 9.6	$ 9.0	$ 0.6
Furniture and Equipment	0.6	0.6	-
Motor Vehicles	0.8	0.7	0.1
Infrastructure	287.3	255.7	31.6
Total Depreciable Assets	298.3	266.0	32.3
Less: Accumulated Depreciation	(89.2)	(80.5)	8.7
Net Depreciable Assets	209.1	185.5	23.6
Land	33.7	17.5	16.2
Construction in Progress	70.5	56.0	14.5
Total Capital Assets	$ 313.3	$ 259.0	$ 54.3

In fiscal year 2005, the Department expended $63.4 million for various capital projects. The Department has no plan to issue additional debt to finance these projects. Rather, the Department will continue to use its trust funds and federal funds to fund these projects.

Long-term Debt

At the end of fiscal year 2005, the Department had $9.9 million in revenue bonds outstanding, all from the 1999 series revenue bonds. These revenue bonds will be paid off in year 2012. The Department is also obligated to repay a portion of the State general obligation bonds issued on the Department's behalf through Reimbursable General Obligation Bonds. The total obligation is $1.2 million and will be paid in full through fiscal year 2018.

Outstanding Debt
(in millions)

	2005	2004	Increase (Decrease)
Revenue Bonds	$ 9.9	$ 11.1	$ (1.2)
General Obligation Bonds	1.2	1.3	(0.1)
Total	$ 11.1	$ 12.4	$ (1.3)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the 2005-2006 budget, the general fund appropriation is $0.8 million and reflects a decrease of $6,298, or 1% from fiscal year 2005.

Revenues generated from general leases, revocable permits, licenses and right of entry agreements are projected to total $8 million. This represents a 6.7% increase from the prior fiscal year. The increases are primarily due to new general lease dispositions and general lease rental re-openings.

SUBSEQUENT OR FUTURE EVENTS

Based on DHHL's 2003-2008 Strategic Plan that outlined the department's four goals: Providing 6,000 native Hawaiians with homeownership opportunities, addressing the findings of the State Auditor's Report, attaining financial self-sufficiency, and empowering our homestead communities, the Department is on target in meeting its strategic plan expectations. The department will continue this effort by implementing the following in the upcoming fiscal years.

Providing 6,000 native Hawaiians with homeownership opportunities
DHHL will begin construction on development projects on Hawaii, Kaua'i, Maui, and Oahu over the next three years. A total of 18 projects have been identified that is expected to produce an estimated 4,100 units with an infrastructure cost of approximately $282 million. All of these projects are expected to be funded out of our existing budget. These development plans reflect a new philosophy for the department of building communities of 500-1,000 lots rather than historical small pocket type developments (i.e. 50 lots).

To facilitate homeownership for native Hawaiians, the department created a new type of lease award called Ho'ohiki, or Undivided Interest. Undivided Interest is an award to a group of individuals for a non-parceled land base. Unlike accelerated awards in the past, this award provides our beneficiaries the time to prepare for homeownership while DHHL develops the project. As development occurs, our beneficiaries are provided with financial assistance, education, and personalized case management that addresses homeownership needs. Furthermore, participants in Undivided Interest are kept abreast of the status of development, and homeownership information through DHHL's Ho'opaepae community newsletter. Unlike Ka

Nuhou, which is mailed to all DHHL lessees, the Ho'opaepae newsletter is specifically written and sent to Undivided Interest lessees. To date, DHHL has awarded 620 Undivided Interest awards during fiscal year 2005-06, and plans to award and additional 851 Undivided Interest awards within the next two fiscal years.

Concurrently with Undivided Interest, the department also developed the Home Ownership Assistance Program (HOAP). This program was created to support the efforts of native Hawaiians interested in achieving homeownership by providing native Hawaiians with financial literacy training, homebuyer education, mortgage products, credit counciling, and access to relevant experts and resources in the homebuyer, financial literacy, and mortgage lending industries. To date, 621 native Hawaiians are participating in HOAP. We estimate this amount to increase to over 1,500 within the next two fiscal years.

Addressing the findings of the State Auditor's Report
In order to address findings from previous State Audits, DHHL has focused its efforts to establish better management controls for internal operations. For example, DHHL's delinquency ratio for our direct loan portfolio existed at 43.6% in 2002. This fiscal year, DHHL decreased this to 27.35%. By 2008, our goal is to reduce these delinquencies at, or below, 20%. Other management controls established by DHHL include the publication and distribution of a procurement manual, and the creation of internal loan policies and procedures manual. An internal application procedure manual is planned for completion by next fiscal year.

Attaining financial self-sufficiency
DHHL must generate significant non-governmental revenue in the amount of $30 million a year by 2013 in order for the DHHL to become financially self-sufficient. During calendar year 2005, the DHHL generated nearly $10 million in revenues that are used towards fulfilling the department's mission. This is expected to increase to $11.5 million in calendar year 2006, and $14 million in calendar year 2007.

Empowering our homestead communities
In an effort to empower our native Hawaiian communities, DHHL is developing regional island plans for all of our exiting homestead communities on all islands. These plans not only cover data from a respective homestead community, but also include information on surrounding communities, infrastructure, stakeholders, and cultural areas. Also, these plans identify community priorities and input so that future developments and projects may be developed in partnership with the community.

FINANCIAL CONTACT

This financial report is designed to provide our citizens, taxpayers, lessees, investors and creditors with a general overview of the Department's finances and to demonstrate the Department's accountability for monies received. If there are any questions regarding this report or if additional financial information is required, please contact the Fiscal Office. The Department is located at 1099 Alakea Street, Suite 2000, Honolulu, Hawaii 96813.

Department of Hawaiian Home Lands
State of Hawaii

Statement of Net Assets

June 30, 2005

ASSETS		
Cash and short-term cash investments held in State Treasury (Note C)	$	231,855,459
Receivables (Note D):		
Loans, net of allowance for losses of $4,187,000		46,552,751
Accrued interest		4,057,290
Note receivable		4,274,196
General leases and licenses, net of allowance for losses of $955,000		763,315
Other		2,647,472
Other assets		737,900
Capital assets:		
Land, improvements, construction-in-progress and other capital assets, net of depreciation (Note I)		313,333,834
Total assets	$	604,222,217
LIABILITIES		
Vouchers and contracts payable	$	6,751,297
Accrued wages and employee benefits payable (Note B)		478,640
Due to State Treasury		10,000
Other liabilities		7,989,443
Deferred revenue		1,296,280
Purchase note payable (Note P):		
Due within one year		2,200,000
Due in more than one year		28,600,000
Bonds payable (Note J):		
Due within one year		1,427,000
Due in more than one year		9,713,473
Accrued vacation (Note J):		
Due within one year		364,000
Due in more than one year		794,818
Total liabilities		59,624,951
Commitments and contingencies (Notes E, K ,L, M, N and O)		
NET ASSETS		
Invested in capital assets, net of related debt		271,393,361
Unrestricted		273,203,905
Total net assets		544,597,266
Total liabilities and net assets	$	604,222,217

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

Department of Hawaiian Home Lands
State of Hawaii
Statement of Activities
for the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenue: Interest, Rents and Fees	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Departmental activities:				
Administration and support services	$ 7,171,562	$ -	$ 734,778	$ (6,436,784)
Homestead services	12,625,811	3,277,322	-	(9,348,489)
Land development	4,731,674	-	8,273,593	3,541,919
Land management	2,188,573	7,882,047	-	5,693,474
Total departmental activities	$ 26,717,620	$ 11,159,369	$ 9,008,371	(6,549,880)
General revenues:				
Appropriations, net of lapsed appropriations of $168,175				655,682
Interest from short-term cash investments				6,139,715
Other				1,115,770
Total general revenues before transfers				7,911,167
Transfers, net (Note L)				30,000,000
Total general revenues and transfers				37,911,167
Change in net assets				31,361,287
Net assets at July 1, 2004				513,235,979
Net assets at June 30, 2005				$ 544,597,266

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

Department of Hawaiian Home Lands
State of Hawaii
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Temporary Deposits	Other Funds	Total
ASSETS										
Cash and short-term cash investments held in State Treasury (Note C)	$ 86,020	$ 21,895,131	$ 133,895,526	$ 19,229,399	$ -	$ 7,281,359	$ 21,000	$ 2,390,314	$ 47,056,710	$ 231,855,459
Receivables (Note D):										
Loans, net of allowance for losses of $4,187,000	-	42,701,673	-	-	-	-	-	-	3,851,078	46,552,751
Accrued interest	-	-	878,696	17,236	2,984,901	-	-	-	176,457	4,057,290
Note receivable	-	-	4,274,196	-	-	-	-	-	-	4,274,196
General leases and licenses, net of allowance for losses of $955,000	-	-	-	210	-	763,105	-	-	-	763,315
Other	-	(428)	-	42,595	-	1,492	2,601,802	-	2,011	2,647,472
Other assets	-	589,600	-	-	-	-	-	-	148,300	737,900
Total assets	$ 86,020	$ 65,185,976	$ 139,048,418	$ 19,289,440	$ 2,984,901	$ 8,045,956	$ 2,622,802	$ 2,390,314	$ 51,234,556	$ 290,888,383
LIABILITIES										
Vouchers and contracts payable	$ -	$ -	$ 3,632,742	$ 390,203	$ -	$ 105,376	$ 2,605,537	$ -	$ 17,439	$ 6,751,297
Accrued wages and employee benefits payable (Note B)	28,515	-	-	235,456	-	214,669	-	-	-	478,640
Due to State Treasury	10,000	-	-	-	-	-	-	-	-	10,000
Other liabilities	-	5,178,394	-	148,853	476,719	15,163	-	2,170,314	-	7,989,443
Deferred revenue	-	-	-	253,699	2,523,000	1,599,581	-	-	-	4,376,280
Total liabilities	38,515	5,178,394	3,632,742	1,028,211	2,999,719	1,934,789	2,605,537	2,170,314	17,439	19,605,660
Commitments and contingencies (Notes E, K, L, M, N, and O)										
FUND BALANCES										
Reserved for:										
Encumbrances	76,020	-	49,462,789	5,633,079	-	373,420	-	220,000	1,679,924	57,445,232
Receivables (Note D)	-	42,701,245	5,152,892	60,041	2,984,901	764,597	2,601,802	-	4,029,546	58,295,024
Loan commitments (Note E)	-	1,010,379	-	-	-	-	-	-	-	1,010,379
Unexpended Federal grants	-	-	-	-	-	-	2,971,233	-	-	2,971,233
Guaranteed and insured loans (Note K)	-	150,000	-	-	-	-	-	-	10,850,100	11,000,100
Total reserved fund balances	76,020	43,861,624	54,615,681	5,693,120	2,984,901	1,138,017	5,573,035	220,000	16,559,570	130,721,968
Unreserved	(28,515)	16,145,958	80,799,995	12,568,109	(2,999,719)	4,973,150	(5,555,770)	-	-	105,903,208
Unreserved reported in nonmajor:										
Special revenue funds	-	-	-	-	-	-	-	-	34,657,547	34,657,547
Total unreserved fund balances	(28,515)	16,145,958	80,799,995	12,568,109	(2,999,719)	4,973,150	(5,555,770)	-	34,657,547	140,560,755
Total fund balances	47,505	60,007,582	135,415,676	18,261,229	(14,818)	6,111,167	17,265	220,000	51,217,117	271,282,723
Total liabilities and fund balances	$ 86,020	$ 65,185,976	$ 139,048,418	$ 19,289,440	$ 2,984,901	$ 8,045,956	$ 2,622,802	$ 2,390,314	$ 51,234,556	$ 290,888,383

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

Department of Hawaiian Home Lands
State of Hawaii
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2005

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Temporary Deposits	Other Funds	Total
Revenues										
Appropriations	$ 823,857	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 823,857
General leases	-	-	-	-	-	5,739,010	-	-	-	5,739,010
Licenses and permits	-	-	-	-	-	1,928,037	-	-	-	1,928,037
Interest from loans and note receivable	-	-	-	106,406	2,965,916	-	-	-	-	3,072,322
Interest from short-term cash investments	-	-	3,330,605	15,402	1,541,172	328,779	-	-	923,757	6,139,715
Intergovernmental revenues	-	-	-	-	-	-	9,008,371	-	-	9,008,371
Other	-	-	246,700	645,627	-	39,904	-	-	183,539	1,115,770
Total revenues	823,857	-	3,577,305	767,435	4,507,088	8,035,730	9,008,371	-	1,107,296	27,827,082
Expenditures										
Current:										
Administration and support services	187,677	-	62,273	2,290,824	-	2,802,328	670,770	-	1,068,773	7,082,645
Homestead services	385,885	225,503	-	1,172,776	-	1,730,106	-	-	(23,000)	3,491,270
Land development	82,474	-	3,930,182	884,052	-	857,167	734,365	-	-	6,488,240
Land management	48,624	-	38,460	1,806,543	-	248,740	3,735	-	9,507	2,155,609
Capital outlay:										
Home construction/capital projects	-	-	20,776,924	2,004,556	-	-	7,569,638	-	6,207	30,357,325
Debt service:										
Principal on long-term debt	-	-	-	100,083	-	-	-	-	1,200,000	1,300,083
Interest on long-term debt	-	-	-	58,330	-	-	-	-	440,297	498,627
Total expenditures	704,660	225,503	24,807,839	8,317,164	-	5,638,341	8,978,508	-	2,701,784	51,373,799
Excess (deficiency) of revenues over (under) expenditures	119,197	(225,503)	(21,230,534)	(7,549,729)	4,507,088	2,397,389	29,863	-	(1,594,488)	(23,546,717)
Other financing sources (uses)										
Operating transfers in (Note L)	-	-	30,000,000	9,672,364	-	8,000,852	-	-	11,625,691	59,298,907
Operating transfers out	-	-	-	-	(4,672,364)	(16,625,691)	-	-	(8,000,852)	(29,298,907)
Total other financing sources (uses)	-	-	30,000,000	9,672,364	(4,672,364)	(8,624,839)	-	-	3,624,839	30,000,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	119,197	(225,503)	8,769,466	2,122,635	(165,276)	(6,227,450)	29,863	-	2,030,351	6,453,283
Lapsed appropriations	(98,306)	-	-	-	-	-	-	-	(69,869)	(168,175)
Net change in fund balances	20,891	(225,503)	8,769,466	2,122,635	(165,276)	(6,227,450)	29,863	-	1,960,482	6,285,108
Fund balances at July 1, 2004	26,614	60,233,085	126,646,210	16,138,594	150,458	12,338,617	(12,598)	220,000	49,256,635	264,997,615
Fund balances at June 30, 2005	$ 47,505	$ 60,007,582	$ 135,415,676	$ 18,261,229	$ (14,818)	$ 6,111,167	$ 17,265	$ 220,000	$ 51,217,117	$ 271,282,723

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

Department of Hawaiian Home Lands
State of Hawaii
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

	Total Governmental Funds	Long-Term Assets, Liabilities		Reclassifications and Eliminations		Statement of Net Assets
ASSETS						
Cash and short-term cash investments held in State Treasury	$ 231,855,459	$ -		$ -		$ 231,855,459
Receivables:						
Loans, net of allowance for losses	46,552,751	-		-		46,552,751
Accrued interest	4,057,290	-		-		4,057,290
Note receivable	4,274,196	-		-		4,274,196
General leases and licenses, net of allowance for losses	763,315	-		-		763,315
Other	2,647,472	-		-		2,647,472
Other assets	737,900	-		-		737,900
Capital assets:						
Land, improvements, construction-in-progress and other capital assets, net of depreciation	-	313,333,834	(1)	-		313,333,834
Total assets	$ 290,888,383	$ 313,333,834		$ -		$ 604,222,217
LIABILITIES						
Vouchers and contracts payable	$ 6,751,297	$ -		$ -		$ 6,751,297
Accrued wages and employee benefits payable	478,640	-		-		478,640
Due to State Treasury	10,000	-		-		10,000
Other liabilities	7,989,443	-		-		7,989,443
Deferred revenue	4,376,280	(3,080,000)	(5)	-		1,296,280
Note payable:						
Due within one year	-	2,200,000	(2)			2,200,000
Due in more than one year	-	28,600,000	(2)			28,600,000
Bonds payable:						
Due within one year	-	1,427,000	(3)	-		1,427,000
Due in more than one year	-	9,713,473	(3)	-		9,713,473
Accrued vacation:						
Due within one year	-	364,000	(4)	-		364,000
Due in more than one year	-	794,818	(4)	-		794,818
Total liabilities	19,605,660	40,019,291		-		59,624,951
FUND BALANCES/NET ASSETS						
Invested in capital assets, net of related debt	-	259,084,721	(1)	-		271,393,361
		63,429,629	(1)			
		(8,709,059)	(1)			
		(471,457)	(1)			
		(30,800,000)	(2)			
		(12,442,480)	(3)			
		1,300,083	(3)			
		1,924	(3)			
Reserved/Restricted for:						
Encumbraces	57,445,232	-		(57,445,232)	(6)	-
Receivables	58,295,024	-		(58,295,024)	(6)	-
Loan commitments	1,010,379	-		(1,010,379)	(6)	-
Unexpended Federal grants	2,971,233	-		(2,971,233)	(6)	-
Guaranteed and insured loans	11,000,100	-		(11,000,100)	(6)	-
Unreserved/Unrestricted:	140,560,755	(1,063,877)	(4)	130,721,968	(6)	273,203,905
		(94,941)	(4)			
		2,523,000	(5)			
		557,000	(5)			
Total fund balances/net assets	271,282,723	273,314,543		-		544,597,266
Total liabilities and fund balances/net assets	$ 290,888,383	$ 313,333,834		$ -		$ 604,222,217

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

Department of Hawaiian Home Lands
State of Hawaii

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2005 (continued)

Total fund balances - governmental funds			$ 271,282,723
Amounts reported for governmental activities in the statement of net assets are different because:			
(1)	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
	Infrastructure assets	$ 287,309,872	
	Other capital assets	10,965,286	
	Accumulated depreciation	(89,176,016)	
	Land	33,680,905	
	Construction in progress	70,553,787	
	Total capital assets		313,333,834
(2)	Notes payable that are not due and payable in the current period are not reported in the funds.		(30,800,000)
(3)	Bonds payable that are not due and payable in the current period are not reported in the funds.		(11,140,473)
(4)	Compensated absenses that are not due and payable in the current period are not reported in the funds.		(1,158,818)
(5)	Lease rents and loan interest receivables are not available soon enough after year end to pay for the current period's expenditures and are therefore deferred in the funds.		3,080,000
(6)	Reclassify reserved fund balance/net assets to unrestricted fund balance/net assets.		-
Total net assets			$ 544,597,266

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

Department of Hawaiian Home Lands
State of Hawaii
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
for the year ended June 30, 2005

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues				
Appropriations	$ 823,857	$ -	$ (168,175) (6)	$ 655,682
General leases	5,739,010	215,000 (5)	-	5,954,010
Licenses and permits	1,928,037	-	-	1,928,037
Interest from loans and note receivable	3,072,322	205,000 (5)	-	3,277,322
Interest from short-term cash investments	6,139,715	-	-	6,139,715
Intergovernmental revenues	9,008,371	-	-	9,008,371
Other	1,115,770	-	-	1,115,770
Total revenues	27,827,082	420,000	(168,175)	28,078,907
Expenditures				
Administration and support services	7,082,645	55,225 (1) (14,421) (1) (1,924) (3) 50,037 (4)	-	7,171,562
Homestead services	3,491,270	8,640,672 (1) (33,423) (1) 28,665 (4)	498,627 (7)	12,625,811
Land development	6,488,240	6,532 (1) (24,460) (1) 471,457 (1) (2,200,000) (2) (10,095) (4)	-	4,731,674
Land management	2,155,609	6,630 (1) 26,334 (4)	-	2,188,573
Home construction/capital projects	30,357,325	(30,357,325) (1)	-	-
Principal on long-term debt	1,300,083	(1,300,083) (3)	-	-
Interest on long-term debt	498,627	-	(498,627) (7)	-
Total expenditures	51,373,799	(24,656,179)	-	26,717,620
	(23,546,717)	(24,236,179)	(168,175)	1,361,287
Other financing sources and lapsed appropriations:				
Net operating transfers	30,000,000	-	-	30,000,000
Lapsed appropriations	(168,175)	-	168,175 (6)	-
Change in fund balances/net assets	$ 6,285,108	$ (24,236,179)	$ -	$ 31,361,287

The accompanying notes are an integral part of the financial statements

Department of Hawaiian Home Lands
State of Hawaii
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
for the year ended June 30, 2005 (continued)

Change in fund balances - governmental funds		$ 6,285,108
Amounts reported for governmental activities in the statement of activities are different because:		
(1) Capital outlays are reported as expenditures in governmental funds, however in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these outlays are:		
Capital outlay	$ 30,429,629	
Depreciation expense	(8,709,059)	
Expense asset additions under the capitalization threshhold	(471,457)	
Excess of capital outlay over depreciation expenses		21,249,113
(2) Payment of note payable is reported as an expenditure in governmental funds, but the payment reduces notes payable in the statement of net assets.		2,200,000
(3) Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net assets. Also, the decrease in bonds payable due to discounts from refunding bonds is shown in the statement of net assets.		
Repayment of bond principal	$ 1,300,083	
Discount from refunding bonds issued	1,924	
Net bond repayments		1,302,007
(4) The net increase in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and is therefore not reported as expenditures in governmental funds.		(94,941)
(5) Lease rent and loan interest that is not collected for several months after June 30 are not considered available revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount in the current year.		420,000
(6) Lapsed appropriations are net against appropriations in the statement of activities.		-
(7) Reclassify interest from interest on long-term debt to Homestead Services Division.		-
Change in net assets		$ 31,361,287

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

Department of Hawaiian Home Lands
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual
General Fund
for the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Appropriations	$ 1,277,007	$ 775,293	$ 823,857	$ 48,564
Expenditures:				
Administration and support services	471,846	201,812	196,991	4,821
Homestead services	546,600	437,560	391,420	46,140
Land developement	80,444	80,444	85,986	(5,542)
Land management	178,117	55,477	51,154	4,323
Total expenditures	1,277,007	775,293	725,551	49,742
Excess of revenues over expenditures	$ -	$ -	$ 98,306	$ 98,306

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

Department of Hawaiian Home Lands
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual
Other Major Funds
for the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	(Budgetary Basis)	(Negative)
Hawaiian Home Administration Account				
Revenues	$ 7,172,586	$ 7,847,893	$ 8,035,730	$ 187,837
Expenditures:				
Administration and support services	3,182,451	3,500,524	2,620,775	879,749
Homestead services	2,329,963	2,522,123	1,686,011	836,112
Land developement	1,146,107	1,146,107	871,741	274,366
Land management	514,065	679,139	537,113	142,026
Total expenditures	7,172,586	7,847,893	5,715,640	2,132,253
Excess of revenues over expenditures	$ -	$ -	$ 2,320,090	$ 2,320,090

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

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Department of Hawaiian Home Lands (DHHL), State of Hawaii (the State), is headed by the Hawaiian Homes Commission. The DHHL was established by Section 24, of Act 1 (the Hawaii State Government Reorganization Act of 1959), Second Special Session Laws of Hawaii 1959, and is responsible for the administration of the Hawaiian Homes Commission Act of 1920 enacted by the United States Congress. The Hawaiian Homes Commission Act (HHCA) sets aside certain public lands as Hawaiian Home Lands to be utilized in the rehabilitation of native Hawaiians.

The accompanying financial statements of the DHHL have been prepared in conformity with accounting principles generally accepted in the United State of America (GAAP) for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial principles. DHHL has defined its financial reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity.*

The accompanying financial statements present the financial position of the DHHL and the various funds and fund types and the changes in financial position of the DHHL and the various funds and fund types. The financial statements are presented as of June 30, 2005, and for the year then ended. The financial statements include the public trusts controlled by the Hawaiian Homes Commission.

The following is a summary of significant accounting policies:

1. Reporting Entity - The DHHL is part of the executive branch of the State. The DHHL's financial statements are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DHHL. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the DHHL's assets, liabilities, net assets and financial activities.

2. Departmental and Governmental Fund Financial Statements – The departmental financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the DHHL. The effect of interfund activity has been removed from these departmental financial statements.

   The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. At June 30, 2005, there were no restricted net assets.

Internally imposed designations of resources are presented as reserves of fund balances. Portions of fund balances are reserved for the following:

- Encumbrances - recorded obligations in the form of purchase orders or contracts.
- Receivables - amounts owed to DHHL at year end and are shown as reserved to indicate that portion of the fund balance that is not available for funding current expenditures.
- Loan commitments - loans approved before year end but funded after year end.
- Unexpended federal awards - encumbrances of federal awards not yet received from the federal government.
- Guaranteed and insured loans - amounts designated to pay mortgage guarantees and insurance claims.

Unreserved fund balances represents resources that have not been internally designated.

Financial statements are provided for DHHL's governmental funds. The DHHL has no proprietary funds or fiduciary funds. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

Departmental Financial Statements – The departmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

liabilities of the current period. For this purpose, the DHHL considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Principal revenue sources considered susceptible to accrual include lease payments, sales, federal grants and interest on loans and investments, and loan principal and interest receivable. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with accounting principles generally accepted in the United States of America since they are both measurable and are expected to be collected within sixty days of the end of the period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include:

- Employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2005, has been reported only in the departmental financial statements.
- Interest on bonds payable which is recognized when paid.

4. <u>Fund Accounting</u> – The accounts of the DHHL are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each funds' assets, liabilities, fund equity, revenues and expenditures.

The financial activities of the DHHL that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General fund – The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Special revenue funds – Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trust) that are restricted to expenditures for specified purposes. Revenues are primarily from general leases, licenses and permits granted for commercial, residential, agricultural and pastoral uses, and interest and investment income. DHHL's major special revenue funds are as follows:

Hawaiian Home General Loan Fund – This fund accounts for DHHL loans made to native Hawaiian homesteaders.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Hawaiian Home Operating Fund – This fund accounts for operations of the DHHL and is funded by monies transferred from the Hawaiian Home Receipts Fund.

Hawaiian Home Receipts Fund – This fund accounts for receipts of investment interest and loan interest payments from DHHL loans to homesteaders.

Hawaiian Home Administration Account – This fund accounts for commercial general leases, revocable permits and licenses of homestead lands. Lease revenues are used to fund operations of the DHHL.

Federal Grants – This fund accounts for grants the DHHL has with the Federal Government.

Temporary Deposits – This fund accounts for refundable deposits to lessees of homestead lands.

Hawaiian Home Lands Trust Fund – This expendable trust fund accounts for funds from the State to be expended by the DHHL as provided by law upon approval by the Commission and used for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920.

5. Appropriations - An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.

6. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

7. Cash and Short-term Cash Investments - Cash and short-term cash investments reported in the statement of net assets and the governmental funds balance sheet consist of cash and short-term cash investments in the State Treasury.

   The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the governmental funds balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

The Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest in obligations of or obligations guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

8. Accumulated Vacation and Sick Leave - Eligible employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

   Eligible employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DHHL's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2005, was approximately $3,491,000.

9. Intrafund and Interfund Transactions - Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

   All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the departmental financial statements.

10. Inventory - Inventory of materials and supplies is recorded as expenditures when purchased.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Capital Assets – Capital assets, which include land, buildings, improvements, equipment and infrastructure assets, are reported in the departmental financial statements. Capital assets are assets which have a cost of $5,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

    Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the departmental financial statements.

    Capital assets are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

Machinery and equipment	5 – 7 years
Vehicles	5 years
Buildings and other improvements	15 – 40 years
Infrastructure	30 years

    Certain office space is provided by the Department of Accounting and General Services, State of Hawaii, at no cost to the DHHL.

    The DHHL also has land in various parts of the State, some of which were transferred to it at no cost or at nominal cost.

12. General Leases and Licenses - General leases and licenses received in advance are recognized on a straight-line basis over the lease or license term.

13. Lease Rents and Interest Income - The DHHL's governmental fund financial statements recognizes lease rent and mortgage interest of its governmental funds as revenues when they are measurable and available. Revenues are measurable when they are subject to reasonable estimation. The available criterion is satisfied when revenues are collectible during the period and the actual collection will occur either during the period or after the end of the period, but in time to pay fund liabilities. The DHHL considers revenues available if they are expected to be collected within 60 days of the end of the year. Amounts not collected within this period approximated $3,080,000 as of June 30, 2005, and are recorded as deferred revenue. The departmental financial statements present lease rents and mortgage interest under the accrual method of accounting.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Use of Estimates - In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures 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.

NOTE B - BUDGETING AND BUDGETARY CONTROL

The DHHL's annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the DHHL as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the DHHL's general fund and the Hawaiian Homes Administration Account, a DHHL special revenue fund, are provided to the Department of Budget and Finance, State of Hawaii, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval. In addition, the budget for all expenditures of the DHHL's funds are also presented annually to the Hawaiian Homes Commission for approval.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

For purposes of budgeting, the DHHL's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statement of revenues and expenditures – budget and actual – general fund, are presented on the budgetary basis. A reconciliation of general fund revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2005, to general fund revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to $28,515 and $214,669 in the general fund and Hawaiian Home Administration Account, respectively, for the period from June 16, 2005 through June 30, 2005, are to be funded with monies budgeted for fiscal year 2006. In addition, at June 30, 2005, DHHL accrued expenditures of $32,176 in the Hawaiian Home Administration Account for certain goods and services received through June 30, 2005, which DHHL will fund with monies budgeted for fiscal 2006. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual of the general fund and Hawaiian Home Administration Account. For accounting purposes these amounts are reflected in the departmental and governmental fund financial statements at June 30, 2005, in accordance with accounting principles generally accepted in the United States of America.

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

In fiscal year 2004, under section 78-13 HRS salaries and wages for the period from June 16, 2004 to June 30, 2004, were funded with monies budgeted for fiscal year 2005. Accordingly, these amounts are included in the statements of revenues and expenditures – budget and actual of the general fund and Hawaiian Home Administration Account, for the year ended June 30, 2005. These expenditures, aggregated $49,406 for the general fund and $186,121 for the Hawaiian Home Administration Account.

The following schedule reconciles the budgetary amounts of the general fund and the Hawaiian Home Administration Account to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis).

	General Fund	Hawaiian Home Administration Account
Excess of revenues over expenditures - actual on budgetary basis	$ 98,306	$ 2,320,090
Current year's appropriations included in reserved for encumbrances at June 30, 2005	-	292,057
Expenditures for liquidation of prior years' encumbrances	-	(483,035)
Reverse for losses adjustment	-	332,000
Fiscal 2004 expenditures funded by fiscal 2005 budget	49,406	186,121
Fiscal 2005 expenditures funded by fiscal 2006 budget under Section 78-13 HRS	(28,515)	(246,845)
Excess of revenues over expenditures - GAAP basis	$ 119,197	$ 2,397,389

NOTE C - CASH AND SHORT-TERM CASH INVESTMENTS

Cash and short-term cash investments includes monies in the State Treasury. The State Treasury maintains an investment pool for all state monies. Hawaii Revised Statutes (HRS) authorize the State Director of Finance to invest any monies of the State which in the Director's judgment are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

NOTE C - CASH AND SHORT-TERM CASH INVESTMENTS (continued)

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

As of June 30, 2005, the carrying amount, which approximates the bank balance, of the DHHL's cash and short-term cash investments was $231,855,459.

NOTE D - RECEIVABLES

As of June 30, 2005, receivables consisted of the following:

Loans (Note E)	$ 50,740,051
Allowance for losses	(4,187,300)
Accrued interest	4,057,290
Note receivable (Note F)	4,274,196
General leases and licenses (Note G)	1,718,315
Allowance for losses	(955,000)
Other	2,647,472
	$ 58,295,024

As of June 30, 2005, general leases and licenses receivable included installment agreements with eight lessees with an aggregate balance of approximately $405,000. The agreements provide for varying monthly or quarterly payments, accrued interest at 10% per annum and varying terms extending through March 2009.

NOTE E - LOANS RECEIVABLE

Loans receivable consist of approximately 1,700 loans made to native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately $192,000 and for a maximum term of 30 years. Interest rates on outstanding loans range from 2.5% to 10.0%. The DHHL's loan portfolio consists of loans that the DHHL has originated and that generally are collateralized by improvements on the leased properties located in the State. Loan commitments as of June 30, 2005 were $1,010,379. The DHHL has provided an allowance for loan losses as of June 30, 2005. The allowance for loan losses is a valuation reserve, which has been provided through charges to operations. This charge to operations is the amount necessary, in the opinion of management, to maintain the balance in the allowance for loan losses at a level adequate to absorb potential losses for loans in the loan portfolio as of June 30, 2005.

NOTE F – NOTE RECEIVABLE

The DHHL has a note receivable from the developer of the DHHL's Waimanalo Kupuna Housing Project in the amount of $4,274,196. The DHHL paid development costs for this project and will be reimbursed after the developer obtains permanent financing for the project. The note is non-interest bearing and was due 18 months after the completion of the project. In December 2005, the note was paid.

NOTE G – GENERAL LEASES AND LICENSES

The DHHL's general leasing operations (Section 204 of Hawaiian Homes Commission Act of 1920, as amended) consist principally of the leasing of its Hawaiian Home Lands. The general leases have varying terms extending through 2066.

The future minimum lease income from general leases as of June 30, 2005, is as follows:

Year ending June 30,	
2006	$ 6,178,000
2007	6,386,000
2008	6,549,000
2009	6,783,000
2010	6,984,000
Thereafter	226,062,000
	$ 258,942,000

As of June 30, 2005, approximately 60% of the DHHL's land (based on acreage) was under homestead or general leases and license agreements. The cost of this land was not significant.

NOTE H – SALE OF HOMES

Under certain circumstances, the DHHL purchases homes from former lessees due to voluntary and involuntary cancellations of land leases. The homes are subsequently resold to qualified lessees. During the year ended June 30, 2005, the DHHL had purchased homes from former lessees with costs aggregating $587,900.

NOTE I – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, was as follows:

	Beginning Balance July 1, 2004	Additions	Disposals and Transfers	Reclassifications And Adjustments	Ending Balance June 30, 2005
Capital assets not being depreciated -					
Land	$ 17,535,594	$ 16,145,311	$ -	$ -	$ 33,680,905
Construction in progress	55,965,302	27,404,014	(471,457)	(12,344,072)	70,553,787
Total capital assets, not being depreciated -	73,500,896	43,549,325	(471,457)	(12,344,072)	104,234,692
Capital assets, being depreciated -					
Buildings and improvements	9,023,223	-	-	579,544	9,602,767
Infrastructure	255,737,344	19,808,000	-	11,764,528	287,309,872
Furniture and equipment	606,858	15,275	(28,635)	-	611,594
Motor vehicles	709,444	57,029	18,096 (15,548)	-	750,925
Total capital assets, being depreciated	266,076,869	19,880,304	(26,087)	12,344,072	298,275,158
Less: accumulated Depreciation for -					
Buildings and improvements	(3,032,598)	(290,918)	-	-	(3,323,516)
Infrastructure	(76,430,349)	(8,339,982)	-	-	(84,770,331)
Furniture and equipment	(379,437)	(52,648)	28,635	-	(421,546)
Motor vehicles	(650,660)	(25,511)	(18,096) 15,548	-	(660,623)
Total accumulated depreciation	(80,493,044)	(8,709,059)	26,087	-	(89,176,016)
Total capital assets, being depreciated, net	185,583,825	11,171,245	-	12,344,072	209,099,142
Capital assets, net	$ 259,084,721	$ 54,720,570	$ (471,457)	$ -	$ 313,333,834

The capital asset additions includes $33 million of land and infrastructure acquired under a transfer agreement with the Housing and Community Development Corporation of Hawaii. See Note P.

NOTE I – CAPITAL ASSETS (continued)

Depreciation expense for the year ended June 30, 2005, was charged to functions of the DHHL as follows:

Administration and support services	$ 55,225
Homestead services	8,640,672
Land development	6,532
Land management	6,630
Total depreciation	$ 8,709,059

NOTE J – LONG-TERM OBLIGATIONS

For the year ended June 30, 2005, changes in long-term obligations were as follows:

	Accrued Vacation	Bonds Payable
Balances at July 1, 2004	$ 1,063,877	$ 12,442,480
Principal payments	-	(1,300,083)
Bond issued	-	112,963
Bonds refunded	-	(114,887)
Net increase in accrued vacation	94,941	-
Balances at June 30, 2005	$ 1,158,818	$ 11,140,473

Obligations for accrued vacation are generally liquidated by the general fund, the Hawaiian Home Operating Fund and the Hawaiian Home Administration Account.

Bonds Payable

Revenue Bonds -

The State Legislature, by Act 316, SLH 1989, as amended by Act 299, SLH 1990, and further amended by Act 296, SLH 1991, authorized the issuance of revenue bonds amounting to $43,768,000 to finance the cost of developing Hawaiian home lands. Of the total amount authorized, the DHHL issued $18,000,000 of 1991 series revenue bonds in October 1991.

On January 15, 1999, the DHHL issued $13,370,000 of 1999 series revenue bonds to advance refund $12,060,000 of outstanding 1991 series revenue bonds. The net proceeds of $13,055,195, after payment of issuance cost and $207,950 of the DHHL's funds, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 series revenue bonds. As a result, the 1991 series revenue bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2005

NOTE J- LONG-TERM OBLIGATIONS (continued)

The revenue bonds are payable from and collateralized by the DHHL's revenues from available lands and are due in annual installments through July 1, 2011. The balance of bonds payable as of June 30, 2005, is $9,900,000 for the 1999 series revenue bonds.

The unrefunded series 1991 bonds were repaid on July 1, 2001.

Interest on the series 1999 bonds increases annually from 3.8% to 4.45% and is payable semi-annually on January 1 and July 1. Commencing on July 1, 2002, annual principal payments were required.

The annual requirements of the revenue bonds are as follows:

Year ending June 30,	Interest	Principal	Total
2006	$ 391,298	$ 1,250,000	$ 1,641,298
2007	339,973	1,300,000	1,639,973
2008	285,870	1,355,000	1,640,870
2009	228,835	1,410,000	1,638,835
2010	168,446	1,465,000	1,633,446
2011	104,146	1,525,000	1,629,146
2012	35,489	1,595,000	1,630,489
Total	$ 1,554,057	$ 9,900,000	$ 11,454,057

General Obligation Bonds -

The following are portions of the State general obligation bonds allocated to the DHHL under acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayments of allocated bond debts are made to the State General Fund. Details of the allocated bonds as of June 30, 2005, are as follows:

$1,000,346 Series BW bonds dated March 1, 1992; $166,708 was refunded on February 15, 2002and $112,089 was refunded on June 15, 2005; due in annual principal installments of $55,569 commencing March 1, 2006 through March 1, 2008 and $54,619 on March 1, 2011 and $55,569 on March 1, 2012; interest at 5.875% to 6.40% payable semi-annually	$ 276,896
$124,303 Series BZ bonds dated October 1, 1992; $7,769 was refunded on April 1, 1998 and $23,307 was refunded on February 15, 2002; due in annual principal installments of $7,769 commencing October 1, 2005 through October 1, 2012; interest at 5.40% to 6.25% payable semi-annually	62,151
Subtotal carried forward	$ 339,047

NOTE J - LONG-TERM OBLIGATIONS (continued)

Bonds Payable (continued)

General Obligation Bonds (continued) -

Subtotal brought forward	$ 339,047
$758,726 Series CI refunding bonds dated November 1, 1993; due in annual principal installments of $50,587 through November 1, 2003 and $50,575 through November 1, 2010; interest at 4.20% to 4.90% payable semi-annually	303,452
$66,394 Series CH bonds dated November 1, 1993; $55,335 was refunded on October 1, 1997; due in annual principal installments of $3,689 through November 1, 2013; interest at 4.10% to 6.00% payable semi-annually	33,194
$86,517 Series CO bonds dated March 1, 1997; $11,940 was refunded on April 1, 1998; due in semi-annual principal installments of $2,646 to $4,250 through March 1, 2011; interest at 4.625% to 6.00% payable semi-annually	43,580
$321,472 Series CS refunding bonds dated April 1, 1998; due in annual principal installments of $45,740 on April 1, 2006; $48,137 on April 1, 2007; $50,548 on April 1, 2008 and $53,074 on April 1, 2009; interest at 5.00% to 5.25% payable semi-annually	197,499
$65,992 Series CW refund bonds dated August 1, 2001; $2,118 was refunded on June 15, 2005 due in annual principal installments of $4,679 on August 1, 2005; $4,873 on August 1, 2006; $5,073 on August 1, 2007; $5,311 on August 1, 2008; $5,585 on August 1, 2009; $5,885 on August 1, 2010; $6,203 on August 1, 2011; $6,540 on August 1, 2012; $6,896 on August 1, 2013; $7,273 on August 1, 2014; $5,555 on August 1, 2015	63,873
$140,129 Series CY refunding bonds dated February 15, 2002; $680 was refunded on June 15, 2005; due in annual principal installments of $12,633 on February 1, 2007; $13,217 on February 1, 2008; $13,910 on February 1, 2009; $14,582 on February 1, 2010; $15,347 on February 1, 2011; $16,192 on February 1, 2012; $17,081 on February 1, 2013; $18,064 on February 1, 2014 and $19,104 on February 1, 2015; interest at 3.60% to 5.75% payable semi-annually	139,449
Subtotal carried forward	$ 1,120,094

NOTE J - LONG-TERM OBLIGATIONS (continued)

Bonds Payable (continued)

General Obligation Bonds (continued) –

Subtotal brought forward	$ 1,120,094
$7,415 Series DB refunding bonds dated September 16, 2003; due in annual principal installments of $675 on September 1, 2008; $703 on September 1, 2009; $738 on September 1, 2010; $778 on September 1, 2011; $815 on September 1, 2012; $857 on September 1, 2013; $902 on September 1, 2014; $949 on September 1, 2015 and $1,000 on September 1, 2016; interest at 5.00% to 5.25% payable semi-annually	7,415
$110,109 Series DG refunding bonds dated June 15, 2005; due in annual principal installments of $9,933 on June 1, 2010; $10,443 on June 1, 2011; $10,978 on June 1, 2012; $11,541 on June 1, 2013; $12,133 on June 1, 2014; $12,755 on June 1, 2015; $13,409 on June 1, 2016; $14,097 on June 1, 2017; $14,820 on June 1, 2018.	110,109
$2,855 Series DH refunding bonds dated June 15, 2005; due in annual principal installment of $2,855 on June 1, 2006.	2,855
	$ 1,240,473

At June 30, 2005, all of the remaining principal had been spent on capital projects.

NOTE J- LONG-TERM OBLIGATIONS (continued)

Bonds Payable (continued)

General Obligation Bonds (continued) -

The annual requirements of the general obligation bonds are as follows:

Year ending June 30,	Interest	Principal	Total
2006	$ 48,431	$ 177,111	$ 225,542
2007	41,642	189,858	231,500
2008	33,032	193,455	226,487
2009	24,241	142,446	166,687
2010	19,527	100,052	119,579
2011	15,248	157,442	172,690
2012	8,816	101,175	109,991
2013	3,999	47,434	51,433
2014	2,836	41,638	44,474
2015	1,953	40,032	41,985
2016	1,123	19,913	21,036
2017	672	15,097	15,769
2018	227	14,820	15,047
	$ 201,747	$ 1,240,473	$ 1,442,220

NOTE K - COMMITMENTS AND CONTINGENCIES

Litigation -

The DHHL is involved in several lawsuits and complaints which management believes arose in the normal course of operations. Based on discussions with counsel, management has ascertained that lawsuits and complaints against the State of Hawaii are typically paid through an appropriation from the General Fund of the State of Hawaii. Accordingly, management is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of the DHHL.

Insurance -

Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. Effective July 1, 1997, all benefits paid for workers' compensation are reflected in the respective department or agency's financial statements. No benefits were paid by the DHHL for the year ended June 30, 2004. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DHHL financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported, were reviewed at year end. The estimated losses from these claims are not material.

NOTE K - COMMITMENTS AND CONTINGENCIES (continued)

Deferred Compensation Plan -

In 1983, the State established a deferred compensation plan which enables State employees to defer a portion of their compensation. The Department of Human Resources Development, State of Hawaii, has the fiduciary responsibility of administering the plan. The plan assets are protected from claims of the State's creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The deferred compensation is not available to employees until termination, retirement, death or any unforeseeable emergency.

Guaranteed and Insured Loans -

As of June 30, 2005, the DHHL was contingently liable for approximately $11,172,000 in loans originated primarily by the U.S. Department of Agriculture Rural Development for which the DHHL has guaranteed repayment. A total of $387,000 of these loans has been reported delinquent as of June 30, 2005.

The DHHL is also a party to a mortgage loan insurance agreement with the U.S. Department of Housing and Urban Development (HUD). The agreement provides that HUD will perform underwriting processing for the insurance of mortgage and will administer an insurance fund for mortgages originated and held by HUD-approved lenders. The DHHL will maintain and provide the necessary and proper funds for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowers. The DHHL has reserved cash of approximately $10,850,100 in the special revenue fund and has deposited $150,000 with HUD. As of June 30, 2005, loans outstanding totaled approximately $239,224,000 under this agreement, of which $7,505,000 has been reported as delinquent.

As of June 30, 2005, the DHHL is also contingently liable for approximately $29,489,000 in loans originated by financial institutions and other lenders for which it has guaranteed repayment. A total of $500,000 of these loans has been reported delinquent as of June 30, 2005.

As of June 30, 2005, the DHHL paid approximately $4,965,000 for delinquent mortgage loan payments of lessees. These payments are carried as loans receivable from lessees and bear similar terms as stipulated in the lessees' mortgage note with the lenders.

The DHHL has certain loans for which the collateral for the loans is not covered by casualty insurance. The number of such loans is not known.

Other -

As of June 30, 2005, the reserve for encumbrances relating to construction contracts approximated $52,408,000.

NOTE L - COMPENSATION FOR PAST USE OF HAWAIIAN HOME LANDS BY THE STATE OF HAWAII

Pursuant to Act 14, SP SLH 1995, the Hawaiian Home Lands Trust Fund was established to account for funds to be paid by the State for the use or disposition of lands, which were alleged to have been Hawaiian home lands or covered by the Hawaiian Homes Commissions Act of 1920 arising between August 21, 1959 and June 30, 1988.

Act 14 requires the State to make twenty annual payments of $30,000,000 in cash or such other consideration as agreed to between the State and the Department of Hawaiian Home Lands. Interest is determined as provided in Act 14 on the unpaid balance of any funds due, but not appropriated, by the end of each respective fiscal year. The DHHL received $30,000,000 in the current year as a transfer from the Department of Budget and Finance, State of Hawaii, to the Hawaiian Home Lands Trust Fund.

NOTE M - HAWAIIAN HOME LANDS TRUST INDIVIDUAL CLAIMS

In 1991, the Legislature enacted HRS Chapter 674 entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust" which establishes a process for individual beneficiaries of the Hawaiian Home Lands Commission Act of 1920 to file claims to recover actual economic damages they believed they suffered from a breach of trust that occurred between August 21, 1959, when Hawaii became a state and June 30, 1988. The breach must have been caused by an act or omission of an employee or officer of the State in the management and disposition of trust resources.

A Hawaiian Home Lands Trust Individual Claims Review Panel (Panel) was established under Chapter 674 to receive claims of individual beneficiaries. The Panel is required to prepare a record of each claim, including the Panel's non-binding findings and an advisory opinion concerning the probable merits of the claim. The Panel's advisory findings and advisory opinions, which are issued after adversarial hearings, must be submitted to the Legislature. The Legislature may take such action upon the claims as it deems appropriate. If the Legislature's proffered resolution is not satisfactory to a claimant, a civil action for corrective action and the recovery of actual economic damages could be initiated after October 1, 1999, but no later than December 31, 1999.

NOTE M - HAWAIIAN HOME LANDS TRUST INDIVIDUAL CLAIMS (continued)

The deadline to file a claim with the Panel was August 31, 1995. A total of 4,327 claims were filed by 2,753 individuals. As of September 1999, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the Legislature. In 1997, the Legislature declared it to be its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

Also arising from Chapter 674, in December 1999, three claimants filed a class action lawsuit in the State Circuit Court for declaratory and injunctive relief, and for damages under HRS Chapter 673 for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. In August 2000, the Circuit Court entered an order granting the plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denied the State's motions on the pleadings. The plaintiff is appealing the judgment relating to the other Counts in the lawsuit with the State Supreme Court. Five other claimants filed similar individual claims actions for themselves. The plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in the class action lawsuit that are common to the questions of law presented in their suits. Outcome of these cases are pending.

Claims for actual damages under Chapter 674 are made against the State of Hawaii. Accordingly, counsel for the DHHL does not believe that the final settlement of the claims will have an impact on the DHHL's funds.

NOTE N - ASSESSMENTS FOR CENTRAL SERVICE AND ADMINISTRATIVE EXPENSES

The State of Hawaii has asserted that the DHHL is liable for its pro rata share of central service and administrative expenses incurred by the State in accordance with Sections 36-27 and 36-30, Hawaii Revised Statutes. Pursuant to Section 36-31, Hawaii Revised Statutes, the DHHL maintains that their funds are trust funds and are not subject to the special fund assessments. Accordingly, no provision for any liability has been made in the accompanying financial statements.

NOTE N - ASSESSMENTS FOR CENTRAL SERVICE AND ADMINISTRATIVE EXPENSES (continued)

Effective July 1, 1998, Act 27, SLH 1998 amended Section 213 of the Hawaiian Homes Commissions Act and reclassified certain special funds as trust funds.

The DHHL's estimate of the asserted assessments is as follows:

Year ending June 30,	
1994	$ 1,300,000
1995	2,200,000
1996	2,100,000
1997	1,900,000
1998	1,900,000
1999	679,000
2000	775,000
2001	735,000
2002	739,000
2003	1,158,000
2004	1,224,000
2005	1,055,000
	$ 15,765,000

NOTE O - RETIREMENT BENEFITS

Substantially all employees of the DHHL are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost sharing multiple employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the ERS consisted only of a contributory plan. In 1984, legislation was enacted to create a new noncontributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are excluded from the noncontributory plan. The noncontributory plan 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 plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Contributions for employees of the DHHL are paid from the State General Fund.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a departmental or agency basis.

NOTE O - RETIREMENT BENEFITS (continued)

The State's policy is to fund its required contribution annually. The DHHL's share of the retirement system expense for the year ended June 30, 2005, was included as an item to be expended by the Department of Budget and Finance and is not reflected in the DHHL's financial statements. The DHHL's special revenue funds expended approximately $477,000 for employer contributions for the year ended June 30, 2005. The entire ERS' actuarial determination of the employer contribution requirements was met as of June 30, 2005.

The ERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained from the ERS.

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all DHHL employees, their spouses and dependent children under age 19. Employees hired before July 1, 1996, who retire with at least ten years of credited service, qualify for health benefits at no cost. Employees who were hired on or after July 1, 1996, with at least ten years of credited service, qualify for health benefits on a cost-sharing basis. Employees with 25 or more years of credited service qualify for health benefits at no cost.

There are currently approximately 32,000 state retirants and beneficiaries receiving such benefits. Employees hired after July 1, 2002 will not receive health benefits for their spouse and dependents when they retire.

NOTE P – LAND ACQUISITION

In December 2004, the Department entered into a transfer agreement with the State of Hawaii in connection with the acquisition of approximately 1,800 acres of land consisting of four properties on three islands, to the Department. Certain of the land is partially developed and is intended to be utilized for 3,500 homes for native Hawaiians.

As part of the transfer agreement, the Department will pay $2.2 million a year for 15 years, for a total of $33 million, to reimburse the Housing and Community Development Corporation of Hawaii (HCDCH), State of Hawaii, for infrastructure costs at three of the properties. This note is non interest bearing. At June 30, 2005, DHHL owed $30,800,000 to HCDCH. The note will be repaid with monies in the DHHL's Hawaiian Home Lands Trust Fund.

SUPPLEMENTAL INFORMATION

Supplemental Information

Department of Hawaiian Home Lands
State of Hawaii
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Hawaiian Home Loan Fund	Department of Hawaiian Home Lands Revenue Bond Special Fund	Hawaiian Home Trust Fund	Native Hawaiian Rehabilitation Fund	Protocol Funds	Construction Funds	Total Other Governmental Funds
ASSETS							
Cash and short-term cash investments held in State Treasury	$ 675,595	$ 24,485,136	$ 10,850,100	$ 10,927,949	$ 754	$ 117,176	$ 47,056,710
Receivables							
Loans, net of allowance for losses	3,847,766	-	-	3,312	-	-	3,851,078
Accrued interest	-	46,420	-	130,058	(21)	-	176,457
Other	2,011	-	-	-	-	-	2,011
Other assets	148,300	-	-	-	-	-	148,300
Total assets	$ 4,673,672	$ 24,531,556	$ 10,850,100	$ 11,061,319	$ 733	$ 117,176	$ 51,234,556
LIABILITIES							
Vouchers and contracts payable	$ -	$ -	$ -	$ 17,439	$ -	$ -	$ 17,439
Other liabilities	-	-	-	-	-	-	-
Total liabilities	-	-	-	17,439	-	-	17,439
FUND BALANCES							
Reserved for:							
Encumbrances	-	-	-	1,562,748	-	117,176	1,679,924
Receivables	3,849,777	46,420	-	133,370	(21)	-	4,029,546
Guaranteed and insured loans	-	-	10,850,100	-	-	-	10,850,100
Total reserved fund balances	3,849,777	46,420	10,850,100	1,696,118	(21)	117,176	16,559,570
Unreserved reported in nonmajor:							
Special revenue funds	823,895	24,485,136	-	9,347,762	754	-	34,657,547
Total unreserved fund balances	823,895	24,485,136	-	9,347,762	754	-	34,657,547
Total fund balances	4,673,672	24,531,556	10,850,100	11,043,880	733	117,176	51,217,117
Total liabilities and fund balances	$ 4,673,672	$ 24,531,556	$ 10,850,100	$ 11,061,319	$ 733	$ 117,176	$ 51,234,556

Department of Hawaiian Home Lands
State of Hawaii
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
for the year ended June 30, 2005

	Hawaiian Home Loan Fund	Department of Hawaiian Home Lands Revenue Bond Special Fund	Hawaiian Home Trust Fund	Native Hawaiian Rehabilitation Fund	Protocol Funds	Construction Funds	Total Other Governmental Funds
Revenues							
Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest from short-term cash investments	-	599,631	-	324,079	47	-	923,757
Other	-	-	-	183,539	-	-	183,539
Total revenues	-	599,631	-	507,618	47	-	1,107,296
Expenditures							
Current:							
Administration and support services	-	-	-	1,086,383	1,790	(19,400)	1,068,773
Homestead services	(23,000)	-	-	-	-	-	(23,000)
Land management	-	-	-	9,507	-	-	9,507
Capital outlay:							
Home construction/capital projects	-	-	-	6,207	-	-	6,207
Debt service:							
Principal on long-term debt	-	1,200,000	-	-	-	-	1,200,000
Interest on long-term debt	-	440,297	-	-	-	-	440,297
Total expenditures	(23,000)	1,640,297	-	1,102,097	1,790	(19,400)	2,701,784
Excess (deficiency) of revenues over (under) expenditures	23,000	(1,040,666)	-	(594,479)	(1,743)	19,400	(1,594,488)
Other financing sources (uses)							
Operating transfers in	-	11,623,191	-	-	2,500	-	11,625,691
Operating transfers out	-	(8,000,000)	-	-	(852)	-	(8,000,852)
Total other financing sources (uses)	-	3,623,191	-	-	1,648	-	3,624,839
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	23,000	2,582,525	-	(594,479)	(95)	19,400	2,030,351
Lapsed appropriations	-	-	-	-	-	(69,869)	(69,869)
Net change in fund balances	23,000	2,582,525	-	(594,479)	(95)	(50,469)	1,960,482
Fund balances at July 1, 2004	4,650,672	21,949,031	10,850,100	11,638,359	828	167,645	49,256,635
Fund balances at June 30, 2005	$ 4,673,672	$ 24,531,556	$ 10,850,100	$ 11,043,880	$ 733	$ 117,176	$ 51,217,117

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APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

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APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

As of October 1, 2006

Island	Number	Use	Name	Ending Date	Annual Rent	Reopenning Date
HAWAII	102	Industrial	Akana Petroleum, Inc.	3/1/2021	$ 72,407.25	None
HAWAII	108	Industrial	Inter-Pacific Motors, Inc.	10/31/2031	$ 53,000.00	11/1/2011
HAWAII	109	Industrial	David S. Deluz, Sr.	8/31/2031	$ 26,000.00	9/1/2011
HAWAII	110	Industrial	Yamada & Sons, Inc.	10/31/2031	$ 98,800.00	11/1/2011
HAWAII	113	Industrial	George R. Jr., and Jean S. Madden	6/14/2024	$ 14,000.00	6/15/2009
OAHU	114	Utility	Hawaiian Telecom	4/30/2032	$ 8,987.00	None
HAWAII	122	Industrial	Hilo Wood Treating, Inc.	9/30/2007	$ 27,600.00	None
HAWAII	126	Industrial	Big Island Toyota, Inc.	12/31/2022	$ 18,286.00	1/1/2008
HAWAII	127	Industrial	Aloha Machine & Welding, Ltd.	12/31/2022	$ 12,480.00	1/1/2008
HAWAII	129	Industrial	Kenneth L. Antonio dba Ken's Towing Service, Inc.	3/1/2023	$ 9,134.00	3/2/2008
HAWAII	132	Industrial	Big Island Toyota, Inc.	4/30/2023	$ 37,920.00	5/1/2008
OAHU	134	Utility	Hawaiian Telecom	5/31/2033	$ 19,001.00	6/1/2013
HAWAII	135	Utility	Hawaiian Telecom	10/31/2033	$ 67,030.00	11/1/2013
HAWAII	136	Industrial	Hamakua Macadamia Nut Company	8/31/2033	$ 54,000.00	9/1/2013
HAWAII	140	Industrial	A & A Hawaii, Inc.	1/14/2024	$ 25,851.00	1/15/2009
HAWAII	141	Industrial	Big Island Car Wash, Inc.	6/14/2024	$ 25,938.00	None
HAWAII	142	Industrial	J/R Hilo Acquisition, LLC	6/14/2024	$ 46,041.00	6/15/2009
HAWAII	143	Industrial	Hawthorne Pacific Corp.	6/14/2024	$ 72,956.00	6/15/2014
HAWAII	144	Industrial	Lawrence J. Balberde	6/14/2024	$ 20,520.00	6/15/2009
HAWAII	145	Industrial	Yamada & Sons, Inc.	10/31/2031	$ 33,800.00	11/1/2011
HAWAII	146	Industrial	Central Pacific Bank - Trustee for Hawaii Community Foundation	6/15/2024	$ 12,000.00	6/16/2009
HAWAII	152	Industrial	Aloha Veterinary Center, Inc.	9/30/2024	$ 10,122.00	10/1/2009
HAWAII	155	Industrial	K. Taniguchi, Ltd.	2/14/2025	$ 30,550.00	2/15/2010
HAWAII	156	Industrial	Bacon Finance & Realty Corp.	3/31/2035	$129,650.00	4/1/2015
HAWAII	158	Industrial	Shawn Nakamoto	6/30/2025	$ 33,800.00	7/1/2010
HAWAII	159	Industrial	Aloha Machine and Welding, Ltd.	6/30/2025	$ 15,300.00	7/1/2015
HAWAII	160	Industrial	The Pint Size Corporation	10/31/2025	$ 17,010.00	11/1/2010
HAWAII	161	Industrial	Taialoha Co., Inc.	10/31/2025	$ 23,200.00	None
HAWAII	163	Industrial	Holomua Street Partners	10/31/2025	$ 23,200.00	None
HAWAII	164	Industrial	Office Max, Inc.	10/31/2035	$ 56,550.00	11/1/2015
HAWAII	165	Industrial	Trojan Lumber Co., Inc.	10/31/2010	$ 23,759.00	None
HAWAII	166	Industrial	Elton F. Kaku dba Big Isle Auto Care	10/31/2010	$ 17,010.00	None
HAWAII	167	Industrial	Gil A. & Marcy P. Unilongo	10/31/2025	$ 14,950.00	11/1/2010
HAWAII	168	Industrial	Frederick W. Jr.,and Trudee K. Siemann dba S&S Cabinets	1/31/2011	$ 13,163.00	None
HAWAII	169	Industrial	Alpha Supply Corp.	1/31/2011	$ 13,163.00	None
HAWAII	170	Industrial	Hawaii Island Glass, Inc.	1/31/2011	$ 13,163.00	None
HAWAII	171	Industrial	A & A Hawaii, Inc.	1/31/2026	$ 9,190.00	None
HAWAII	172	Industrial	Eaves & Meredith Co. Ltd.	1/31/2026	$ 8,700.00	2/2/2011
HAWAII	173	Industrial	A & A Hawaii, Inc.	1/31/2026	$ 10,720.00	None
HAWAII	174	Industrial	Men's Shop, Inc.	1/31/2026	$ 15,385.00	2/1/2011
HAWAII	175	Industrial	Nelson & Clara C. Rego dba Steel Fabrication Hawaii	1/31/2026	$ 13,180.00	None
HAWAII	176	Industrial	Pacific Macadamia Nut Corp.	1/31/2036	$ 28,517.00	2/1/2016
HAWAII	177	Industrial	Oasis Enterprises LLC	7/22/2026	$ 10,914.00	7/23/2011
HAWAII	178	Industrial	Hokuloa, Inc.	4/30/2037	$ 17,550.00	5/1/2012
HAWAII	184	Pasture	Kahua Ranch, Ltd.	1/8/2011	$ 38,775.00	None
MOLOKAI	185	Agriculture	Agrigenetics Molokai, Inc. c/o Mycogen Seed	6/13/2026	$ 13,000.00	6/14/2021
HAWAII	187	Industrial	H.Kono, Inc. Dba HITCO Moving & Storage Co.	8/22/2031	$ 17,820.00	8/23/2021
HAWAII	188	Industrial	A&S Delivery	8/22/2031	$ 13,740.00	8/23/2016
HAWAII	190	Industrial	Hawthorne Pacific Corp.	11/11/2031	$ 72,100.00	11/12/2016
HAWAII	202	Commercial	Ho Retail Properties I Limited Partnership	9/30/2042	$317,792.50	10/1/2010
HAWAII	204	Industrial	Pacific Waste, Inc.	5/4/2008	$ 16,000.00	None

APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

As of October 1, 2006

Island	Number	Use	Name	Ending Date	Annual Rent	Reopenning Date
HAWAII	205	Industrial	Kawaihae Millwork, Inc.	5/4/2033	$ 22,397.00	5/5/2008
HAWAII	206	Industrial	Boyd Enterprises, Inc.	5/4/2008	$ 20,600.00	None
HAWAII	207	Industrial	Vincent B., Jr. & Kate K. Bragado	5/4/2008	$ 9,700.00	None
HAWAII	208	Industrial	Estate Systems, Inc.	6/1/2033	$ 21,032.00	6/2/2008
HAWAII	217	Industrial	Kawaihae Industrial Development Corp. c/o Harborside Investors	5/31/2039	$ 30,680.00	6/1/2009
OAHU	221	Public Service	Waianae Distr. Comprehensive Health and Hospital Board, Inc., dba Waianae Coast Comprehensive Health Center	12/31/2027	$ 57,000.00	1/1/2008
HAWAII	224	Industrial	H.Kono, Inc. dba HITCO Moving & Storage Co.	2/28/2031	$ 13,267.50	3/1/2011
HAWAII	226	Industrial	Michael Blair and Keiko Gibo Shewmaker	2/28/2044	$ 12,900.00	3/1/2011
HAWAII	227	Industrial	Michael Blair and Keiko Gibo Shewmaker	2/28/2044	$ 13,500.00	3/1/2011
MOLOKAI	231	National Park	National Park Service, Dept. of Interior Division of Land Resources Western Region	7/14/2041	$200,000.00	7/14/2011
OAHU	240	Public Service	Hale Ola Ho'opakolea	6/30/2007	$ 3,325.00	None
KAUAI	244	Public Service	Anahola Hawaiian Land Farmers Assn.	10/31/2024	$ 480.00	11/1/2009
HAWAII	245	Commercial	Waiakea Center, Inc.	10/14/2056	$963,745.00	10/15/2006
HAWAII	247	Air Traffic Control Beacon	U.S.A., Department of Transportation, Federal Aviation Administration Western Pacific Region	7/31/2015	$ 28,800.00	8/1/2009
HAWAII	248	Industrial	P & A Investments, Inc.	1/31/2054	$ 7,800.00	1/1/2009
OAHU	249	Preschool	Trustees of the Estate of Bernice Pauahi Bishop	12/31/2064	$ 1.00	None
MAUI	250	Preschool	Trustees of the Estate of Bernice Pauahi Bishop	6/30/2065	$ 1.00	None
HAWAII	251	Preschool	Trustees of the Estate of Bernice Pauahi Bishop	6/30/2065	$ 1.00	None
MOLOKAI	252	Church	Roman Catholic Church dba Molokai Catholic Church	12/31/2066	$ 1,805.00	1/1/2007
MOLOKAI	253	Church	Hawaii Pacific District Church of the Nazarene aka Molokai Church of the Nazarene	12/31/2041	$ 1,177.00	1/1/2011
MOLOKAI	254	Radio Receiver Site	The U.S.A., Secretary of the Air Force 30th Space Wing Commander 30 CES/CECBR	12/31/2022	$ 34,800.00	1/1/2013
MOLOKAI	256	Public Service	U.S. Postal Service Pacific Facilities Service Office	6/30/2027	$ 1,200.00	7/1/2007
HAWAII	258	Industrial	Aloha Machine & Welding, Ltd.	5/31/2057	$ 27,900.00	6/1/2012
HAWAII	259	Commercial	Kona Marina Development Group LLC	12/31/2068	$113,120.00	1/1/2007
HAWAII	260	Commercial	Home Depot U.S.A., Inc.	12/15/2070	$400,000.00	12/16/2014
OAHU	262	Community	Village 6 RTO LP	12/31/2056	$ 1.00	None
HAWAII	263	Industrial	Argus Johnson dba Argus Building Supply	10/31/2059	$ 37,700.00	11/1/2014
OAHU	264	Industrial	Otani Produce, Inc.	4/30/2070	$255,000.00	5/1/2016
HAWAII	265	Industrial	The Agency Inc.	1/31/2060	$ 14,100.00	2/1/2015
HAWAII	266	Industrial	Ivan Mochida Contracting, Inc.	1/31/2060	$ 17,500.00	2/1/2015
HAWAII	267	Industrial	Makaala Associates, LLC	1/31/2060	$ 14,000.00	2/1/2015
HAWAII	268	Industrial	Leleiwi Electric, Inc.	1/31/2060	$ 11,300.00	2/1/2015
OAHU	269	Community	Waimanalo Kupuna Housing Limited Partnership	9/7/2060	$ 1.00	9/7/2025
HAWAII	270	Industrial	Takahashi LLC	7/31/2060	$ 14,500.00	7/31/2016
HAWAII	271	Industrial	Shimba Properties LLC	7/31/2060	$ 11,300.00	7/31/2016
HAWAII	272	Commercial	CFT Development LLC dba Panda Express	11/30/2070	$180,000.00	11/30/2030
HAWAII	S-3849	Government	USA Department of Army	8/16/2028	$ 1.00	None
HAWAII	S-3852	Government	USA Department of Navy	8/19/2029	$ 1.00	None
OAHU	S-3897	Utility	Hawaiian Electric Company, Inc.	3/10/2030	$ 1,920.00	3/11/2010
OAHU	S-4113	Industrial	U-Haul of Hawaii, Inc.	10/9/2022	$ 88,390.00	10/10/2007
OAHU	S-4114	Industrial	U-Haul of Hawaii, Inc.	10/9/2022	$118,760.00	10/10/2007
OAHU	S-4115	Industrial	La'au Structures, Inc.	10/9/2007	$125,208.00	
OAHU	S-4117	Industrial	Lease Properties, LLC	10/9/2022	$132,000.00	10/10/2007
OAHU	S-4118	Industrial	Lease Properties II, LLC	10/9/2022	$133,760.00	10/10/2007
OAHU	S-4119	Industrial	Garlow Petroleum, Inc.	10/9/2022	$152,121.00	10/10/2007
OAHU	S-4120	Industrial	Frank White Jr. & Sally White	10/9/2022	$117,500.00	10/10/2007

APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

As of October 1, 2006

Island	Number	Use	Name	Ending Date	Annual Rent	Reopenning Date
OAHU	S-4121	Industrial	Equipment Service Company, LTD. dba F.K.S. Rental and Sales	10/9/2022	$121,600.00	10/10/2007
OAHU	S-4122	Industrial	Equipment Service Company, LTD. dba F.K.S. Rental and Sales	10/9/2022	$ 70,720.00	10/10/2007
OAHU	S-4123	Industrial	Douglas Kuniomi Takata, Trustee	10/9/2022	$ 76,368.00	10/10/2007
OAHU	S-4124	Industrial	Lease Properties, LLC	10/9/2022	$ 77,500.00	10/10/2007
OAHU	S-4125	Industrial	Lease Properties, LLC	10/9/2022	$ 77,500.00	10/11/2007
OAHU	S-4126	Industrial	Betheseda Temple Church of Deliverance Ministries, Inc.	10/9/2007	$ 80,000.00	
OAHU	S-4127	Industrial	W.P. Inc.	10/9/2022	$ 84,000.00	10/10/2007
OAHU	S-4290	Industrial	Pacific Diving Industries, Inc.	3/11/2025	$ 39,172.00	3/12/2010
OAHU	S-4291	Industrial	CLU Investments, Inc.	3/11/2010	$ 34,926.00	
OAHU	S-4292	Industrial	AOL Time Warner, Inc.	3/11/2010	$ 85,400.00	
OAHU	S-4293	Industrial	Hawaii Pro Sound and Video Rentals, Inc.	3/11/2025	$ 70,778.00	3/12/2010
OAHU	S-4294	Industrial	Hawaii Business Associates, Inc.	3/11/2025	$ 72,550.00	3/12/2010
HAWAII	S-4466	Pasture	Honokaia Ranch, Inc.	2/28/2011	$ 7,150.00	
OAHU	S-4643	Commercial	RCK Partners, Limited Partnership	5/31/2045	$378,750.00	1/1/2010
MAUI	S-5267	Agriculture	Maui Land and Pineapple Co., Inc.	9/30/2011	$ 70,400.00	
OAHU	S-5326	Agriculture	Wong Hon Hin, Inc	7/31/2030	$ 4,150.00	8/1/2015
					$6,554,983.25	

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF LEGAL DOCUMENTS

The following summary discussion of selected features of the Ground Lease, dated as of December 1, 2006 (the "Ground Lease"), the Facility Lease Agreement, dated as of December 1, 2006 (the "Facility Lease"), the Assignment Agreement, dated as of December 1, 2006 (the "Assignment Agreement"), and the Trust Agreement, dated as of December 1, 2006 (the "Trust Agreement"), are made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary discussion does not purport to be a complete statement of said provisions, and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the office of the Trustee in Los Angeles, California.

CERTAIN DEFINITIONS

The following are definitions of certain of the terms used in this Appendix C. Unless the context otherwise requires, the terms defined in this Appendix C will have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.

"Additional Certificates" means additional series of certificates of participation executed and delivered under the Trust Agreement.

"Additional Rental" means all amounts payable to the Trustee from Lessee as additional rental payments pursuant to the Lease.

"Authorized Official" shall have the meaning set forth in the definition of Written Direction of Authorized Official under the Trust Agreement.

"Available Moneys" means funds appropriated or otherwise made available, from time to time, by the State legislature to pay amounts due under the Facility Lease for the Fiscal Year in which such payments are due, together with any amounts available therefor held in the funds and accounts established pursuant to the Trust Agreement.

"Base Rental" means the base rental payments with interest components and principal components payable by the Lessee under and pursuant to the Facility Lease.

"Certificate Insurer" means any insurance company or companies which has or have issued any Certificate Insurance Policy insuring payment of the amounts of principal and interest with respect to the Certificates or any series or portion thereof, including the 2006 Series A Certificate Insurer.

"Certificate of the Lessee" means a certificate signed by the Comptroller of the State of Hawaii, or a deputy of such officer, that includes the statements provided in the Trust Agreement to the extent required.

"Certificate Payment Date" means, with respect to any Certificate, the November 1 designated therein, which is the date on which the Owner thereof is entitled to receive the amount of principal represented thereby.

"Certificate Reserve Fund" means the Certificate Reserve Fund established pursuant to the Trust Agreement.

"Certificate Reserve Fund Requirement" means an amount equal to the greatest amount of principal and interest payable on any maturity date for any of the Certificates in any Fiscal Year; *provided*, however, that all or a part of such Certificate Reserve Fund Requirement may be provided by a surety bond, insurance policy or letter of credit meeting the requirements of the Trust Agreement.

"Certificates" means the certificates of participation executed and delivered by the Trustee pursuant to the Trust Agreement. "2006 Series A Certificates" means the Certificates of Participation (Kapolei Office Facility) 2006 Series A, executed and delivered by the Trustee pursuant to the Trust Agreement.

"Code" means the Internal Revenue Code of 1986, as it may from time to time be amended, and any successor statute.

"Event of Default" has the meaning given to such term in the Facility Lease.

"Expiry Date" means November 1, 2031, or such other date as determined pursuant to the Facility Lease.

"Facility" means, collectively, the Site and the Improvements.

"Facility Lease" means that certain Facility Lease Agreement with respect to the Facility, between the Facility Lease Lessor and the Facility Lease Lessee, dated as of December 1, 2006, as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof and of the Trust Agreement.

"Facility Lease Lessee" means the State of Hawaii, by its Department of Budget and Finance on behalf of its Department of Hawaiian Home Lands.

"Facility Lease Lessor" means Wells Fargo Bank, National Association, in its capacity as Lessor under the Facility Lease.

"Fiscal Year" means the fiscal year of the Lessee, which at the date of the Facility Lease is the period from July 1 to and including the following June 30.

"Ground Lease" means that Ground Lease, dated as of December 1, 2006, by and between the Lessee and the Lessor, as originally executed or as it may from time to time be amended or supplemented as provided therein.

"Ground Lease Lessee" means Wells Fargo Bank National Association in its capacity as Lessee under the Ground Lease.

"Ground Lease Lessor" means the State of Hawaii, by its Department of Hawaiian Home Lands.

"Improvements" means the office building containing approximately 48,322 square feet, and related improvements, located on the Site.

"Interest Payment Date" means that May 1 or November 1 during the period beginning on May 1, 2007 and terminating on November 1, 2031 to which reference is made.

"Legislature" means the Legislature of the State of Hawaii.

"Net Proceeds" means the amount remaining from the gross proceeds of any insurance claim or condemnation award made in connection with the Facility, after deducting all expenses (including reasonable attorneys' fees) incurred in the collection of such claim or award.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal securities, appointed and paid by the Lessee or Lessor and satisfactory to and approved by the Trustee (who shall be under no liability by reason of such approval).

"Outstanding," when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 9.02 of the Trust Agreement) all Certificates except—

(1) Certificates cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Certificates paid or deemed to have been paid within the meaning of Section 10.01 of the Trust Agreement; and

(3) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to Section 2.09 of the Trust Agreement.

"Owner" means any person or entity who shall be the registered owner of any Outstanding Certificate.

"Permitted Encumbrances" means (1) liens for general ad valorem taxes, special taxes and assessments, if any, not then delinquent, or which the Lessor and Lessee may, pursuant to the Facility Lease, permit to remain unpaid; (2) casements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease or a short form hereof; (3) the Ground Lease and the Facility Lease, as such may be amended from time to time; (4) the Trust Agreement, as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (6) subleases, concessions and other encumbrances permitted thereunder; and (7) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which do not materially impair the value or the Lessee's beneficial use of the Facility or which the Lessor, the Lessee and the 2006 Series A Certificate Insurer consent to in writing.

"Permitted Investments" means any investment authorized pursuant to Section 36-21, Hawaii Revised Statues, as such may be amended from time to time, including, without limitation, any mutual fund or other investment so authorized and meeting the foregoing requirements which is managed or maintained by the Trustee; provided that to the extent that the Certificates are insured, the term "Permitted Investments" shall include any investments permitted by the certificate insurance policy applicable to such Certificates.

"Project Costs" means all costs of payment of, or reimbursement for, planning, design, engineering, construction, developer costs and fees, testing, acquisition, installation and financing and refinancing of the Improvements, including but not limited to, architect, engineering and installation management costs, administrative costs and capital expenditures relating to installation and financing payments, leasehold and leasehold improvement acquisition costs, sales tax, transfer tax, costs of accounting, feasibility, environmental and other reports, inspection costs, permit fees, filing and recording costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee, escrow fees, title and other insurance premiums, recording fees, financing costs and discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, Certificate Insurance Policy premiums, fees for execution, transportation and safekeeping of Certificates and charges and fees in connection with the foregoing.

"Purchase Price" means, as of any date of calculation, the amount set forth in Exhibit A to the Facility Lease, which Facility Lease Lessee may pay as of such date to Facility Lease Lessor in order to purchase the Facility or any part or item thereof.

"Rental Payments" means the aggregate of the Base Rental and the Additional Rental payable by Lessee pursuant to the provisions of the Facility Lease.

"Site" means that real property set forth in Exhibit B to the Facility Lease.

"State" means the State of Hawaii.

"Tax Certificate" means a certificate relating to Section 148(f) of the Internal Revenue Code of 1986, executed by the Lessee on the date of execution and delivery of the Certificates, and any successor certificate or amendment to the Tax Certificate.

"Trust Agreement" means the Trust Agreement by and among the Trustee, Wells Fargo Bank, National Association, in its capacity as Lessor under the Facility Lease and the State of Hawaii by its Department of Budget and Finance, on behalf of the Department of Hawaiian Home Lands, in its capacity as Lessee under the Facility Lease, dated as of December 1, 2006, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

"Trustee" means Wells Fargo Bank National Association, having a corporate trust office in Los Angeles, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

"2006 Series A Certificate Insurance Policy" means that municipal bond insurance policy issued by the 2006 Series A Certificate Insurer insuring payment when due of the principal and interest with respect to the Certificates as provided therein.

"2006 Series A Certificate Insurer" means Financial Security Assurance Inc., or any successor thereto.

"Written Direction of Authorized Official" means an instrument signed by (i) the Director of Finance of the State of Hawaii, or a deputy of such officer, or by any person who is specifically authorized by the Director of Finance to sign or execute such a document on its behalf; or (ii) the Chair of the Hawaiian Homes Commission, or any person who is specifically authorized by the Hawaiian Homes Commission to sign or execute such a document.

"Written Request of DHHL" means an instrument in writing signed by the Hawaiian Homes Commission Chair, or deputy of such officer, or by any person who is specifically authorized by the Hawaiian Homes Commission Chair to sign or execute such a document on its behalf.

GROUND LEASE

Use of Facility Reletting of Facility by Ground Lease Lessee

Ground Lease Lessee shall use the Site solely for the purpose of causing construction of the Improvements thereon. In order to effect the construction of the Improvements, Lessee shall, pursuant to the Facility Lease, sublease the Site to the State of Hawaii by its Department of Budget and Finance acting on behalf of its Department of Hawaiian Home Lands for the purpose of financing the cost and causing the construction of the Facility by DHHL.

In the event that the State of Hawaii shall be in default under Facility Lease or the Facility Lease is terminated, Ground Lease Lessee shall have the right to sublease the Facility, subject to the following terms and conditions:

(i) the permitted use of the Facility under such sublease shall be limited to governmental offices and other public facilities, including sundry shops and blind vendor concessions not to exceed five percent (5%) of the gross leaseable area of any office buildings constructed on the Site, and for no other purpose without the prior written consent of the State (which consent shall not be unreasonably withheld);

(ii) the sublessee shall agree to indemnify and hold harmless the State against any and all claims, actions, suits, judgments, damages and liabilities arising out of the sublessee's use of the Facility;

(iii) the sublease shall be a "net-net-net" lease, and shall contain provisions regarding maintenance and taxes which are substantially the same as the provisions contained in Article VIII of the Facility Lease, and provisions requiring insurance covering such hazards and in such amounts as is commercially reasonable for similar buildings;

(iv) the sublease shall contain covenants of the sublessee regarding hazardous materials which are substantially the same as the covenants contained in Sections 10.01 and 10.03 of the Facility Lease;

(v) the sublease shall provide that Ground Lease Lessee (at the direction of the 2006 Series A Certificate Insurer) shall have the right to terminate the sublease following a material breach by the sublessee of any of the terms and provisions required pursuant to clauses (i), (ii), (iii), (iv) or (v) above; and

(vi) following a material breach by the sublessee of any of the terms and provisions of the sublease required pursuant to clauses (i) through (vi) above, the sublease shall be subject to termination at the written direction of the State; and

(viii) the Series 2006 A Certificate Insurer shall have consented to such sublease; provided, however that such consent shall not be unreasonably withheld.

Owner in Fee

The Ground Lease Lessor covenants that it is the owner in fee of the Site, as described in Exhibit A to the Ground Lease. The Ground Lease Lessor further covenants and agrees that if for any reason this covenant proves to be incorrect, the Ground Lease Lessor will either institute eminent domain proceedings to condemn the property or institute a quiet title action to clarify the Ground Lease Lessor's title, and will diligently pursue such action to completion.

Assignments and Subleases

The Ground Lease Lessee will not assign its rights under the Ground Lease or sublet the Site, except pursuant to the Trust Agreement, Assignment Agreement and the Facility Lease, unless (i) the Ground Lease Lessee has obtained the written consent of the Ground Lease Lessor and the 2006 Series A Certificate Insurer, or (ii) the State of Hawaii is in default under the Facility Lease or the Facility Lease has been terminated pursuant to its provisions, and any such assignment or sublease shall be subject to the terms and conditions of the Ground Lease.

Following the assignment of the Ground Lease to the Trustee pursuant to the Assignment Agreement, the Ground Lease Lessee will have no rights, title or interest in, or obligation under the Ground Lease.

FACILITY LEASE

Rental Payments

Facility Lease Lessee agrees to pay to Facility Lease Lessor, its successor or assigns, without deduction or offset of any kind, as rental for the use of the Facility, the following amounts at the following times:

Each installment of Base Rental payable under the Facility Lease and any Purchase Price payable thereunder shall be paid in lawful money of the United States of America to or upon the order of Facility Lease Lessor at the corporate trust office of the Trustee in Los Angeles, California, or such other place as the Trustee shall designate.

Rental Payments to Be Unconditional

The obligations of the Facility Lease Lessee to make the Rental Payments required under the Facility Lease and any other payments required under the Facility Lease and to perform and observe the other covenants and agreements contained in the Facility Lease shall be absolute and unconditional, subject to the Facility Lease Lessor's right to terminate the Facility Lease pursuant to the nonappropriation provision of the Facility Lease. Notwithstanding any dispute between or among the Facility Lease Lessee, the Facility Lease Lessor, the Trustee or any other person, the Facility Lease Lessee shall make all Rental Payments and any other payments required under the Facility Lease when due without deduction or offset of any kind and shall not withhold any such payments pending final resolution of such dispute nor shall the Facility Lease Lessee assert any right of set-off or counterclaim against its obligation to make such payments required under the Facility Lease. In the event of a determination that the Facility Lease Lessee was not liable for said Rental Payments or any portion thereof, said Rental Payments or excess of payments, as the case may be, shall, at the option of the Facility Lease Lessee, be credited against subsequent Rental Payments due under the Facility Lease or be refunded at the time of such determination. The Facility Lease Lessee's obligations to make such Rental Payments shall not be abated through accident or unforeseen circumstances (including any delay in completion of the construction of the Project) or by reason of any defect in or damage to or loss or destruction of the Facility from whatever cause.

Nonappropriation

In the event sufficient Available Moneys shall not be appropriated by the Legislature for the payment of the Rental Payments required to be paid in the next succeeding Fiscal Year to continue the leasing of the Facility (and no other moneys of the Facility Lease Lessee are available to pay rental payments), the Facility Lease Lessor may terminate the Facility Lease, without penalty, as to all of the Facility at the end of the then-current Fiscal Year, and the Facility Lease Lessee shall not be obligated to make payment of the Rental Payments provided for in the Facility Lease or any other amounts due from the Facility Lease Lessee under the Facility Lease beyond the then-current Fiscal Year. Such termination shall not be considered or treated as a default under the Facility Lease or any other document. If the Facility Lease is terminated as described in this paragraph, the Facility Lease Lessee agrees to surrender to the Trustee, as assignee of the Facility Lease Lessor, and for the benefit of the Certificate Owners, the Facility, in good order and condition and in a state of repair that is consistent with prudent use and conscientious maintenance, except for reasonable wear and tear, and to cease use of the Facility. The Trustee may then lease the Facility to another tenant and shall apply such rental revenues (not costs of the Trustee) to payment of the Certificates.

Upon termination of the Facility Lease, the Facility Lease Lessee may, at the end of the then-current Fiscal Year, remove any fixture, structure or sign added by the Facility Lease Lessee, which may be removed without damaging the Facility.

Maintenance of Facility by Facility Lease Lessee

During such time as the Facility Lease Lessee is in possession of the Facility, Facility Lease Lessee will, at Facility Lease Lessee's own cost and expense, maintain, preserve and keep the Facility and every part and parcel thereof in good repair, working order and condition and

Facility Lease Lessee will from time to time make or cause to be made all necessary and proper repairs, replacements, if any, and renewals.

Other Taxes

A conveyance tax, if any, imposed with respect to the Facility Lease pursuant to Chapter 247, Hawaii Revised Statutes, and any rules and regulations promulgated thereto, shall be payable by Facility Lease Lessee. Facility Lease Lessee shall pay such conveyance tax at the time of execution of the Facility Lease, or provide evidence to Facility Lease Lessor that no such conveyance tax need be paid with respect to the Facility Lease.

Insurance

Facility Lease Lessee shall procure or cause to be procured and maintain or cause to be maintained for the Facility throughout the Facility Lease Term insurance relating to the Facility which it shall deem advisable or necessary to protect its interests and the interests of the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with buildings owned by the Facility Lease Lessee; provided, that any such insurance may be maintained in the form of self-insurance or under a master insurance policy or policies of the Facility Lease Lessee. All policies of insurance required to be maintained in the Facility Lease shall provide that the Trustee be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Default and Remedies; General

If Facility Lease Lessee defaults in the performance or observance of any agreement or covenant contained in the Facility Lease (an "Event of Default"), then (i) in the case of a default in the timely payment of Base Rental or Additional Rental under the Facility Lease, immediately, or (ii) in the case of any other default under the Facility Lease uncured following 60 days' notice thereof from Facility Lease Lessor or the 2006 Series A Certificate Insurer or such additional time as is reasonably necessary in the discretion of Facility Lease Lessor, it shall be lawful for Facility Lease Lessor to exercise any and all remedies available in law or pursuant to the Facility Lease. Notwithstanding any other provision in the Facility Lease, the termination of the Facility Lease by Facility Lease Lessor pursuant to the nonappropriation provision of the Facility Lease shall not constitute a default under the Facility Lease.

Default by Facility Lease Lessee

Subject to the limitations in the Facility Lease, if Facility Lease Lessee defaults in the performance or observance of any agreement or covenant contained in the Facility Lease, Facility Lease Lessor may exercise any and all rights of recovery of possession of the Facility, and also, at its option, with or without such possession, may terminate the Facility Lease; provided, however, that no termination shall be effected either by operation of law or acts of the parties hereto except upon express written notice from Facility Lease Lessor to Facility Lease Lessee terminating the Facility Lease, as provided below. In the event of such default, Facility Lease Lessor may at any time thereafter, with or without notice and demand, and without limiting any other rights or remedies Facility Lease Lessor may have:

(1) Terminate the Facility Lease in the manner hereinafter provided on account of default by Facility Lease Lessee, notwithstanding any retaking of possession or reletting of the Improvements or re-entry or re-letting of the Facility as hereinafter provided for in subparagraph (2) hereof, and retake possession of the Improvements and to re-enter the Site and remove all persons in possession thereof and all personal property wheresoever situated upon the Site or the Improvements and place such property in storage in any warehouse or other suitable place in the State. In the event of such termination, Facility Lease Lessee agrees to surrender immediately possession of the Improvements and of the Site, without let or hindrance, and to pay Facility Lease Lessor all damages recoverable at law that Facility Lease Lessor may incur by reason of default by Facility Lease Lessee, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Improvements and re-entry upon the Facility and removal or storage of such property by Facility Lease Lessor or its duly authorized agents in accordance with the provisions contained in the Facility Lease; provided, however, the obligation of the Facility Lease Lessee to pay Base Rental Payments shall cease upon such termination of the Facility Lease. Neither notice to pay rent or to deliver up possession of the Improvements or the Site given pursuant to law nor any entry or re-entry by Facility Lease Lessor nor any proceeding in unlawful detainer, or otherwise, brought by Facility Lease Lessor for the purpose of effecting such re-entry or obtaining possession of the Improvements or the Site nor the appointment of a receiver upon initiative of Facility Lease Lessor to protect Facility Lease Lessor's interest under the Facility Lease shall of itself operate to terminate the Facility Lease, and no termination of the Facility Lease on account of default by Facility Lease Lessee shall be or become effective by operation of law or acts of the parties hereto, unless and until Facility Lease Lessor shall have given written notice to Facility Lease Lessee of the election on the part of Facility Lease Lessor to terminate the Facility Lease.

(2) Without terminating the Facility Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision hereof to be kept or performed by Facility Lease Lessee, and/or (ii) to exercise any and all rights to take possession of the Improvements and of entry and re-entry upon the Site. In the event Facility Lease Lessor does not elect to terminate the Facility Lease in the manner provided for in subparagraph (1) hereof, Facility Lease Lessee shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by Facility Lease Lessee unless terminated pursuant to the nonappropriation provision of the Facility Lease and, if the Facility is not re-let, to pay the full amount of the rent to the end of the term of the Facility Lease or, in the event that the Facility is relet, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Facility Lease (without acceleration), notwithstanding the fact that Facility Lease Lessor may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Facility Lease and notwithstanding any entry or re-entry by Facility Lease Lessor or suit in unlawful detainer, or otherwise, brought by Facility Lease Lessor for the purpose of effecting such entry or re-entry or obtaining possession of the Facility; provided, however, the obligation of Facility Lease Lessee to pay rent shall in all circumstances be limited to Available Moneys.

(3) Should Facility Lease Lessor elect to retake possession of the Facility as provided in the Facility Lease, Facility Lease Lessee irrevocably appoints Facility Lease Lessor as the agent and attorney-in-fact of Facility Lease Lessee to re-let the Facility, or any item or part thereof, from time to time, either in Facility Lease Lessor's name or otherwise, upon such terms and conditions and for such use and period as Facility Lease Lessor may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated on the Site or the Improvements and to place such personal property in storage in any warehouse or other suitable place in the State, for the account of, and at the expense of, Facility Lease Lessee.

(4) Facility Lease Lessee agrees that the terms of the Facility Lease constitute full and sufficient notice of the right of Facility Lease Lessor to attempt to re-let the Facility and to do all other acts to maintain or preserve the Facility as Facility Lease Lessor deems necessary or desirable in the event of such retaking or re-entry without effecting a surrender of the Facility Lease, and further agrees that no acts of Facility Lease Lessor in attempting such re-letting shall constitute a surrender or termination of the Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting.

If (1) Facility Lease Lessee's interest in the Facility Lease or any part thereof be assigned or transferred without the written consent of Facility Lease Lessor, either voluntarily or by operation of law or otherwise, or if (2) any proceeding under the United States Bankruptcy Code or any federal or state bankruptcy, insolvency, or similar law or any law providing for the appointment of a receiver, liquidator, trustee or similar official of Facility Lease Lessee or of all or substantially all of its assets, is instituted by or with the consent of Facility Lease Lessee, or is instituted without its consent and is not permanently stayed or dismissed within sixty days, or if Facility Lease Lessee offers to Facility Lease Lessee's creditors to effect a composition or extension of time to pay Facility Lease Lessee's debts or asks, seeks or prays for a reorganization or to effect a plan of reorganization, or for a readjustment of Facility Lease Lessee's debts, or if Facility Lease Lessee shall make a general or any assignment for the benefit of Facility Lease Lessee's creditors, or if (3) Facility Lease Lessee shall abandon or vacate any part of the Facility (other than pursuant to a termination of the Facility Lease pursuant to nonappropriation), then Facility Lease Lessee shall be deemed to be in default under the Facility Lease.

Default by Facility Lease Lessor

Facility Lease Lessor shall in no event be in default in the performance of any of its obligations under the Facility Lease or imposed by any statute or rule of law unless and until Facility Lease Lessor shall have failed to perform such obligations within 30 days or such additional time as is reasonably required to correct any such default after notice by Facility Lease Lessee to Facility Lease Lessor properly specifying wherein Facility Lease Lessor has failed to perform any such obligation. In the event of default by Facility Lease Lessor, Facility Lease Lessee shall be entitled to pursue any remedy provided by law, provided that Facility Lease Lessee shall not terminate the Facility Lease.

THE ASSIGNMENT AGREEMENT

Pursuant to the Assignment Agreement, Wells Fargo Bank National Association as Facility Lease Lessor under the Facility Lease and as Ground Lease Lessee under the Ground Lease unconditionally and irrevocably grants, transfers and assigns and conveys to the Trustee for the benefit of the owners of the Certificates without recourse all of its rights, title and interest as Ground Lease Lessee under the Ground Lease and as Facility Lease Lessor under the Facility Lease, including without limitation the following: (i) all of Facility Lease Lessor's rights to receive the Rental Payments, payable under and pursuant to the Facility Lease, (ii) all of Facility Lease Lessor's rights, if any, to receive any other rents, profits, products, benefits and proceeds from the Facility, (iii) all of Ground Lease its rights and powers to take any actions under or with respect to the Ground Lease or the Facility Lease (including, without limitation, any rights, if any, to grant or withhold consents or approvals, require performance or other action, negotiate and/or compromise claims, assert or waive rights and/or benefits, and terminate, cancel, modify, or amend the Ground Lease and/or Facility Lease), (iv) any of its right of access to the Facility provided in the Ground Lease or the Facility Lease, and (v) any and all of its other rights and remedies in the Ground Lease as Ground Lease Lessee thereunder and in the Facility Lease as Facility Lease Lessor thereunder.

THE TRUST AGREEMENT

The Trust Agreement, among other things, provides for the execution and delivery of the Certificates and sets forth the terms thereof, provides for the creation of certain of the funds described below, includes certain covenants of the Facility Lease Lessee and the Facility Lease Lessor, defines events of default and remedies therefor, and sets forth the rights and responsibilities of the Trustee.

Certain provisions of the Trust Agreement setting forth the terms of the Certificates, the prepayment provisions thereof and the use of the proceeds of the Certificates are set forth elsewhere in this Official Statement. See "THE CERTIFICATES."

The Trustee

The Trustee will receive all of the Certificate proceeds and Rental Payments under the Facility Lease, execute and deliver the Certificates and act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawals from funds, and upon the Written Direction of Authorized Official, will invest amounts held under the Trust Agreement in Permitted Investments.

Pledge of Base Rental Payments; Base Rental Payment Fund

The Base Rental Payments received by the Trustee are irrevocably pledged under the Trust Agreement to and for the punctual payment of interest and principal represented by the Certificates, and the Base Rental Payments will not be used for any other purpose while any Certificates remain Outstanding. All Base Rental Payments will be paid directly by the Facility Lease Lessee to the Trustee.

Construction and Acquisition Fund

All moneys in the Construction and Acquisition Fund shall be held by the Trustee in trust and applied by the Trustee to the payment of any Project Costs (or for making payments or reimbursements to the Facility Lease Lessor or the Facility Lease Lessee or any other person, firm or Facility Lease Lessor for such costs theretofore paid thereby) at the Written Request of DHHL, as specified in the Trust Agreement. The Facility Lease Lessee, to the extent it has any interest in the Construction and Acquisition Fund, pledges and grants a lien on and a security interest in the Construction and Acquisition Fund to the Trustee in order to secure the Facility Lease Lessee's obligation to pay the Base Rental Payments in the event of a default under the Facility Lease.

Certificate Reserve Fund

The Trustee shall establish, maintain and hold in trust the Certificate Reserve Fund and the moneys in said fund shall be disbursed and applied only as hereinafter authorized. The Trustee shall apply the moneys on deposit in the Certificate Reserve Fund solely for the payment of Base Rental Payments due and payable by the Facility Lease Facility Lease Lessee if and when moneys of the Facility Lease Lessee are not otherwise available to make such Base Rental Payments. The Facility Lease Lessee further agrees that if at any time the balance in the Certificate Reserve Fund shall be reduced below the Certificate Reserve Fund Requirement, the Facility Lease Lessee shall pay as Additional Rental pursuant to the terms of Section 6.01(b) of the Facility Lease the amount necessary to increase the balance in the Certificate Reserve Fund to the required Certificate Reserve Fund Requirement. At the termination of the Facility Lease in accordance with its terms (other than a termination pursuant to Section 6.06 of the Facility Lease), any balance remaining in the Certificate Reserve Fund shall be transferred to such other fund or account of the Facility Lease Lessee, or otherwise used by the Facility Lease Lessee for any other lawful purposes, as the Facility Lease Lessee may direct.

The Facility Lease Lessee may satisfy the Certificate Reserve Fund Requirement at any time, with the written consent of the 2006 Series A Certificate Insurer, by the deposit with the Trustee for the credit of the Certificate Reserve Fund of a surety bond, an insurance policy or letter of credit as described below, or any combination thereof.

Surety Bond or Insurance Policy

A surety bond or insurance policy issued to the Trustee, on behalf of the Owners, by a company licensed to issue an insurance policy guaranteeing the timely payment of principal and interest represented by the Certificates (a "Municipal Bond Insurer") may be deposited in the Certificate Reserve Fund to meet the Certificate Reserve Fund Requirement if the claims paying ability of such Municipal Bond Insurer shall be rated "Aaa" by Moody's Investors Service or "AAA" by Standard & Poor's Ratings Services.

Letter of Credit

A letter of credit may be deposited in the Certificate Reserve Fund to meet the Certificate Reserve Fund Requirement, *provided* that any such letter of credit must be issued or confirmed by a state or national bank or a foreign bank with an agency or branch located in the United States which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category (disregarding rating subcategories) by Moody's Investors Service or Standard & Poor's Ratings Services. Unless the Certificates have been fully paid, the Trustee shall draw the full amount of any such letter of credit on the third business day preceding the date such letter of credit (taking into account any extension, renewal or replacement thereof) would otherwise expire, and shall deposit moneys realized pursuant to such draw in the Certificate Reserve Fund.

Release of Moneys in Certificate Reserve Fund

If the Facility Lease Lessee replaces a cash-funded Certificate Reserve Fund, in whole or in part, with a surety bond, insurance policy or letter of credit meeting the requirements of either (i) or (ii) above, amounts on deposit in the Certificate Reserve Fund shall, upon written request of the Facility Lease Lessee to the Trustee, be transferred to the Facility Lease Lessee, subject to the receipt by the Facility Lease Lessee and Trustee of an Opinion of Counsel that such transfer will not cause the interest represented by the Certificates to be included in gross income for purposes of federal income taxation.

Rebate Fund

The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Trust Agreement designated as the "Rebate Fund." There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate as indicated in a Written Direction of Authorized Official. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America as indicated in a Written Direction of Authorized Official. Any other provision of the Trust Agreement notwithstanding, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed by the Trust Agreement and by the Tax Certificate.

Investments

Any moneys held by the Trustee in the Base Rental Payment Fund or in the Construction and Acquisition Fund shall be invested by the Trustee upon the Written Direction of Authorized Official only in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement under the Trust Agreement. All moneys held by the Trustee in the Facility Lease Fund established pursuant to the Facility Lease shall be invested by the Trustee upon the Written Direction of Authorized Official only in Permitted Investments, which will mature on or before the Interest Payment Dates when such funds will be needed to make all or part of such payments. Any moneys held by the Trustee in the Certificate Reserve Fund shall be invested upon the Written Direction of Authorized Official in Permitted Investments. All moneys held by the Trustee in the Rebate Fund shall be invested by the Trustee in accordance with the Tax Certificate and the Written Direction of Authorized Official. In computing the amount in any fund or account (including the Facility Lease Fund and Certificate Reserve Fund established pursuant to the Facility Lease), Permitted Investments shall be valued at par or, if purchased at other than par, at their amortized value.

Execution and Delivery of Additional Certificates

In addition to the Certificates, the Facility Lease Lessee and the Trustee may by Supplemental Trust Agreement provide for the execution and delivery of Additional Certificates representing a fractional undivided interest in Base Rental Payments, and the Trustee may execute and deliver to or upon the Written Request of DHHL and with the written consent of the 2006 Series A Certificate Insurer, such Additional Certificates, in such principal amount as shall equal the additional principal component of the Base Rental Payments, but only upon compliance by the Facility Lease Lessee with the provisions of the Trust Agreement, and subject to the following specific conditions, which are hereby made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) The Facility Lease Lessee shall not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Facility Lease.

(b) The Supplemental Trust Agreement shall require that the proceeds of the sale of such Additional Certificates shall be applied (i) to pay the costs of additions or modifications to the Improvements, or rebuilding or replacement of the Improvements following a casualty loss, or (ii) for the refunding or prepayment of any Certificates then Outstanding resulting in debt service savings, including the payment of costs and expenses of and incident to the authorization and sale of such Additional Certificates and refunding or prepayment of the Certificates, including any prepayment premium. The Supplemental Trust Agreement may also provide that a portion of such proceeds shall be applied to the payment of the interest components due or to become due with respect to said Additional Certificates during the estimated period of any construction and for a period not to exceed twelve months thereafter.

(c) The Supplemental Trust Agreement shall provide, if necessary, that from such proceeds or other sources an amount shall be deposited in the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement.

(d) The Additional Certificates shall be payable as to principal on May 1 of each year in which principal components are due and shall be payable as to interest on May 1 or November 1 as specified in such Supplemental Trust Agreement or as provided in the Trust Agreement.

(e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement.

(f) The Facility Lease shall have been amended so that the Base Rental Payments payable by the Facility Lease Lessee thereunder shall equal the principal and interest represented by such Additional Certificates and all other Certificates to be Outstanding after such Additional Certificates are executed and delivered, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates.

(g) The Supplemental Trust Agreement shall provide for Certificate Payment Dates and for mandatory prepayments of Certificates in amounts sufficient to provide for payment of the Certificates from principal and interest components of Base Rental.

Compliance with or Amendment of Facility Lease

The Facility Lease Lessee will not alter, amend or modify the Facility Lease without the prior written consent of the Trustee, which consent of the Trustee will be given only (i) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power therein reserved to the Facility Lease Lessee, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or to resolve questions arising thereunder, as the parties thereto may deem necessary or desirable and which do not materially adversely affect the interests of the 2006 Series A Certificate Insurer or the Owners, or (iii) to provide for the execution and delivery of Additional Certificates, or (iv) for any other purpose that does not adversely affect the interests of the 2006 Series A Certificate Insurer or the Owners of Certificates, or (v) if the Trustee first obtains the written consents of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding and the written consent of the 2006 Series A Certificate Insurer to such alterations, amendments or modifications; provided, however, that no such alteration, amendment or modification will extend the date for the making of any Base Rental Payment, extend a Certificate Payment Date or reduce the rate of interest represented by any Certificate or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of any Certificate so affected, nor will any such alteration, amendment or modification reduce the percentage of Owners whose consent is required for the execution of any alteration, amendment or supplement.

Action on Default

If an Event of Default occurs, then such Event of Default will constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates at the time Outstanding will be entitled, with the written consent of the 2006 Series A Certificate Insurer, or at the direction of the 2006 Series A Certificate Insurer, upon notice in writing to the Facility Lease Lessee, to exercise the remedies provided to the Facility Lease Lessor in the Facility Lease and to the Trustee in the Assignment Agreement.

Other Remedies of the Trustee

The Trustee shall have the right:

(i) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Facility Lease Lessee or any officer or employee thereof, and to compel the Facility Lease Lessee or any such officer or employee to perform or carry out their duties under law and the agreements and covenants required to be performed thereby contained in the Trust Agreement;

(ii) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(iii) by suit in equity upon the happening of any default under the Trust Agreement to require the Facility Lease Lessee and any officers and employees to cause an accounting of Available Moneys.

No Liability by the Facility Lease Lessor to the Owners

The Facility Lease Lessor shall not have any obligation or liability to the Owners with respect to the payment when due of the Rental Payments by the Facility Lease Lessee, or with respect to the performance by the Ground Lease Lessor of the other agreements and covenants required to be performed by it contained in the Ground Lease, the Facility Lease or the Trust

Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Ground Lease, the Facility Lease or the Trust Agreement.

No Liability by the Facility Lease Lessee to the Owners

Except for the payment when due of the Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement, the Facility Lease Lessee shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee in its capacity as Lessor to the Owners

The Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the Facility Lease Lessee, or with respect to the performance by the Facility Lease Lessee of other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement.

Amendment or Supplement

The Trust Agreement and the rights and obligations of the Facility Lease Lessee and the Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment thereof or supplement thereto which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of disqualified Certificates, and the written consent of the 2006 Series A Certificate Insurer, are filed with the Trustee. No such amendment or supplement will (1) extend the fixed Certificate Payment Date of any Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment thereof or supplement thereto, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the provisions of the Trust Agreement concerning amendments and supplements without the prior written consent of the Owners of all Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the Facility Lease Lessee and the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment or supplement thereto which will become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Facility Lease Lessee to be observed or performed in the Trust Agreement, other agreements, conditions, covenants and terms thereafter to be observed or performed by the Facility Lease Lessee, or to surrender any right or power reserved to or conferred on the Facility Lease Lessee, and which in either case will not materially adversely affect the interests of the Owners; or

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in or in regard to questions arising under the Trust Agreement which the Facility Lease Lessee may deem desirable or necessary and not inconsistent with the Trust Agreement, and which will not materially adversely affect the interests of the Owners; or

(c) to modify, amend or supplement the Trust Agreement or any agreement supplemental thereto in such manner as to permit the qualification of the Trust Agreement or supplement thereto either under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Certificates for sale under the securities laws of the United States of America or of any of the states of the United States of America; or

(d) to execute and deliver Additional Certificates; or

(e) to make any change that does not adversely affect the interests of the Owners of Certificates.

Discharge of Certificates and Trust Agreement

If the Trustee will pay or cause to be paid or there is otherwise paid to the Owners of all Outstanding Certificates the interest and principal represented thereby at the times and in the manner stipulated in the Trust Agreement and therein, then such Owners will cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the Facility Lease Lessee and the Trustee to such Owners under the Trust Agreement will thereupon cease, terminate and become void and will be discharged and satisfied.

Any Outstanding Certificates will be deemed to have been paid within the meaning of and with the effect expressed in the above paragraph if there is on deposit with the Trustee moneys or certain federal securities in an amount sufficient (together with the increment, earnings and interest on such securities) to pay the interest and principal represented by such Certificates payable on their Interest Payment Dates or on any dates of prepayment prior thereto, except that the Owners thereof will be entitled to the principal and interest represented by such Certificates, and the Facility Lease Lessee will remain liable for such Base Rental Payments, but only out of such moneys or securities deposited with the Trustee for such payment.

Notwithstanding anything contained in the Trust Agreement to the contrary, in the event that any interest and/or principal with respect to the 1998 Series A Certificates is paid by the 2006 Series A Certificate Insurer pursuant to the 2006 Series A Certificate Insurance Policy, the Certificates will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Facility Lease Lessee, and the assignment and pledge of the Trust Agreement and all covenants, agreements and other obligations of the Facility Lease Lessee to the Owners of the Certificates will continue to exist and will run to the benefit of the 2006 Series A Certificate Insurer, and the 2006 Series A Certificate Insurer will be subrogated to the rights of such Owners.

Removal and Resignation of the Trustee

The Facility Lease Lessee, or the Owners of a majority in aggregate principal amount represented by the Certificates at the time Outstanding, with the written consent of the 2006 Series A Certificate Insurer, may by an instrument in writing remove the Trustee and any successor thereto and may appoint a successor Trustee, but any successor Trustee under the Trust Agreement (i) shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least $75,000,000 and subject to supervision or examination by federal or state authorities, and (ii) shall be approved in writing by the 2006 Series A Certificate Insurer.

The Trustee may at any time resign by giving 30 days' prior written notice of such resignation to the Facility Lease Lessee and by giving notice by publication to the Owners, which notice to the Owners will be mailed, first class postage prepaid. Upon receiving such notice of resignation, the Facility Lease Lessee will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the Facility Lease Lessee does not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

Provisions Relating to Certificate Insurance.

The 2006 Series A Certificate Insurer shall be deemed to be the sole holder of the 2006 Series A Certificate for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the 2006 Series A Certificate insured by it are entitled to take pursuant to the Trust Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

The security for the 2006 Series A Certificates shall include a pledge of the Facility Lease and Ground Lease and a default under any such agreement shall constitute an Event of Default under the Trust Agreement.

No grace period for a covenant default under the Trust Agreement or Facility Lease shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the 2006 Series A Certificate Insurer. No grace period shall be permitted for payment defaults.

Upon the occurrence of an extraordinary optional, special or extraordinary mandatory prepayment in part, the selection of 2006 Series A Certificate to be repaid shall be subject to the approval of the 2006 Series A Certificate Insurer. The exercise of any provision of the Trust Agreement which permits the purchase of 2006 Series A Certificate in lieu of prepayment shall require the prior written consent of the 2006 Series A Certificate Insurer if any 2006 Series A Certificate so purchased is not cancelled upon purchase.

Unless the 2006 Series A Certificate Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Construction and Acquisition Fund shall not be disbursed, but shall instead be applied to the payment of principal and interest with respect to or prepayment price of the 2006 Series A Certificate.

APPENDIX D

FORM OF OPINION OF SPECIAL COUNSEL

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APPENDIX D

FORM OF OPINION OF SPECIAL COUNSEL

[CLOSING DATE]

State of Hawaii
Department of Budget and Finance
250 South Hotel Street, 3rd Floor
Honolulu, Hawaii 96813

State of Hawaii
Department of Hawaiian Home Lands
1099 Alakea Street, Suite 2000
Honolulu, Hawaii 96813

Ladies and Gentlemen:

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

PRINCIPAL AMOUNT
OF
CERTIFICATES OF PARTICIPATION
(KAPOLEI OFFICE FACILITY)
$24,500,000

At your request we have examined into the validity of TWENTY FOUR MILLION FIVE HUNDRED THOUSAND DOLLARS ($24,500,000) aggregate principal amount of the State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2006 Series A (the "Certificates"). The Certificates evidence and represent interests in Base Rental Payments to be made by the State of Hawaii by its Department of Budget and Finance on behalf of its Department of Hawaiian Home Lands (the "Lessee") under a Facility Lease Agreement, dated as of December 1, 2006, between Wells Fargo Bank, National Association, dated as of December 1, 2006 (the "Trust Agreement") as lessor, and the Lessee. The Certificates will be delivered pursuant to a Trust Agreement, among Wells Fargo Bank, National Association, as trustee, Wells Fargo Bank, National Association, as lessor and the Lessee. The Certificates will be delivered in fully registered form; are numbered consecutively from 2006RA-1 upwards and are dated as of the date of this opinion; interest with respect to the Certificates is payable on May 1, 2007 and each May 1 and November 1 at the rates per annum set forth in the schedule below and principal is payable on November 1 in each of the years and in the principal amounts as set forth below. Capitalized terms not otherwise defined herein shall have the meanings provided in the Trust Agreement.

Year (November 1)	Principal Amount	Interest Rate	Year (November 1)	Principal Amount	Interest Rate
2009	$650,000	4.000%	2017	325,000	5.000
2010	680,000	4.000	2017	575,000	4.625
2011	705,000	4.000	2018	940,000	4.000
2012	735,000	4.000	2019	980,000	4.000
2013	400,000	5.000	2020	1,015,000	4.000
2013	365,000	3.625	2021	1,060,000	4.000
2014	800,000	4.000	2023	2,255,000	4.125
2015	830,000	3.750	2026	3,755,000	4.250
2016	860,000	3.750	2031	7,570,000	5.000

The Certificates are subject to prepayment prior to their final payment dates upon the terms and conditions and at the prices set forth therein.

The Certificates recite that they are authorized to be executed and delivered and are executed and delivered under and in full compliance with the Constitution and statutes of the State of Hawaii, including Chapter 37-D, Hawaii Revised Statutes, and under and pursuant to a resolution of the Hawaiian Homes Commission (the "Commission") duly adopted by the Commission on October 24, 2006 (the "Resolution").

We have examined the Constitution and statutes of the State of Hawaii, duplicate executed or certified copies of the proceedings of the Commission, authorizing the execution and delivery of the Certificates, including the Resolution, such other proceedings and documents as we have considered necessary or advisable, and a certified specimen Certificate.

From such examinations we are of the opinion that:

1. The Facility Lease, the Ground Lease, and the Trust Agreement and the Assignment have been duly executed and delivered, and, assuming due authorization, execution and delivery by the other parties thereto, constitute the valid obligations of the Lessee.

2. The obligation of the Lessee to make the Base Rental Payments during the term of the Facility Lease constitutes a valid obligation of the Lessee, payable solely from Available Moneys, which are subject to appropriation by the State legislature of the State of Hawaii (the "State"), and does not constitute a debt of the State within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the State is obligated to appropriate funds or to levy or pledge any form of taxation.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, , (i) interest with respect to the Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest with respect to the Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted

current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 4, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the Lessee with respect to the use of proceeds of the Certificates and the investment of certain funds, and other matters affecting the non-inclusion of interest with respect to the Certificates in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Lessee with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Trust Agreement as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest with respect to the Certificates to be included in gross income for Federal income tax purposes, retroactive to the date of execution and delivery of the Certificates, irrespective of the date on which such noncompliance occurs or is ascertained.

5. Under the existing laws of the State of Hawaii, the Certificates and the income with respect thereto is exempt from all taxation by the State of Hawaii or any county or other political subdivision 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.

Except as stated in paragraphs 4 and 5 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Certificates or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest with respect to the Certificates, or under State and local tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

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

Very truly yours,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Department of Hawaiian Home Lands of the State of Hawaii (the "Department") in connection with the issuance of $24,500,000 aggregate principal amount of State of Hawaii Certificates of Participation (Kapolei Office Facility), 2006 Series A (the "Certificates"). The Certificates are being issued pursuant to a Resolution adopted by Hawaiian Homes Commission of the Department on October 24, 2006 (the "Resolution"). The Department covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

"Business Day" means any day other than a Saturday, Sunday or other day on which Department offices generally are not open for business.

"Dissemination Agent" means the Department, or any successor Dissemination Agent designated in writing by the Department and which has filed with the Department a written acceptance of such designation.

"Holder" means any registered owner of Certificates as shown on the books of registration kept by the Registrar.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as approved by the Securities and Exchange Commission from time to time and identified in its Nationally Recognized Municipal Securities Information Repository Address List at www.sec.gov/info/municipal/nrmsir.htm or in such other publication or release of the Commission as may be in effect at the time in question.

"Official Statement" means the Official Statement of the Department dated November 20, 2006, relating to the Certificates.

"Participating Underwriter" means any "participating underwriter" of the Certificates within the meaning of the Rule required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Hawaii.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year of the Department (presently June 30), commencing with the report for the fiscal year ending June 30, 2006, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Department shall provide the Annual Report to the Dissemination Agent (if other than the Department). If the Department is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Department shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) if the Dissemination Agent is other than the Department, file a report with the Department certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Department's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Department for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Department's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Information of the type included in the Official Statement under the captions "THE DEPARTMENT OF HAWAIIAN HOME LANDS — Summary Combined Statements of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types" and "— Outstanding Indebtedness," Tables 5 and 6 under the caption "THE GENERAL LEASES AND AVAILABLE LANDS" and the Department's share of the State Retirement System costs under the caption "THE DEPARTMENT OF HAWAIIAN HOME LANDS – Employee Relations and Pension Benefits," in each case to the extent such information is historical and not projections.

The Department has not undertaken in this Disclosure Certificate to provide all information an investor may want to have in making decisions to buy, hold or sell the Certificates, but only to provide the information specified above. Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Department shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) modifications to rights of Holders;

(iv) optional, contingent or unscheduled Certificate calls;

(v) defeasances;

(vi) rating changes;

(vii) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

(viii) unscheduled draws on the debt service reserves reflecting financial difficulties;

(ix) unscheduled draws on the credit enhancements reflecting financial difficulties;

(x) substitution of the credit or liquidity providers or their failure to perform; or

(xi) release, substitution or sale of property securing repayment of the Certificates.

(b) Whenever the Department obtains knowledge of the occurrence of a Listed Event, the Department shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Department determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Department shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The Department's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the Department shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Department.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of a majority in aggregate principal amount of the Certificates, or (ii) does not, in the opinion of the Department, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Department agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Department under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Dated: ____________, 2006.

DEPARTMENT OF HAWAIIAN HOME LANDS

By______________________________
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Department of Hawaiian Home Lands of the State of Hawaii
Name of Issue:	State of Hawaii Certificates of Participation (Kapolei Office Facility), 2006 Series A
Date of Issuance:	December 12, 2006

NOTICE IS HEREBY GIVEN that the Department has not provided an Annual Report with respect to the above-named Certificates as required by Section 3(a) of the Continuing Disclosure Certificate of the Department of Hawaiian Home Lands dated ____________, 2006. [The Department anticipates that the Annual Report will be filed by ____________.]

Dated:______________.

DEPARTMENT OF HAWAIIAN HOME LANDS

By________________________________
Chairman

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APPENDIX F

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)