KPMG

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplemental Schedules

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

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Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statement of net assets of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of June 30, 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Airports Division's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Airports Division as of June 30, 2006 were audited by other auditors whose report thereon dated November 27, 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airports Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 1, the financial statements of the Airports Division are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Airports Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2007, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the Airports Division as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2007 on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 an opinion on the basic financial statements taken as a whole. The supplementary information listed as "supplementary information schedules" in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. These supplemental information schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

December 26, 2007

The following Management's Discussion and Analysis (MD&A) of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal years ended June 30, 2007 and 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for inter-island flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for inter-island flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 60.2% and 60.5% of total passenger traffic in the airports system during fiscal years 2007 and 2006, respectively. The other four principal airports accommodated 38.4% and 38.1% of the total passenger traffic for fiscal years 2007 and 2006, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the United States military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana Airports on the Island of Maui, Waimea-Kohala and Upolu Airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa Airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen Airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.4% of the total passenger traffic for fiscal years 2007 and 2006.

The Airports Division is self-sustaining. The Department of Transportation (DOT) is authorized to impose and collect rates and charges for the airports system services and properties to generate revenues to fund operating expenses. The Capital Improvements Program (CIP) is funded by airports system revenue bonds issued by the Airports Division, federal grants, passenger facility charges, and the Airports Division's revenues.

Using the Financial Statements

The Airports Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type, which is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

The Airports Division's financial report includes three financial statements: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Airports Division Activities and Highlights

The Airports Division ended fiscal year 2007 with increases in total passenger activity, revenue landed weights, and total revenue passenger landings of 5.2%, 6.6%, and 11.9%, respectively, when compared to fiscal year 2006. However, aircraft operations and deplaning international passengers slightly decreased by (4.7)% and (6.6)%, respectively, as compared to fiscal year 2006. Increased airline carrier load factors and the decrease in visitors from Japan are the reasons for the decrease in aircraft operations and international passengers, respectively. Although inter-island carriers account for a higher percentage (43%) of revenue landed weights, the overall carrier mix remains diverse.

In terms of comparing growth from year to year, activity statistics over the last seven years reflect fiscal year 2007 as the highest performance year since the events of September 11, 2001. In general, passenger and airline activities at Hawaii's airports have demonstrated continuous growth. The Honolulu International Airport continues to be the dominant airport although a portion of the market share shifted to the Kahului Airport, Kona International Airport at Keahole, Hilo International Airport, and Lihue Airport as a result of increased direct flights to such destinations. Inter-island airfare competition introduced by Mesa Airlines, Inc. was another factor for increasing total passenger and airline traffic. The majority of the operating revenues at the Airports Division is activity-based and directly relates to the number of passengers and aircraft operations.

The following airlines serve the State with scheduled or charter overseas passenger flights: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., All Nippon Airways Co., Ltd., Aloha Airlines, Inc., America West Airlines, Inc., American Airlines, Inc., ATA Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Airlines, Inc., HMY Airways, Inc., Hawaiian Airlines, Inc., JALways Co., Ltd., Japan Air Lines Company, Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Northwest Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Polynesian Limited, Qantas Airways, Ltd., Ryan International Airlines, United Airlines, Inc., and WestJet. The principal airlines providing inter-island passenger flight services are: Aloha Airlines, Inc., Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., Pacific Wings, LLC, and Molokai-Lanai Air Shuttle, Inc.

Activity for the airports system for the fiscal years ended June 30, 2007 and 2006 is as follows:

	2007	2006	Percentage increase (decrease) from 2006
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	20,908,614	19,954,172	4.8%
Kahului Airport	5,956,314	5,782,115	3.0%
Lihue Airport	2,617,941	2,565,543	2.0%
Kona International Airport at Keahole	3,131,819	2,929,149	6.9%
Hilo International Airport	1,616,844	1,313,716	23.1%
All others	477,954	464,408	2.9%
Total passengers	34,709,486	33,009,103	5.2%
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	320,112	316,243	1.2%
Kahului Airport	158,807	164,717	(3.6)%
Lihue Airport	125,164	104,802	19.4%
Kona International Airport at Keahole	148,673	145,215	2.4%
Hilo International Airport	99,437	95,620	4.0%
All others	208,279	286,184	(27.2)%
Total aircraft operations	1,060,472	1,112,781	(4.7)%
Revenue landed weights (1,000 pound units):			
Honolulu International Airport	16,783,870	16,086,180	4.3%
Kahului Airport	4,562,915	4,211,329	8.3%
Lihue Airport	2,014,809	1,725,383	16.8%
Kona International Airport at Keahole	2,500,899	2,317,181	7.9%
Hilo International Airport	1,227,290	972,928	26.1%
All others	399,107	339,629	17.5%
Total signatory airlines	27,488,890	25,652,630	7.2%
Nonsignatory airlines	1,476,678	1,513,348	(2.4)%
Total revenue landed weights	28,965,568	27,165,978	6.6%

	2007	2006	Percentage increase (decrease) from 2006
Revenue passenger landings:			
Honolulu International Airport	68,242	66,363	2.8%
Kahului Airport	33,642	29,390	14.5%
Lihue Airport	18,259	14,681	24.4%
Kona International Airport at Keahole	19,015	15,408	23.4%
Hilo International Airport	11,327	8,145	39.1%
Total signatory airlines	150,485	133,987	12.3%
Nonsignatory airlines	1,112	1,504	(26.1)%
Total revenue passenger landings	151,597	135,491	11.9%
Deplaning international passengers:			
Honolulu International Airport	1,804,551	1,918,832	(6.0)%
Kona International Airport at Keahole	65,438	82,522	(20.7)%
Total signatory airlines	1,869,989	2,001,354	(6.6)%
Nonsignatory airlines	101,818	109,649	(7.1)%
Total deplaning international passengers	1,971,807	2,111,003	(6.6)%

Financial Operations Highlights

The financial results for fiscal year 2007 reflected a loss before capital contributions of $17.3 million as compared to income before capital contributions of $1.3 million for fiscal year 2006. Operating revenues increased by $4.4 million or 1.9%, while operating expenses increased by $41.4 million or 16.4%. Total nonoperating revenues increased by $14.9 million mainly due to increases in interest income from investments and federal operating grants amounting to $2.2 million and $12.2 million, respectively.

Income before capital contributions for fiscal year 2006 was $1.3 million as compared to a loss before capital contributions of $8.2 million for fiscal year 2005. Total nonoperating revenues increased by $24.7 million due to increases in interest income, federal operating grants, and passenger facility charges. Interest income from investments increased by $11.0 million due to the rise of interest rates comparing fiscal year 2006 and 2005. In addition, federal operating grant and passenger facility charge revenues increased by $6.2 million and $6.9 million, respectively.

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Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect passenger facility charges (PFC) at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport thru February 1, 2007. During this period, the Airports Division was able to collect the maximum approved PFC revenue, including interest earned amounting to $42,632,466. The PFC collections are currently utilized to fund flight information display and public address system improvements, air conditioning system improvements, South Ramp environmental compliance measures, runway safety area improvements, perimeter road improvements and fencing, and general aviation lighting projects.

Effective February 2, 2007, the FAA approved the Airports Division's second application to impose PFC's at the airports mentioned above with the addition of Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 2, 2007 and July 1, 2011 from the five principal airports is $104,458,000. The collections will be utilized for aircraft rescue and fire fighting facilities improvements, elevator and escalator improvements, loading bridge replacements, international arrivals building ceiling replacements, and air conditioning system improvements. Since the inception of this program thru June 30, 2007, the total PFC revenues, including interest earned, generated a total of $61.3 million.

Operating expenses before depreciation for fiscal year 2007 increased by 19.5% or $34.3 million as compared to fiscal year 2006 mainly due to increases in salaries and wages, other personnel services (security), special maintenance, and repair and maintenance costs. Special maintenance and repairs to airport terminals and runways were long overdue and of the $24 million increase from fiscal year 2006, $12.2 million was subsidized by increases from federal operating grants.

Operating expenses before depreciation for fiscal year 2006 increased by 17.4% or $26.1 million as compared to fiscal year 2005 mainly due to increases in salaries and wages, other personnel services (security), utilities, State of Hawaii surcharge on gross receipts, and special and major maintenance costs.

Total nonoperating expenses for fiscal years 2007 and 2006 decreased by 8.6% or $3.5 million and 8.7% or $3.9 million, respectively, as compared to the previous years mainly due to the decrease in airport revenue bond interest expense tied to lower average outstanding balances during the year.

During fiscal year 2005 and prior, the Airports Division acquired seven buildings upon the expiration of land lease agreements. During the prior fiscal years, no amounts were recorded for the acquisitions, as appraisals at the dates of acquisition were not available. During fiscal year 2006, appraisals were obtained for these buildings, and the Airports Division recorded these buildings at a value of $26.8 million. During fiscal year 2006, an additional $19.6 million was recorded for the Hickam land that was donated by the United States government in fiscal year 2001 in order to update the previously recorded amount to the appraised value of $20.7 million.

As a result, net assets increased by $34.1 million for fiscal year 2007, as compared to an increase of $74.6 million for fiscal year 2006.

In summary, Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. Although passenger traffic to Hawaii appears to have stabilized along with operational revenue, operational expenses have increased in order to maintain airport services and facilities.

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However, the steady income stream from the Airports Division's diverse mix of operational revenue sources, interest income, and federal discretionary grants along with the decrease in airport system revenue bond interest have supported the sizeable increase in operational expenses. The Airports Division continues to increase its net assets and maintains required cash reserves to conform with bond certificate covenants.

A summary of operations and changes in net assets for the years ended June 30, 2007, 2006, and 2005 are as follows:

	2007	2006	2005
Operating revenues	$ 233,433,057	$ 228,998,181	$ 223,802,443
Operating expenses, excluding depreciation	(210,215,030)	(175,884,514)	(149,762,637)
Operating income before depreciation	23,218,027	53,113,667	74,039,806
Depreciation	(82,631,333)	(75,596,942)	(77,491,244)
Operating loss	(59,413,306)	(22,483,275)	(3,451,438)
Nonoperating revenues (expenses) – net	42,137,688	23,762,438	(4,782,578)
(Loss) income before capital contributions	(17,275,618)	1,279,163	(8,234,016)
Capital contributions:			
Federal capital grants	51,380,310	26,904,130	33,139,276
Other capital contribution	—	46,368,857	—
Total capital contributions	51,380,310	73,272,987	33,139,276
Increase in net assets	$ 34,104,692	$ 74,552,150	$ 24,905,260

- Operating revenues increased by 1.9% from $229.0 million in fiscal year 2006 to $233.4 million in fiscal year 2007. Operating revenues increased by 2.3% from $223.8 million in fiscal year 2005 to $229.0 million in fiscal year 2006. The primary reasons for the increases were from airport landing fees, property rent, along with rental cars, parking, and retail concessions.

  Concession fees from Duty Free decreased by 8.9% or $3.8 million in fiscal year 2006 as compared to fiscal year 2005 primarily due to decreased spending from the international travelers. Other concessions fees increased by 9.9% or $7.3 million in fiscal year 2006 as compared to fiscal year 2005 primarily due to increased percentage rent revenues generated from rent-a-car, parking, and restaurant concessions.

  Operating expenses excluding depreciation increased by 19.5% from $175.9 million in fiscal year 2006 to $210.2 million in fiscal year 2007. The primary reasons were increases in salaries and wages of $4.4 million mainly due to union contract pay raises and added positions, special maintenance costs, and repairs and maintenance costs of $20.1 million and $3.9 million, respectively, to repair and upkeep our facilities, and other personnel services of \$7.7 million as a result of contracts mirroring and State pay raises, offset by a decrease in disbursements out of major maintenance, renewal, and replacement account of \$4.5 million as a result of utilizing special maintenance funds subsidized by federal operating grants instead.

Operating expenses excluding depreciation increased by 17.4% from \$149.8 million in fiscal year 2005 to \$175.9 million in fiscal year 2006. The primary reasons were increases in salaries and wages of \$3.6 million mainly due to union contract pay raises and added positions, utility costs of \$4.9 million as a result of rising fuel costs, special and major maintenance costs of \$10.4 million to repair and upkeep our facilities, security costs of \$2.9 million as a result of contracts mirroring, State pay raises, and the State of Hawaii surcharge on gross receipts of \$4.5 million due to fiscal year 2005 credits taken as a result of the airport revenue bond redemption of \$69.3 million.

The net results of the above resulted in operating income before depreciation of \$23.2 million in fiscal year 2007. However, operating income before depreciation for fiscal year 2007 decreased by 56.3% or \$29.9 million from fiscal year 2006. Depreciation expense increased by 9.3% from \$75.6 million in fiscal year 2006 to \$82.6 million in fiscal year 2007 due to the acquisition of seven buildings via expired land leases. The operating loss, before nonoperating revenues, net, and capital contributions of \$59.4 million in fiscal year 2007, represents a 164.3% increase from the operating loss before nonoperating revenues, net of \$22.5 million in fiscal year 2006.

The net results of the above resulted in operating income before depreciation of \$53.1 million in fiscal year 2006. However, operating income before depreciation decreased by 28.3% or \$20.9 million from fiscal year 2005. Depreciation expense decreased by 2.4% from \$77.5 million in fiscal year 2005 to \$75.6 million in fiscal year 2006. The operating loss, before nonoperating revenues, net, of \$22.5 million in fiscal year 2006, represents a 551.5% increase from the operating loss before nonoperating revenues, net of \$3.5 million in fiscal year 2005.

- Nonoperating revenues, net increased by 77.3% or \$18.4 million and 596.9% or \$28.5 million in fiscal years 2007 and 2006, respectively, primarily due to increases in interest income, federal operating grants, and passenger facility charges. Federal operating grants increased by 157.8% or \$12.2 million in fiscal year 2007 due to reimbursements received in fiscal year 2007 from applications submitted as a result of the Airports Division regaining its eligibility in fiscal year 2004 to apply for federal discretionary grants. Interest income, passenger facility charges, increased by 477.1% or \$0.6 million in fiscal year 2006 primarily due to the accumulation of funds under the passenger facility charges program. Federal operating grants increased by 408.9% or \$6.2 million in fiscal year 2006 due to reimbursements received in fiscal year 2006 from applications submitted as a result of the Airports Division regaining its eligibility in fiscal year 2004 to apply for federal discretionary grants. Passenger facility charges increased by 46.1% or \$6.9 million in fiscal year 2006 since collections were for a full year as compared to nine months for the fiscal year 2005. In addition, Airport System Revenue Bond interest expense decreased by \$2.6 million and \$3.4 million in fiscal years 2007 and 2006, respectively, as a result of redeeming Refunding Series 2003 bonds in January 2005.

- Loss before capital contributions for fiscal year 2007 of $17.3 million as compared to income before capital contributions of $1.3 million for fiscal year 2006 was a result of an increase in operating expenses.

  Income before capital contributions for fiscal year 2006 of $1.3 million as compared to a loss before capital contributions of $8.2 million for fiscal year 2005 was a result of increases in operating expenses offset by increases in nonoperating revenues, net.

- Capital contributions decreased by 29.9% or $21.9 million and increased 121.1% or $40.1 million in fiscal years 2007 and 2006, respectively, mainly due to the recording of fair market values for the Hickam land donated by the United States government and seven buildings due to expired lease agreements at the Honolulu International Airport in fiscal year 2006.

Financial Position Summary

A condensed summary of the Airports Division's net assets at June 30, 2007, 2006, and 2005 is shown below:

	2007	2006	2005
Assets:			
Current assets:			
Unrestricted assets	$ 548,548,950	$ 565,417,323	$ 566,198,806
Restricted assets	277,969,200	278,276,513	256,016,772
Noncurrent assets:			
Capital assets	1,485,773,891	1,457,377,510	1,426,270,724
Restricted assets	37,141,975	38,148,850	39,125,241
Other noncurrent assets	6,314,893	6,916,798	4,247,183
Total assets	2,355,748,909	2,346,136,994	2,291,858,726
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	43,968,110	37,691,638	32,854,186
Payable from restricted assets	60,110,609	57,652,223	51,259,451
Long-term liabilities, net of current portion	652,495,786	685,723,421	717,227,527
Total liabilities	756,574,505	781,067,282	801,341,164
Net assets:			
Invested in capital assets – net of related debt	881,703,354	834,478,768	783,919,511
Restricted	237,469,809	226,358,957	178,194,876
Unrestricted	480,001,241	504,231,987	528,403,175
Total net assets	$ 1,599,174,404	$ 1,565,069,712	$ 1,490,517,562

The largest portion of the Airports Division's net assets (55.1%, 53.3%, and 52.6% at June 30, 2007, 2006, and 2005, respectively) represents its investments in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net assets (14.8%, 14.5%, and 12.0% at June 30, 2007, 2006, and 2005, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (Certificate), as well as passenger facility charges that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $528.6 million, $547.5 million, and $537.8 million at June 30, 2007, 2006, and 2005, respectively. On January 5, 2005, the Airports Division redeemed $69.3 million of its airports system revenue bonds to decrease annual debt service requirements in order to meet budget constraints and bond covenants. The sizable cash balance provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the construction in progress (CIP) projects. In addition, the implementation of the PFC, geared to support the CIP, will help preserve the cash balance.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by $1,599.2 million and $1,565.1 million at June 30, 2007 and 2006, respectively, representing an increase of $34.1 million and $74.6 million from June 30, 2006 and 2005, respectively.

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

The DOT entered into an airport-airline lease agreement with the signatory airlines to provide those airlines with the nonexclusive right to use the airports system facilities, equipment improvements, and services, in addition to occupying certain exclusive-use premises and facilities. These leases were set to expire in 1992 but were extended under various short-term agreements.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The lease extension agreement's residual rate-setting methodology provided for a final year-end reconciliation containing actual airports system cost data to determine whether airports system charges assessed to the signatory airlines were sufficient to recover airports system costs, including debt service requirements. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement and various agreements between the DOT and airlines since June 30, 1997. The final reconciliation for fiscal year 2007, in accordance with these agreements resulted in a net underpayment by the signatory airlines of $845,536, compared to net overpayments of $867,093 and $1,087,495 in fiscal years 2006 and 2005, respectively.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the lease extension agreement, which provides for an automatic extension on a quarterly basis unless either party provides 60 days written notice of termination to the other party.

Negotiations are currently being conducted with the signatory airlines for an amendment to the existing lease extension agreement.

Revenues

A summary of revenues for the years ended June 30, 2007 and 2006 and the amount and percentage of change in relation to prior year amounts are as follows:

	2007		Increase (decrease) from 2006	
	Amount	**Percent of total**	**Amount**	**Percent**
Operating revenues:				
Concession fees:				
Duty Free	$ 37,368,528	12.0%	$ (1,799,728)	(4.6)%
Other concessions	83,321,022	26.6%	2,080,776	2.6%
Airport landing fees	38,049,335	12.2%	1,964,616	5.4%
Aeronautical rentals:				
Exclusive-use premise charge	29,597,971	9.5%	1,001,418	3.5%
Nonexclusive joint-use premise charge	25,795,049	8.3%	1	0.0%
Nonaeronautical rentals	12,357,911	4.0%	1,228,342	11.0%
Other	6,943,241	2.2%	(40,549)	(0.6)%
Total operating revenues	233,433,057	74.7%	4,434,876	1.9%
Nonoperating revenues:				
Interest income, investments	33,421,921	10.7%	2,243,571	7.2%
Interest income, passenger facility charges	1,740,851	0.6%	1,055,581	154.0%
Interest income, direct financing leases	2,418,181	0.8%	(340,775)	(12.4)%
Federal operating grants	19,983,178	6.4%	12,232,770	157.8%
Passenger facility charges	21,669,487	6.9%	(324,720)	(1.5)%
Total nonoperating revenues	79,233,618	25.3%	14,866,427	23.1%
Total revenues	$ 312,666,675	100.0%	$ 19,301,303	6.6%

	2006		Increase (decrease) from 2005	
	Amount	**Percent of total**	**Amount**	**Percent**
Operating revenues:				
Concession fees:				
Duty Free	$ 39,168,256	13.4%	$ (3,808,945)	(8.9)%
Other concessions	81,240,246	27.7%	7,338,280	9.9%
Airport landing fees	36,084,719	12.3%	621,576	1.8%
Aeronautical rentals:				
Exclusive-use premise charge	28,596,553	9.7%	934,778	3.4%
Nonexclusive joint-use premise charge	25,795,048	8.8%	(669,999)	(2.5)%
Nonaeronautical rentals	11,129,569	3.8%	(1,327,678)	(10.7)%
Other	6,983,790	2.4%	2,107,726	43.2%
Total operating revenues	228,998,181	78.1%	5,195,738	2.3%
Nonoperating revenues:				
Interest income, investments	31,178,350	10.6%	11,040,197	54.8%
Interest income, passenger facility charges	685,270	0.2%	566,516	477.1%
Interest income, direct financing leases	2,758,956	0.9%	(95,254)	(3.3)%
Federal operating grants	7,750,408	2.6%	6,227,471	408.9%
Passenger facility charges, net	21,994,207	7.5%	6,944,109	46.1%
Total nonoperating revenues	64,367,191	21.9%	24,683,039	62.2%
Total revenues	$ 293,365,372	100.0%	$ 29,878,777	11.3%

(Continued)

Expenses

A summary of expenses for the years ended June 30, 2007 and 2006 and the amount and percentage of change in relation to prior year amounts are as follows:

	2007		Increase (decrease) from 2006	
	Amount	**Percent of total**	**Amount**	**Percent**
Operating expenses:				
Salaries and wages	$ 61,203,852	18.5%	$ 4,395,576	7.7%
Other personnel services	46,145,265	14.0%	7,735,235	20.1%
Special maintenance	33,557,799	10.2%	20,110,660	149.6%
Utilities	26,257,344	8.0%	471,359	1.8%
Repairs and maintenance	12,803,202	3.9%	3,935,277	44.4%
State of Hawaii surcharge on gross receipts	9,764,788	3.0%	171,643	1.8%
Department of Transportation general administration expenses	5,723,840	1.7%	724,469	14.5%
Materials and supplies	4,520,290	1.4%	(79,447)	(1.7)%
Insurance	4,017,906	1.2%	1,449,603	56.4%
Disbursements out of major maintenance, renewal, and replacement account	3,488,871	1.1%	(4,473,761)	(56.2)%
Other	2,731,873	0.8%	(110,098)	(3.9)%
Total operating expenses before depreciation	210,215,030	63.7%	34,330,516	19.5%
Depreciation	82,631,333	25.0%	7,034,391	9.3%
Total operating expenses	292,846,363	88.8%	41,364,907	16.4%
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	34,193,858	10.4%	(2,553,811)	(6.9)%
Special facility	2,418,181	0.7%	(340,775)	(12.4)%
General obligation bonds	1,709	0.0%	(433)	(20.2)%
Other	482,182	0.1%	(613,804)	(56.0)%
Total nonoperating expenses	37,095,930	11.2%	(3,508,823)	(8.6)%
Total expenses	$ 329,942,293	100.0%	$ 37,856,084	13.0%

(Continued)

	2006		Increase (decrease) from 2005	
	Amount	Percent of total	Amount	Percent
Operating expenses:				
Salaries and wages	$ 56,808,276	19.4%	$ 3,577,252	6.7%
Other personnel services	38,410,030	13.2%	2,910,779	8.2%
Utilities	25,785,985	8.8%	4,906,781	23.5%
Special maintenance	13,447,139	4.6%	4,867,380	56.7%
State of Hawaii surcharge on gross receipts	9,593,145	3.3%	4,525,403	89.3%
Repairs and maintenance	8,867,925	3.0%	(502,646)	(5.4)%
Disbursements out of major maintenance, renewal, and replacement account	7,962,632	2.7%	5,521,663	226.2%
Department of Transportation general administration expenses	4,999,371	1.7%	(432,506)	(8.0)%
Materials and supplies	4,599,737	1.6%	680,537	17.4%
Insurance	2,568,303	0.9%	(42,209)	(1.6)%
Other	2,841,971	1.0%	109,443	4.0%
Total operating expenses before depreciation	175,884,514	60.2%	26,121,877	17.4%
Depreciation	75,596,942	25.9%	(1,894,302)	(2.4)%
Total operating expenses	251,481,456	86.1%	24,227,575	10.7%
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	36,747,669	12.6%	(3,449,724)	(8.6)%
Special facility	2,758,956	0.9%	(95,254)	(3.3)%
General obligation bonds	2,142	0.0%	(446)	(17.2)%
Other	1,095,986	0.4%	(316,553)	(22.4)%
Total nonoperating expenses	40,604,753	13.9%	(3,861,977)	(8.7)%
Total expenses	$ 292,086,209	100.0%	$ 20,365,598	7.5%

Capital Acquisitions and Construction Activities

In fiscal year 2007 and 2006, there were 7 and 18 construction bid openings, respectively, totaling an estimated $79 million and $82 million, respectively, in potential construction contracts. Significant projects in fiscal year 2007 include the Parking Garage, Third Level Sterile Corridor and Airfield Electrical Vault at Honolulu International Airport, and Parking Lot Expansion, Phase II at Kona International Airport at Keahole. Significant

 (Continued)

projects in fiscal year 2006 include Heliport Improvements and Baggage Claim Improvements, Phase I at Lihue Airport, EDS Integration Improvements, Phase I, and two air-conditioning improvements projects (Common Chilled Water Loop and Diamond Head Chiller Plant) at Honolulu International Airport, as well as four Airfield Lights and Sign Replacement projects at Hilo International, Kona International at Keahole, Kahului, Lanai, Lihue, and Honolulu International Airports.

There were also several ongoing construction projects that were initiated prior to fiscal year 2007 that were under construction during the fiscal year. Major projects include the Heliport Improvements at Lihue Airport, EDS Integration Improvements and the two air-conditioning projects (Diamond Head Chiller Plant Replacement and Chilled Water Loop) at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2006 that were under construction during the fiscal year. Major projects include Terminal Improvements, Phase Ib at Kahului Airport, Install Security Fencing at Hilo International Airport, and Install Taxiway Lighting at Molokai Airport.

Finally, there were four construction projects that were substantially completed in fiscal year 2007. These projects totaled over $14 million and include Perimeter Road and Fence, General Aviation Lighting at Kona International Airport at Keahole, Installation of Taxiway Lighting at Molokai Airport, and the Gates 33/34 Reroofing and 3rd Level Diamond Head Roadway Strengthening projects at Honolulu International Airport.

There were three construction projects that were substantially completed in fiscal year 2006. These projects totaled over $30 million and include the 1st and 2nd Level Roadway Improvements and Overseas Terminal Improvements, Phase II at the Honolulu International, and Install Telecommunications Network for Alien Species Action Plan Computers, Phase I at Kahului Airport. During fiscal year 2006, the Airports Division expended over $44 million on capital activities.

Additional information on the Airports Division's capital assets can be found in note 4 of this report.

Indebtedness

Airports System Revenue Bonds and Reimbursable General Obligation Bonds

As of July 1, 2007, $610,880,000 of airports system revenue bonds was outstanding as compared to $643,130,000 as of July 1, 2006. The last series of "new money" bonds used to fund capital improvement projects was issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. At June 30, 2007, the balance of authorized but unissued airports system revenue bonds was $167,426,969.

As of June 30, 2007, $37,700 of reimbursable general obligation bonds issued for the airports system was outstanding compared to $47,125 as of June 30, 2006.

These bonds are general obligations of the State, but since the proceeds were used to finance improvements to the airports system, the Airports Division is required to reimburse the State's general fund for the payment of the principal and interest on such bonds. The State does not presently intend to issue additional reimbursable general obligation bonds for the airports system.

(Continued)

Special Obligation Bonds

The State Legislature has authorized $200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2007 and 2006, there were outstanding bond obligations of $36,895,000 and $37,895,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

Additional information regarding the Airports Division's indebtedness can be found in notes 5, 6, 7, and 8 of this report.

Credit Rating and Bond Insurance

All airports system revenue bonds issued since 1989 have been issued with bond insurance and are rated AAA by Standard & Poor's Corporation, Aaa by Moody's Investors Service, and AAA by Fitch IBCA, Inc. As of June 2007, the underlying ratings for airports system revenue bonds were as follows:

- Standard & Poor's Corporation: A- (with stable outlook), which is slightly below the rating agency's median for Airports (A).
- Moody's Investors Service: A3 (with stable outlook), which is slightly below the rating agency's median for airports (A2).
- Fitch IBCA, Inc.: A (with stable outlook), which is slightly below the rating agency's median rating for Airports (A+).

Economic Factors and Current Known Facts

The Airports Division has launched plans to modernize airport facilities over the next 12 years. The first noticeable project under construction is the parking structure adjacent to the inter-island terminal at the Honolulu International Airport. Other projects include new and renovated concourses, support facilities, and parking terminals at other principal airports. Such projects will improve traffic flow for domestic, international, and inter-island passengers, as well as to promote operational efficiency for airport tenants.

The Airports and current signatory airline carriers have agreed to an amended lease extension agreement effective January 1, 2008. The agreement is intended for the airline carriers to support the increase in operational expenses and financing of modernization projects. As a result, the Airports Division will be increasing airline fees, as well as continuing ongoing initiatives to maximize various concession revenues. In addition, under the amended lease agreement, rate mitigation will no longer be utilized in the calculation of debt service, landing fees will be calculated per an agreed formula, and airport system support charges will be reimposed and assessed to signatory airlines as needed.

Request for Information

This financial report is designed to provide a general overview of the Airports Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Brian Sekiguchi, Deputy Director, State of Hawaii, Department of Transportation, Airports Division, 400 Rodgers Boulevard, Suite 700, Honolulu, Hawaii 96819-1880, or by e-mail to *airadministrator@hawaii.gov*.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Statements of Net Assets

June 30, 2007 and 2006

Assets	**2007**	**2006**
Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted (note 3)	$ 528,557,445	$ 547,469,895
Receivables:		
Accounts, net of allowance of $3,294,192 and $3,932,775 for uncollectible accounts for 2007 and 2006, respectively	12,378,550	8,863,178
Promissory note receivable (note 8)	371,577	2,109,422
Interest	4,658,422	3,937,602
Claims – federal grants	1,896,527	2,008,598
Aviation fuel tax	189,312	194,071
Due from State of Hawaii	252,203	579,386
Total receivables	19,746,591	17,692,257
Inventory of materials and supplies, at cost	244,914	255,171
Total unrestricted current assets	548,548,950	565,417,323
Restricted assets:		
Cash and cash equivalents (note 3):		
Revenue bond debt service (note 6)	115,068,476	113,259,115
Revenue bond construction	35,843,367	47,228,937
Passenger facility charges (note 9)	43,849,369	34,670,581
Security deposits and customer advances	4,656,024	4,688,619
Total cash and cash equivalents – restricted	199,417,236	199,847,252
Passenger facility charges receivable (note 9)	3,300,451	3,177,748
Investments – revenue bond debt service reserve (notes 3 and 6)	75,251,513	75,251,513
Total restricted current assets	277,969,200	278,276,513
Total current assets	826,518,150	843,693,836
Noncurrent assets:		
Promissory note receivable (note 8)	2,967,477	3,131,032
Bond issue costs, net of accumulated amortization of $3,161,775 and $2,723,425 for 2007 and 2006, respectively (note 6)	3,347,416	3,785,766
Restricted assets – net investments in direct financing leases (note 8)	37,141,975	38,148,850
Capital assets, net of accumulated depreciation of $1,347,246,055 and $1,270,649,191 for 2007 and 2006, respectively (notes 4, 6, and 7)	1,485,773,891	1,457,377,510
Total noncurrent assets	1,529,230,759	1,502,443,158
Total assets	$ 2,355,748,909	$ 2,346,136,994

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Statements of Net Assets

June 30, 2007 and 2006

Liabilities	**2007**	**2006**
Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	$ 6,931,775	$ 7,340,426
Contracts payable, including retainage of $3,215,428 and $2,467,550 for 2007 and 2006, respectively	23,499,273	16,423,465
Current portion of general obligation bonds (notes 5 and 7)	9,425	9,425
Current portion of workers' compensation (notes 5 and 14)	1,184,400	899,951
Current portion of compensated absences (note 5)	2,576,968	2,309,200
Deferred income (note 8)	3,611,266	2,745,571
Accrued wages	4,592,448	4,210,587
Prepaid airport use charge fund (notes 8 and 15)	1,533,718	3,727,254
Other	28,837	25,759
Total payable from unrestricted assets	43,968,110	37,691,638
Payable from restricted assets:		
Contracts payable, including retainage of $319,008 and $163,384 for 2007 and 2006, respectively	3,936,115	2,318,424
Current portion of airports system revenue bonds (notes 5 and 6)	32,250,000	30,565,000
Current portion of special facility revenue bonds (notes 5 and 8)	1,040,000	1,000,000
Accrued interest	19,181,071	20,032,787
Security deposits	3,703,423	3,736,012
Total payable from restricted assets	60,110,609	57,652,223
Total current liabilities	104,078,719	95,343,861
Long-term liabilities – net of current portion:		
Airports system revenue bonds (notes 5 and 6)	607,626,204	639,515,554
Special facility revenue bonds (notes 5 and 8)	35,855,000	36,895,000
General obligation bonds (notes 5 and 7)	28,275	37,700
Compensated absences (note 5)	5,018,106	5,122,517
Workers' compensation (notes 5 and 14)	3,015,600	3,200,049
Customer advance (note 13)	952,601	952,601
Total liabilities	756,574,505	781,067,282
Net Assets		
Net assets:		
Invested in capital assets – net of related debt	881,703,354	834,478,768
Restricted:		
Debt service payment	51,183,795	50,343,565
Debt service reserve account	75,251,513	75,251,513
Major maintenance, renewal, and replacement account	63,884,681	62,915,550
Passenger facility charges	47,149,820	37,848,329
Total restricted	237,469,809	226,358,957
Unrestricted	480,001,241	504,231,987
Commitments and contingencies (notes 6, 8, 10, 11, 12, 13, 14, and 15)		
Total net assets	$ 1,599,174,404	$ 1,565,069,712

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

	2007	2006
Operating revenues (notes 8, 12, and 15):		
Concession fees	$ 120,689,550	$ 120,408,502
Airport landing fees	38,049,335	36,084,719
Aeronautical rentals:		
Exclusive-use premise charges	29,597,971	28,596,553
Nonexclusive joint-use premise charges	25,795,049	25,795,048
Nonaeronautical rentals	12,357,911	11,129,569
Aviation fuel tax	2,169,230	2,590,355
Airports system support charges	617,845	631,406
Miscellaneous	4,156,166	3,762,029
Net operating revenues	233,433,057	228,998,181
Operating expenses (notes 4, 10, 11, 12, 14, and 15):		
Depreciation	82,631,333	75,596,942
Salaries and wages	61,203,852	56,808,276
Other personnel services	46,145,265	38,410,030
Special maintenance	33,557,799	13,447,139
Utilities	26,257,344	25,785,985
Repairs and maintenance	12,803,202	8,867,925
State of Hawaii surcharge on gross receipts	9,764,788	9,593,145
Department of Transportation general administration expenses	5,723,840	4,999,371
Materials and supplies	4,520,290	4,599,737
Insurance	4,017,906	2,568,303
Disbursements out of major maintenance, renewal, and replacement account	3,488,871	7,962,632
Claims and benefits	1,218,413	1,464,232
Travel	369,546	340,827
Communication	331,412	294,133
Rent	320,837	300,236
Dues and subscriptions	184,958	128,163
Printing and advertising	49,330	13,809
Freight and delivery	11,952	29,412
Miscellaneous	245,425	271,159
Total operating expenses	292,846,363	251,481,456
Operating loss, carried forward	(59,413,306)	(22,483,275)

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

	2007	2006
Operating loss, brought forward	$ (59,413,306)	$ (22,483,275)
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities (note 3)	33,421,921	31,178,350
Investments in direct financing leases (note 8)	2,418,181	2,758,956
Interest expense:		
Revenue bonds:		
Airports system (note 6)	(34,193,858)	(36,747,669)
Special facility (note 8)	(2,418,181)	(2,758,956)
General obligation bonds (note 7)	(1,709)	(2,142)
Federal operating grants	19,983,178	7,750,408
Loss on disposal of capital assets (note 4)	(43,832)	(634,569)
Passenger facility charges (note 9)	23,410,338	22,679,477
Amortization of deferred bond issue costs	(438,350)	(461,417)
Total nonoperating revenues, net	42,137,688	23,762,438
(Loss) income before capital contributions	(17,275,618)	1,279,163
Capital contributions:		
Federal capital grants	51,380,310	26,904,130
Other capital contributions (note 4)	—	46,368,857
Total capital contributions	51,380,310	73,272,987
Increase in net assets	34,104,692	74,552,150
Total net assets – beginning of year	1,565,069,712	1,490,517,562
Total net assets – end of year	$ 1,599,174,404	$ 1,565,069,712

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years ended June 30, 2007 and 2006

		2007		2006
Cash flows from operating activities:				
Cash received from providing services	$	230,466,492	$	233,854,148
Cash paid to suppliers		(147,711,409)		(116,110,516)
Cash paid to employees		(60,558,634)		(57,332,108)
Other receipts		—		7,146
Net cash provided by operating activities		22,196,449		60,418,670
Cash flows provided by noncapital financing activities:				
Proceeds from federal operating grants		21,438,958		7,249,265
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets		(85,605,559)		(53,259,034)
Proceeds from federal and other capital grants and contributions		50,036,601		29,904,182
Interest paid on airports system revenue and general obligation bonds		(38,714,379)		(40,280,459)
Principal paid on general obligation bonds		(9,425)		(9,425)
Principal paid on airports system revenue bonds		(30,565,000)		(25,250,000)
Payments from passenger facility charges program		(14,108,847)		—
Proceeds from passenger facility charges program		23,287,635		22,218,865
Net cash used in capital and related financing activities		(95,678,974)		(66,675,871)
Cash flows from investing activities:				
Proceeds from sale and maturities of investments		101,180,576		75,251,513
Interest received on investments		32,701,101		30,482,034
Purchases of investments		(101,180,576)		(75,251,513)
Net cash provided by investing activities		32,701,101		30,482,034
Net (decrease) increase in cash and cash equivalents		(19,342,466)		31,474,098
Cash and cash equivalents – beginning of year		747,317,147		715,843,049
Cash and cash equivalents – end of year	$	727,974,681	$	747,317,147
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	$	(59,413,306)	$	(22,483,275)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation		82,631,333		75,596,942
Overpayment (underpayment) of airport use charge to be transferred to the PAUCF		(845,536)		867,093
Insurance proceeds		—		7,146
Changes in operating assets and liabilities:				
Accounts receivable		(1,613,972)		6,040,132
Aviation fuel tax receivable		4,759		50,121
Inventory of materials and supplies		10,257		(40,280)
Vouchers payable		(408,651)		907,186
Contracts payable		1,370,980		2,625,962
Deferred income		865,695		(784,628)
Accrued wages		645,218		(523,832)
Prepaid airport use charge fund		(1,348,000)		(1,348,000)
Due to State of Hawaii		327,183		(527,146)
Security deposits		(32,589)		31,721
Other		3,078		(472)
Net cash provided by operating activities	$	22,196,449	$	60,418,670

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years ended June 30, 2007 and 2006

		2007		2006
Supplemental information:				
Noncash investing, capital, and financing activities:				
The Airports Division's noncash capital and financing activities related to bonds payable included the following:				
Principal payments on special facility revenue bonds	$	1,000,000	$	965,000
Interest payments on special facility revenue bonds		2,425,056		2,770,347
Amortization of revenue bond issue costs		438,350		461,417
Amortization of revenue bond discount		60,804		60,805
Amortization of revenue bond premium		(1,373,759)		(1,449,373)
Amortization of deferred loss on refunding revenue bonds		1,673,605		1,758,903

At June 30, 2007 and 2006, contracts payable included $18,469,029 and $11,146,510, respectively, for the acquisition of capital assets.

During fiscal years 2007 and 2006, interest of $4,034,621 and $3,180,028, respectively, was capitalized in property, plant, and equipment.

During fiscal years 2007 and 2006, property, plant, and equipment with a net book value of $43,832 and $650,988, respectively, were written off.

During fiscal year 2006, buildings with a value of $26,766,500 were recorded for buildings previously acquired upon the expiration of land lease agreements. In addition, the carrying value of a land parcel was increased by $19,602,357 in order to update the previously recorded amount to the appraised value of $20,690,000 (see note 4).

See accompanying notes to financial statements.

(1) Reporting Entity

The Airports Division, Department of Transportation, State of Hawaii (the Airports Division), was established on July 1, 1961 to succeed the Hawaii Aeronautics Commission under the provisions of Act 1, Hawaii State Government Reorganization Act of 1959, Second Special Session Laws of Hawaii. The Airports Division has jurisdiction over and control of all State of Hawaii (the State) airports and air navigation facilities and general supervision of aeronautics within the State. The Airports Division currently operates and maintains 15 airports located throughout the State.

The accompanying financial statements present only the activities of the Airports Division and are not intended to present fairly the financial position of the State of Hawaii and the results of its operations and the cash flows of its proprietary fund type in conformity with U.S. generally accepted accounting principles.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Airports Division is accounted for as a proprietary fund, which uses the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type. An enterprise fund is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

(b) Financial Statement Presentation

The accompanying financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airports Division has elected not to apply the provisions of relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

(c) Operating Revenues and Expenses

Revenues from airlines, concessions, rental cars, and parking are reported as operating revenues. Transactions that are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the Airports Division are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses. Revenues from capital contributions are reported separately, after nonoperating revenues and expenses.

(Continued)

(d) Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $3.00 per passenger commencing on October 1, 2004. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

(e) Capital Contributions

The Airports Division receives federal grants from the FAA through the Airport Improvement Program. The grant is considered earned as the related allowable expenditures are incurred. Grants for the acquisition and construction of land, property, and certain types of equipment are reported in the statements of revenues, expenses, and changes in net assets as capital contributions.

(f) Cash and Cash Equivalents

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and cash equivalents include amounts held in the State Treasury.

(g) Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on collection history and current information regarding the credit worthiness of the tenants and others doing business with the Airports Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

An aging of the accounts receivable at June 30, 2007 was as follows: current – $14,143,817; 30 days – $18,758; 60 days – $30,920; and over 90 days – $1,479,247.

(h) Investments

Investments consist primarily of certificates of deposit and repurchase agreements with a maturity of more than three months and less than one year when purchased. The carrying amounts approximate fair value because of the short maturity of the investments.

(i) Restricted Assets

Restricted assets consist of moneys and other resources, the use of which is legally restricted. Certain proceeds of the airports system revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net assets because they are maintained separately and the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to make debt service payments, unspent bond proceeds, amounts restricted for bond reserve requirements, unspent passenger facility charges, and security deposits and customer advances.

(j) Capital Assets

Capital assets acquired by purchase or construction are recorded at cost. Contributed property is recorded at fair value at the date received. Buildings, improvements, and equipment are depreciated by the straight-line method over their estimated useful lives as follows:

Class of assets	Estimated useful lives		Capitalization threshold
Land improvements	20 years	$	100,000
Buildings	45 years		100,000
Building improvements	20 years		100,000
Machinery and equipment	10 years		5,000

Disposals of assets are recorded by removing the costs and related accumulated depreciation from the accounts with a resulting gain or loss.

Repairs and maintenance, minor replacements, renewals, and betterments are charged against operations for the year. Major replacements, renewals, and betterments are capitalized in the year incurred. Interest cost is capitalized during the period of construction for all capital improvement projects except the portion of projects funded by grants from the federal government.

(k) Bond Issue Costs, Original Issue Discount or Premium and Deferred Loss on Refunding

Bond issue costs relating to the issuance of airports system revenue bonds are deferred and are amortized over the life of the respective issue on a straight-line basis. Original issue discount or premium and deferred loss on refundings are amortized using the effective-interest method over the terms of the respective issues and are added to or offset against the long-term debt in the statements of net assets.

(l) Accrued Vacation and Compensatory Pay

The Airports Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences (such as employer payroll taxes and fringe benefits), in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of 168 or 240 hours per calendar year, depending upon job classification. Accumulation of such vacation credits is limited to 720 or 1,056 hours at calendar year-end and is convertible to pay upon termination of employment.

(m) Employees' Retirement System

The Airports Division's contributions to the Employees' Retirement System of the State of Hawaii (ERS) are based on the current contribution rate determined by the State Department of Budget and Finance. The Airports Division's policy is to fund its required contribution annually.

(n) Risk Management

The Airports Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division is self-insured for workers' compensation claims as discussed in note 14. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Recently Issued Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense and related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement requires systematic, accrual-basis measurement and recognition of OPEB expense over a period that approximates employees' years of service, and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

The provisions of this statement are effective for financial statements for periods beginning after December 15, 2006. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented.

(q) Reclassifications

Certain 2006 amounts were reclassified to conform to the 2007 presentation. Such reclassifications had no effect on previously reported changes in net assets.

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2007 and 2006 consisted of the following:

	2007	2006
Petty cash	$ 17,805	$ 17,805
Cash in State Treasury	727,956,876	747,299,342
Repurchase agreements	56,952,787	56,952,787
Certificates of deposit	18,298,726	18,298,726
	$ 803,226,194	$ 822,568,660

Such amounts are reflected in the statements of net assets at June 30, 2007 and 2006 as follows:

	2007	2006
Cash and cash equivalents:		
Unrestricted	$ 528,557,445	$ 547,469,895
Restricted	199,417,236	199,847,252
Total cash and cash equivalents	727,974,681	747,317,147
Investments – restricted	75,251,513	75,251,513
Total cash and cash equivalents and investments	$ 803,226,194	$ 822,568,660

(a) Cash in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2007 and 2006, the amount reported as cash in State Treasury reflects the Airports Division's relative position in the State's investment pool and amounted to $727,956,876 and $747,299,342, respectively.

The State Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury (investment pool). The State Director of Finance may invest any moneys 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.

At June 30, 2007 and 2006, information relating to individual bank balances, insurance, and collateral of cash deposits was not available since such information is determined on a statewide basis and not for individual departments or divisions. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

(b) Investments

At June 30, 2007 and 2006, the Airports Division's investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Airports Division follows the State's policy of limiting maturities on investments to generally not more than five years from the date of investment.

Credit Risk

The Airports Division follows the State's policy of limiting its investments to investments in state and U.S. Treasury securities, certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Airports Division or the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Airports Division's and the State's investments are held at broker/dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the Airports Division and the State require the institutions to set aside, in safekeeping, certain types of securities to collateralize repurchase agreements. The Airports Division and the State monitor the market value of these securities and obtain additional collateral when appropriate.

(4) Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006 consist of the following:

	Balance, July 1, 2006	Increases	Decreases	Transfers	Balance, June 30, 2007
Capital assets not being depreciated:					
Land	$ 308,438,655	$ —	$ —	$ —	$ 308,438,655
Land improvements	26,481,609	—	—	—	26,481,609
Construction in progress	116,499,623	103,001,966	—	(50,579,068)	168,922,521
Total capital assets not being depreciated	451,419,887	103,001,966	—	(50,579,068)	503,842,785
Capital assets being depreciated:					
Land improvements	734,822,288	233,395	—	23,413,322	758,469,005
Buildings and improvements	1,361,619,339	846,068	—	15,552,211	1,378,017,618
Machinery and equipment	180,165,187	6,990,117	(6,078,301)	11,613,535	192,690,538
Total capital assets being depreciated	2,276,606,814	8,069,580	(6,078,301)	50,579,068	2,329,177,161
Less accumulated depreciation:					
Land improvements	(516,933,832)	(27,480,659)	—	—	(544,414,491)
Buildings and improvements	(597,620,413)	(48,773,490)	—	—	(646,393,903)
Machinery and equipment	(156,094,946)	(6,377,184)	6,034,469	—	(156,437,661)
Total depreciation	(1,270,649,191)	(82,631,333)	6,034,469	—	(1,347,246,055)
Capital assets being depreciated, net	1,005,957,623				981,931,106
Total capital assets	$ 1,457,377,510				$ 1,485,773,891

	Balance, July 1, 2005	Increases	Decreases	Transfers	Balance, June 30, 2006
Capital assets not being depreciated:					
Land	$ 288,853,840	$ 19,602,357	$ —	$ (17,542)	$ 308,438,655
Land improvements	26,406,267	822	—	74,520	26,481,609
Construction in progress	90,820,228	55,513,716	(586,465)	(29,247,856)	116,499,623
Total capital assets not being depreciated	406,080,335	75,116,895	(586,465)	(29,190,878)	451,419,887
Capital assets being depreciated:					
Land improvements	729,755,514	55,310	—	5,011,464	734,822,288
Buildings and improvements	1,312,224,352	27,030,836	(1,743,028)	24,107,179	1,361,619,339
Machinery and equipment	175,516,218	5,221,198	(644,464)	72,235	180,165,187
Total capital assets being depreciated	2,217,496,084	32,307,344	(2,387,492)	29,190,878	2,276,606,814
Less accumulated depreciation:					
Land improvements	(490,461,812)	(26,472,020)	—	—	(516,933,832)
Buildings and improvements	(555,721,073)	(43,642,368)	1,743,028	—	(597,620,413)
Machinery and equipment	(151,122,810)	(5,482,554)	510,418	—	(156,094,946)
Total depreciation	(1,197,305,695)	(75,596,942)	2,253,446	—	(1,270,649,191)
Capital assets being depreciated, net	1,020,190,389				1,005,957,623
Total capital assets	$ 1,426,270,724				$ 1,457,377,510

(Continued)

During fiscal year 2005 and prior, the Airports Division acquired seven buildings upon the expiration of land lease agreements. During the prior fiscal years, no amounts were recorded for the acquisitions, as appraisals at the dates of acquisition were not available. During fiscal year 2006, appraisals were obtained for these buildings, and the Airports Division recorded these buildings at a value of $26,766,500.

During fiscal year 2006, an additional $19,602,357 was recorded for the Hickam land donated by the United States government in fiscal year 2001 in order to update the previously recorded amount to the appraised value of $20,690,000.

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2007 and 2006 follows:

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007	Current	Noncurrent
Workers' compensation (note 14)	$ 4,100,000	$ 1,007,974	$ (907,974)	$ 4,200,000	$ 1,184,400	$ 3,015,600
Compensated absences	7,431,717	4,063,686	(3,900,329)	7,595,074	2,576,968	5,018,106
General obligation bonds (note 7)	47,125	—	(9,425)	37,700	9,425	28,275
Airports system revenue bonds (note 6)	670,080,554	1,734,409	(31,938,759)	639,876,204	32,250,000	607,626,204
Special facility revenue bonds (note 8)	37,895,000	—	(1,000,000)	36,895,000	1,040,000	35,855,000
	$ 719,554,396	$ 6,806,069	$ (37,756,487)	$ 688,603,978	$ 37,060,793	$ 651,543,185

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006	Current	Noncurrent
Workers' compensation (note 14)	$ 4,100,000	$ 1,035,900	$ (1,035,900)	$ 4,100,000	$ 899,951	$ 3,200,049
Compensated absences	7,601,910	3,076,476	(3,246,669)	7,431,717	2,309,200	5,122,517
General obligation bonds (note 7)	56,550	—	(9,425)	47,125	9,425	37,700
Airports system revenue bonds (note 6)	694,960,219	1,819,707	(26,699,372)	670,080,554	30,565,000	639,515,554
Special facility revenue bonds (note 8)	38,860,000	—	(965,000)	37,895,000	1,000,000	36,895,000
	$ 745,578,679	$ 5,932,083	$ (31,956,366)	$ 719,554,396	$ 34,783,576	$ 684,770,820

(6) Airports System Revenue Bonds

In 1969, the Director issued the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (Certificate) under which $40,000,000 of revenue bonds were initially authorized for issuance. Subsequent issues of revenue bonds were covered by first through twenty-eighth supplemental certificates to the original 1969 Certificate.

Certain amendments to the Certificate contained in the Twenty-sixth Supplemental Certificate took effect contemporaneously with the Twenty-seventh Supplemental Certificate and delivery of the Airports System Revenue Bonds, Refunding Series of 2001. Other amendments, which required the consent of 100% of the bondholders, took effect as of June 30, 2004 with the issuance of the Airports System Revenue Bonds, Refunding Series of 2003.

These revenue bonds are payable solely from and are collateralized solely by the revenues generated by the Airports Division including all aviation fuel taxes levied. The amended Certificate established an order of priority for the appropriation, application, or expenditure of these revenues as follows:

a. To pay or provide for the payment of the costs of operation, maintenance, and repair of airport properties.

b. To pay when due all bonds and interest. Payment shall be provided from the following accounts:

    1. Interest account
    2. Serial bond principal account
    3. Sinking fund account
    4. Debt service reserve account

c. To fund the major maintenance, renewal, and replacement account.

d. To reimburse the State General Fund for general obligation bond requirements.

e. To provide for betterments and improvements to the airports.

f. To provide such special reserve funds and other special funds as created by law.

g. To provide for any other purpose connected with or pertaining to the bonds or the airports authorized by law.

The amended Certificate requires that the Airports Division impose, prescribe, and collect revenues that, together with unencumbered funds, will yield net revenues and taxes at least equal to 1.25 times the total interest, principal, and sinking fund requirements for the ensuing 12 months. The Airports Division is also required to maintain adequate insurance on its properties.

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal, and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2007 and 2006, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2007 and 2006, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net assets) consisted of the following:

	2007	2006
Debt service reserve account	$ 75,251,513	$ 75,251,513
Major maintenance, renewal, and replacement account	63,884,681	62,915,550
	139,136,194	138,167,063
Principal and interest due July 1	51,183,795	50,343,565
	$ 190,319,989	$ 188,510,628

At June 30, 2007 and 2006, the balance of authorized but unissued airports system revenue bonds was $167,426,969 and $22,790,529, respectively.

The revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2007 and 2006:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount 2007	Outstanding amount 2006
2000A, refunding	5.50 – 6.00	2021	$ 26,415,000	$ 26,415,000	$ 26,415,000
2000B, refunding	5.00 – 8.00	2020	261,465,000	229,785,000	239,820,000
2001, refunding	4.00 – 5.75	2021	423,255,000	386,930,000	407,460,000
			$ 711,135,000	643,130,000	673,695,000
Add unamortized premium				10,298,107	11,671,866
Less unamortized discount				(740,073)	(800,877)
Less deferred loss on refunding				(12,811,830)	(14,485,435)
Less current portion				(32,250,000)	(30,565,000)
Noncurrent portion				$ 607,626,204	$ 639,515,554

Annual debt service requirements to maturity for airports system revenue bonds are as follows:

	Principal	Interest	Total
Years ending June 30:			
2008	$ 21,140,000	$ 36,075,901	$ 57,215,901
2009	22,310,000	34,906,116	57,216,116
2010	23,615,000	33,605,699	57,220,699
2011	25,240,000	31,966,186	57,206,186
2012	26,945,000	30,269,561	57,214,561
2013 – 2017	262,605,000	113,531,404	376,136,404
2018 – 2021	229,025,000	29,437,394	258,462,394
	$ 610,880,000	$ 309,792,261	$ 920,672,261

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2007.

The following is a summary of interest costs incurred for the years ended June 30, 2007 and 2006 and the allocation thereof:

	2007	2006
Expensed as incurred	$ 34,193,858	$ 36,747,669
Capitalized in capital assets	4,034,385	3,179,794
	$ 38,228,243	$ 39,927,463

On May 23, 2001, the Airports Division deposited $172,638,362 from the Airport Revenue Fund in a separate irrevocable trust with an escrow agent to defease $158,335,000 of its outstanding Second Series of 1991, Second Refunding Series of 1994, and Third Refunding Series of 1994 bonds (collectively, the defeased bonds). The funds were used to purchase noncallable direct obligations of the United States, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the defeased bonds. The defeased bonds are to be redeemed at a price ranging from 100% to 102% at dates ranging from July 1, 2004 to July 1, 2012. As a result, the liability for the defeased bonds has been removed from the financial statements.

On August 26, 2003, the Airports Division issued $80,900,000 of Airports System Revenue Bonds, Refunding Series of 2003, with an initial rate of 2% per annum to June 30, 2004, which were being converted to a weekly rate, fixed rate, or extended rate, at the option of the Airports Division, to refund the $80,310,000 of its outstanding Refunding Series of 1993 bonds with interest rates ranging from 6.05% to 6.45%. The net proceeds of $80,500,484 (after payment of $1,080,694 in underwriting fees, insurance, and other costs), along with an additional $2,535,170 from the Airport Revenue Fund were deposited in an irrevocable trust with an escrow agent to be used to purchase noncallable direct obligations of the United States, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the Refunding Series of 1993 bonds. As a result, the refunded portion of the Refunding Series of 1993 bonds is considered to be defeased and the liability for those bonds has been removed from the financial statements. On or about September 25, 2003, all of the refunded bonds were redeemed.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $1,881,318. This difference, reported in the accompanying financial statements as a deduction from airports system revenue bonds, is being charged to operations over the next 10 years. The Airports Division in effect reduced its aggregate debt service payments by approximately $16,195,000 over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $15,204,000.

On January 5, 2005, the Airports Division redeemed $69,300,000 of Airports System Revenue Bonds, Refunding Series of 2003.

At June 30, 2007, the aggregate outstanding defeased bonds amounted to $74,030,000.

(7) General Obligation Bonds

The Airports Division reimburses the State for the portion of debt service on several general obligation bonds issued by the State, the proceeds of which were used to finance various airport projects. These bonds are backed by the full faith and credit of the State.

The following is a summary of such general obligation bonds reimbursable by the Airports Division at June 30, 2007 and 2006:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount 2007	Outstanding amount 2006
CI	4.00 – 5.00	2011	$ 141,392	$ 37,700	$ 47,125
Less current portion				(9,425)	(9,425)
Noncurrent portion				$ 28,275	$ 37,700

Annual debt service requirements for general obligation bonds outstanding at June 30, 2007 are as follows:

	Principal	Interest	Total
Years ending June 30:			
2008	$ 9,425	$ 1,579	$ 11,004
2009	9,425	1,133	10,558
2010	9,425	686	10,111
2011	9,425	231	9,656
	$ 37,700	$ 3,629	$ 41,329

The following is a summary of interest costs incurred for the years ended June 30, 2007 and 2006 and the allocation thereof:

	2007	2006
Expensed as incurred	$ 1,709	$ 2,142
Capitalized in capital assets	236	234
	$ 1,945	$ 2,376

(8) Leases

(a) Airport-Airline Lease Agreement

Airports Division

The DOT and the airline companies serving the airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992 (lease agreement). Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the lease extension agreement). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. As of the date hereof, the lease extension agreement remains in effect, with annual adhoc adjustments to airports system rates and charges and related terms.

(Continued)

Under the lease extension agreement, the airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of $100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on appraisal and recovered on a per square foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units), and (5) system support charges based on an airports system residual rate setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units).

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (the PAUCF). Net excess payments for fiscal years 1996 through 2006 have been transferred to the PAUCF (see note 15).

Aviation Fuel Tax

The aviation fuel tax amounted to $2,169,230 and $2,590,355 for fiscal years 2007 and 2006, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

Signatory and nonsignatory airlines were assessed the following airports system rates and charges.

Airport landing fees amounted to $39,950,102 and $38,549,953 for fiscal years 2007 and 2006, respectively. Airport landing fees are shown net of aviation fuel tax credits of $1,900,767 and $2,465,234 for fiscal years 2007 and 2006, respectively, on the statements of revenues, expenses and changes in net assets, which resulted in net airport landing fees of $38,049,335 and $36,084,719 for fiscal years 2007 and 2006, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The inter-island airport landing fees for signatory airlines are set at 36% of the airport landing fees for overseas flights.

Overseas and inter-island joint-use premise charges were established to recover airports system costs allocable to the overseas and inter-island terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to $25,795,049 and $25,795,048 for fiscal years 2007 and 2006, respectively. For fiscal years 2007 and 2006, the PAUCF was decreased for the underpayments of $845,536 and the increased for the overpayments of $867,093, respectively (see note 15).

Effective July 1, 1996, a joint-use premise charge for the neighbor isle terminals at Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport was established to recover from signatory airlines airports system costs allocable to the baggage claim, baggage tug drive, and joint-use baggage makeup areas based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing in accordance with the lease extension agreement. Effective March 1, 1997, a blended overseas joint-use premise charge was established to recover costs allocable to Hawaiian Airlines, Inc.'s and Aloha Airlines, Inc.'s consolidated terminal operations at the Honolulu International Airport.

International arrivals building charges were established to recover airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger using the international arrivals area. Beginning fiscal year 2000, nonsignatory airline revenue was applied as a credit in calculating the joint-use premise charge and international arrivals building charges.

Exclusive-use premise charges amounted to $29,597,971 and $28,596,553 for fiscal years 2007 and 2006, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $16,266,649 and $15,926,032 for fiscal years 2007 and 2006, respectively.

Airports system support charges amounted to $617,845 and $631,406 for fiscal years 2007 and 2006, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system inter-island support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

The following summarizes the rates in effect at June 30, 2007 and 2006:

	2007	2006
Airport landing fees (per 1,000-pound units of landed weights):		
Signatory airlines:		
Overseas flights	$ 1.930	$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges (per revenue passenger landing):		
Signatory airlines:		
Overseas terminal	448.556	467.773
Blended overseas	364.767	381.808
Inter-island terminal	85.784	92.317
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges (per deplaning international passenger):		
Signatory airlines	4.029	4.029
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges (per revenue passenger landing):		
Signatory airlines	9.707	17.069
Airports system support charges (per 1,000-pound units of landed weights) – nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

(b) Special Facility Leases and Revenue Bonds

The Airports Division entered into four special facility lease agreements with: Delta Airlines, Inc. in 1987, Continental Airlines, Inc. in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by the Airports Division in the amounts of $2,300,000, $25,255,000, $16,600,000, and $6,600,000, respectively. These bonds are payable solely from and collateralized solely by certain rentals and other moneys derived from the special facility. Other pertinent information on the aforementioned bonds is summarized hereunder.

$2,300,000 Issue

Bonds with a stated maturity date of June 1, 2005 were repaid in full on June 1, 2005.

$25,255,000 Issue

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption on or after November 15, 2007 at the option of the Airports Division, upon the request of Continental Airlines, Inc., at prices ranging from 101% to 100% of principal depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest. The Airports Division redeemed $130,000 in bonds during the year ended June 30, 2005.

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2007:

	Principal	Interest	Total
Years ending June 30:			
2008	$ —	$ 1,222,031	$ 1,222,031
2009	—	1,222,031	1,222,031
2010	—	1,222,031	1,222,031
2011	—	1,222,031	1,222,031
2012	—	1,222,031	1,222,031
2013 – 2017	—	6,110,156	6,110,156
2018 – 2022	—	6,110,156	6,110,156
2023 – 2027	—	6,110,156	6,110,156
2028	21,725,000	614,674	22,339,674
	$ 21,725,000	$ 25,055,297	$ 46,780,297

$16,600,000 Issue

On July 15, 2000, the Airports Division issued $16,600,000 of term special facility bonds (Continental Airlines, Inc.), Refunding Series of 2000, to refund $18,225,000 of its outstanding Series of 1990 (Continental Airlines, Inc.).

The bonds are subject to redemption on or after June 1, 2010, at the option of the Airports Division, upon the request of Continental Airlines, Inc. or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

The bonds bear interest at 7% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2007:

	Principal	Interest	Total
Years ending June 30:			
2008	$ 640,000	$ 907,900	$ 1,547,900
2009	700,000	863,100	1,563,100
2010	730,000	814,100	1,544,100
2011	785,000	763,000	1,548,000
2012	835,000	708,050	1,543,050
2013 – 2017	5,200,000	2,569,000	7,769,000
2018 – 2020	4,080,000	582,400	4,662,400
	$ 12,970,000	$ 7,207,550	$ 20,177,550

$6,600,000 Issue

Bonds with a stated maturity date of December 1, 2010 remain outstanding. The bonds are subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

The bonds bear interest at 10.125% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2007:

	Principal	Interest	Total
Years ending June 30:			
2008	$ 400,000	$ 212,625	$ 612,625
2009	400,000	172,125	572,125
2010	500,000	131,625	631,625
2011	900,000	45,562	945,562
	$ 2,200,000	$ 561,937	$ 2,761,937

Special facility revenue bonds payable at June 30, 2007 and 2006 consisted of the following:

	Continental		Sky chefs	Total
2007:				
Current portion	$ 640,000	$ —	$ 400,000	$ 1,040,000
Noncurrent portion	12,330,000	21,725,000	1,800,000	35,855,000
	$ 12,970,000	$ 21,725,000	$ 2,200,000	$ 36,895,000
2006:				
Current portion	$ 600,000	$ —	$ 400,000	$ 1,000,000
Noncurrent portion	12,970,000	21,725,000	2,200,000	36,895,000
	$ 13,570,000	$ 21,725,000	$ 2,600,000	$ 37,895,000

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as an asset and the special facility revenue bonds outstanding are recorded as a liability in the accompanying statements of net assets.

Net investments in direct financing leases at June 30, 2007 and 2006 consisted of the following:

	2007	2006
Cash with bond fund trustee	$ 3,854,099	$ 3,745,141
Receivable from lessees, net of unearned interest of $33,071,759 and $35,503,691	33,040,901	34,149,859
Interest receivable	246,975	253,850
	$ 37,141,975	$ 38,148,850

(c) Other Operating Leases

The Airports Division also leases certain building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Information regarding the cost and related accumulated depreciation of these facilities is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

The future minimum rentals from these operating leases at June 30, 2007 are as follows:

Years ending June 30:		
2008	$	68,040,581
2009		61,555,407
2010		54,068,802
2011		53,868,304
2012		50,054,851
2013 – 2017		35,996,941
2018 – 2022		17,623,758
2023 – 2027		10,330,068
2028 – 2032		2,921,870
2033 – 2037		967,417
	$	355,427,999

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal years 2007 and 2006 were $56,326,495 and $60,176,554, respectively.

In fiscal year 2006, the Airports Division converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 7 months to 13 years. The balance of $3,339,054 at June 30, 2007 is due as follows: 2008 – $371,577, 2009 – $2,846,477, 2010 – $12,000, and thereafter – $109,000.

Concession fee revenues from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 39% and 41% of total concession fee revenues for fiscal years 2007 and 2006, respectively.

DFS was originally awarded a five-year lease agreement for the in-bond concession in February 2001. By 2003, DFS had been in significant arrears in rents due to the Airports Division as a result of financial difficulties arising from the downturn in Hawaii's economy due to the decrease in international visitor travel. As a result, in August 2003, the Airports Division and DFS entered into a Withdrawal and Settlement Agreement, which provided DFS with certain relief for past-due rents, and which allowed the Airports Division to withdraw and recapture all of the leased premises and to terminate early the in-bond lease.

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for a minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was $37,311,121, and the percentage rent was as follows: (1) for total concession receipts greater than $165 million, but less than $200 million, 22.5% for on-airport sales, and 18.5% for off-airport sales and (2) for total concession receipts greater than $200 million, 30% for on-airport sales, and 22.5% for off-airport sales.

Effective June 1, 2006, the lease was extended for a period of one year pursuant to a holdover clause in the lease agreement. During the holdover period, DFS shall have a month-to-month tenancy, with rents and terms the same as those in effect immediately prior to the holdover.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. The lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2012, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first five years of the lease term.

In February 2001, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on March 15, 2001 and terminating on March 14, 2006. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term.) In December 2005, the lease agreement was amended, whereby the lease period was extended for an additional 36 months, commencing on March 15, 2006. The lease rent remained the same as that which was in effect during the lease year ended March 14, 2006.

(9) Passenger Facility Charges

Passenger facility charges activity for the years ended June 30, 2007 and 2006 are as follows:

	2007	**2006**
Restricted assets – passenger facility charges, beginning of year	$ 37,848,329	$ 15,168,852
Passenger facility charges during the year	21,669,487	21,994,207
Interest earned on passenger facility charges during the year	1,740,851	685,270
Capital expenditures during the year	(14,108,847)	—
Restricted assets – passenger facility charges, end of year	$ 47,149,820	$ 37,848,329

Restricted assets – passenger facility charges are presented on the statement of net assets as of June 30, 2007 and 2006 as follows:

		2007		2006
Cash and cash equivalents	$	43,849,369	$	34,670,581
Receivable		3,300,451		3,177,748
Total restricted assets passenger facility charges	$	47,149,820	$	37,848,329

(10) Pension Information

All full-time employees of the Airports Division are eligible to participate in the ERS, a cost-sharing multiple-employer public employee retirement system established to administer a pension benefit program for all state and county employees. The ERS was established by Chapter 88, Hawaii Revised Statutes, and is governed by a board of trustees. All contributions, benefits, and eligibility requirements are established by Chapter 88, Hawaii Revised Statutes, and can be amended by legislative action.

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Eligible employees who were in service and a member of the existing contributory plan on June 30, 1984 were given an option to remain in the existing plan or join the noncontributory plan, effective January 1, 1985. All new eligible employees hired after June 30, 1984, automatically become members of the noncontributory plan. Both plans provide death and disability benefits and cost of living increases. Benefits are established by state statute. In the contributory plan, employees may elect normal retirement at age 55 with 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching five years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by state statute to contribute 7.8% of their salary to the plan; the Airports Division is required by state statute to contribute the remaining amounts necessary to pay contributory plan benefits when due. In the noncontributory plan, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching ten years of service; retirement benefits are actuarially reduced for early retirement. The Airports Division is required by state statute to contribute all amounts necessary to pay noncontributory plan benefits when due.

Effective July 1, 2006, a new hybrid plan was implemented. Certain members of the contributory and noncontributory plans were eligible to elect to transfer to the hybrid plan and all new employees hired on or after July 1, 2006 may become members of the hybrid plan. Employees in the hybrid plan will be eligible for retirement at age 62 with five years of credited service or age 55 with 30 years of credited service. Employees will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the contributory plan. Covered hybrid plan employees are required by state statute to contribute 6.0% of their salary to the plan; the Airports Division is required by state statute to contribute the remaining amounts necessary to pay hybrid plan benefits when due.

The pension contribution for fiscal years 2007, 2006, and 2005 was $6,500,114, $6,123,102, and $3,640,182, respectively, which represented 13.75% for fiscal years 2007 and 2006 and 10.84% for fiscal year 2005, of covered payroll and was equal to the required contribution for the year.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS, 201 Merchant Street, Suite 1400, Honolulu, Hawaii, 96813 or by calling (808) 586-1660.

(11) Postretirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain healthcare (medical, prescription drug, vision, and dental) and life insurance benefits for retired employees.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of services, the State pays 50% of the retired employees’ monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees’ monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire healthcare premium.

Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium.

Contributions are financed on a pay-as-you-go basis, and are limited by State statute to the actual cost of benefit coverage. The amounts allocated to the Airports Division for fiscal years 2007 and 2006 amounted to $3,230,770 and $2,883,274, respectively.

(12) Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $9,764,788 and $9,593,145 in fiscal years 2007 and 2006, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $6,126,796 and $5,955,567 in fiscal years 2007 and 2006, respectively. During fiscal years 2007 and 2006, the Airports Division received assessment refunds from the DOT amounting to $402,956 and $956,196, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

During fiscal years 2007 and 2006, revenues received from other state agencies totaled $1,342,194 and $178,448, respectively, and expenditures to other state agencies totaled $8,315,039 and $6,046,207, respectively.

(13) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2007 and 2006 was $16,226,470 and $15,832,267, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

(b) Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investors. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying financial statements.

(c) Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next 5–10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net assets at June 30, 2007 and 2006.

At June 30, 2007 and 2006, the Airports Division had commitments totaling approximately $260,009,000 and $256,489,000, respectively, for construction and service contracts.

(Continued)

(14) Risk Management

The Airports Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees.

(a) Torts

The Airports Division is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Airports Division's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State General Fund, except as described in note 15.

(b) Property and Liability Insurance

The Airports Division is covered by commercial general liability policies with a $300 million limit per occurrence. These commercial general liability policies have no deductible and cover bodily injuries and property damage for occurrences arising out of the ownership, operation, and maintenance of state airports.

(c) Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2007 and 2006, the workers' compensation reserve was $4,200,000 and $4,100,000, respectively, of which $1,184,400 and $899,951 are included in other current liabilities (payable from current assets) and $3,015,600 and $3,200,049 are included in long-term liabilities in the accompanying statements of net assets at June 30, 2007 and 2006, respectively. In the opinion of management, the Airports Division has adequately reserved for such claims.

(15) Contingent Liabilities and Other

(a) Litigation

The State is subject to a number of lawsuits arising in the ordinary course of its airport operations. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Airports Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the Airports Division. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

(b) Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2007 and 2006, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

(c) Asserted Claims

Prepaid Airport Use Charge Fund

In November 2002, the Airlines Committee of Hawaii (ACH), on behalf of many of the signatory airlines, submitted a written request to the State for the return of $5,393,344. This amount purportedly represents the amount of landing fees and other charges allegedly overpaid by the signatory airlines in fiscal year 1995.

On October 27, 2003, the State reached a settlement with the ACH under which the Airports Division is to transfer the $5,393,344 overpayment to the Prepaid Airport Use Charge Fund (PAUCF) escrow account in four equal annual installments beginning in fiscal year 2004. The transfer of funds is to be subject to ACH's obtaining the State's prior written approval for ACH's use of such funds. A liability for the refund was recorded in the Airports Division's financial statements as of June 30, 2004, with an offsetting charge to airports system support charges revenues. The balance in the PAUCF totaled $4,208,161 at June 30, 2005.

In fiscal year 2006, the PAUCF was decreased for the third annual installment of $1,348,000 for the 1995 overpayment, and increased by $867,093, which represented overpayments of airports system support charges in fiscal year 2006. The balance of the PAUCF totaled $3,727,254 at June 30, 2006.

In fiscal year 2007, the PAUCF was decreased for the fourth and final annual installment of $1,348,000 for the 1995 overpayment and for the fiscal year 2007 underpayment of airports system support charges of $845,536. The balance of the PAUCF was $1,533,718 at June 30, 2007.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency (EPA). As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the Department was required to pay a $1 million fine. The Airports Division's allocated share of the fine was $400,000, which was paid in February 2006. In addition, the Department is expected to expend an additional $910,000 to complete a supplemental environmental project. The Airports Division's allocated share of the project is $286,000.

Schedule 1

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Operating Revenues and Operating Expenses Other Than Depreciation

Year ended June 30, 2007

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 120,689,550	$ —	$ 81,236,492	$ 2,237,377	$ 8,932,279	$ 19,782,438	$ 8,244,955	$ 256,009
Airport landing fees	38,049,335	—	25,471,574	1,114,234	2,777,881	6,262,966	2,106,822	315,858
Aeronautical rentals:								
Exclusive-use premise charges	29,597,971	—	25,351,431	708,284	1,058,099	1,453,101	763,773	263,283
Nonexclusive joint-use premise charges	25,795,049	—	24,515,557	135,682	522,107	402,985	218,718	—
Nonaeronautical rentals	12,357,911	—	8,018,623	705,310	446,963	2,450,608	672,868	63,539
Aviation fuel tax	2,169,230	—	1,453,384	65,077	151,846	347,077	130,154	21,692
Airports system support charges	617,845	—	425,922	19,393	39,005	82,318	33,072	18,135
Miscellaneous	4,156,166	695,940	2,357,075	64,040	310,291	330,187	377,912	20,721
	233,433,057	695,940	168,830,058	5,049,397	14,238,471	31,111,680	12,548,274	959,237
Allocation of statewide miscellaneous revenues (note 2)	—	(695,940)	474,068	12,880	62,407	66,409	76,008	4,168
Net operating revenues	$ 233,433,057	$ —	$ 169,304,126	$ 5,062,277	$ 14,300,878	$ 31,178,089	$ 12,624,282	$ 963,405
Operating expenses other than depreciation:								
Salaries and wages	$ 61,203,852	$ 7,386,921	$ 27,887,409	$ 4,343,122	$ 4,438,454	$ 7,555,815	$ 5,274,453	$ 4,317,678
Other personnel services	46,145,265	2,759,041	27,539,432	3,070,073	3,522,701	4,701,726	2,671,218	1,881,074
Special maintenance	33,557,799	804,677	12,026,607	5,960,355	1,458,274	3,110,236	6,574,373	3,623,277
Utilities	26,257,344	—	17,368,281	1,109,896	1,864,226	3,490,621	1,888,546	535,774
Repairs and maintenance	12,803,202	433,726	8,629,700	566,967	632,963	1,465,944	818,389	255,513
State of Hawaii surcharge on gross receipts (note 1)	9,764,788	9,764,788	—	—	—	—	—	—
Department of Transportation general administration expenses	5,723,840	5,723,840	—	—	—	—	—	—
Materials and supplies	4,520,290	247,797	2,063,796	303,908	309,975	910,265	384,346	300,203
Insurance	4,017,906	4,017,678	(477)	(898)	1,386	(11)	—	228
Claims and benefits	1,218,413	185,311	615,791	52,620	141,171	65,455	91,344	66,721
Travel	369,546	74,394	65,205	32,686	45,657	52,481	62,507	36,616
Communication	331,412	69,900	77,689	18,077	24,105	60,473	16,868	64,300
Rent	320,837	82,385	130,845	5,265	14,216	47,451	21,628	19,047
Dues and subscriptions	184,958	155,978	24,667	932	1,309	592	429	1,051
Printing and advertising	49,330	11,434	37,896	—	—	—	—	—
Freight and delivery	11,952	669	568	152	254	3,023	1,019	6,267
Miscellaneous	245,425	73,493	46,076	18,648	18,995	31,611	38,138	18,464
	206,726,159	31,792,032	96,513,485	15,481,803	12,473,686	21,495,682	17,843,258	11,126,213
Allocation of statewide expenses (note 3)	—	(31,792,032)	17,540,087	2,813,619	2,266,933	3,906,564	3,242,783	2,022,046
Total operating expenses other than depreciation for net revenues and taxes	206,726,159	—	114,053,572	18,295,422	14,740,619	25,402,246	21,086,041	13,148,259
Disbursements out of major maintenance, renewal, and replacement account not included above	3,488,871	—	2,162,318	—	67,541	17,029	478	1,241,505
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets	$ 210,215,030	$ —	$ 116,215,890	$ 18,295,422	$ 14,808,160	$ 25,419,275	$ 21,086,519	$ 14,389,764

Notes:
(1) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.
(2) Statewide miscellaneous revenues are allocated to the airports based upon their respective current-year miscellaneous revenues to total current-year miscellaneous revenues for all airports.
(3) Statewide expenses are allocated to the airports based upon their respective current-year operating expenses to total current-year operating expenses for all airports.

See accompanying independent auditors' report.

Schedule 2

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2007

Revenues and taxes:		
Concession fees	$	120,689,550
Airport landing fees		38,049,335
Aeronautical rentals:		
Exclusive-use premise charges		29,597,971
Nonexclusive joint-use premise charges		25,795,049
Nonaeronautical rentals		12,357,911
Aviation fuel tax		2,169,230
Airports system support charges		617,845
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $20,048,778 on capital improvement projects		33,421,921
Federal operating grants		19,983,178
Miscellaneous		4,156,166
		286,838,156
Deductions:		
Operating expenses other than depreciation for net revenues and taxes (schedule 1)		206,726,159
Amounts required to be paid into the State General Fund for general obligation bond requirements:		
Principal		9,425
Interest		1,945
Annual reserve required on major maintenance, renewal, and replacement account		4,382,783
		211,120,312
Net revenues and taxes		75,717,844
Debt service requirement:		
Airports system revenue bonds:		
Principal		32,250,000
Interest (note 1)		37,867,593
		70,117,593
Less funds deposited into the Airport Revenue fund for redemption of bonds (note 2)		(27,000,000)
		43,117,593
Less funded coverage per bond certificate		—
		43,117,593
Debt service coverage percentage		125%
		53,896,991
Excess of net revenues and taxes over debt service requirement	$	21,820,853

Notes:

(1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.

(2) In fiscal year 2007, the Airports Division deposited $27,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal year 2007 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

See accompanying independent auditors' report.

Schedule 3

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Summary of Debt Service Requirements to Maturity

June 30, 2007

	Annual principal and interest requirements				
	Airports system revenue bonds		General obligation bonds		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
Years ending June 30,					
2008	$ 21,140,000	$ 36,075,901	$ 9,425	$ 1,579	$ 57,226,905
2009	22,310,000	34,906,116	9,425	1,133	57,226,674
2010	23,615,000	33,605,699	9,425	686	57,230,810
2011	25,240,000	31,966,186	9,425	231	57,215,842
2012	26,945,000	30,269,561	—	—	57,214,561
2013	46,600,000	28,629,746	—	—	75,229,746
2014	49,400,000	25,833,876	—	—	75,233,876
2015	52,355,000	22,869,649	—	—	75,224,649
2016	55,500,000	19,726,999	—	—	75,226,999
2017	58,750,000	16,471,134	—	—	75,221,134
2018	62,295,000	12,934,356	—	—	75,229,356
2019	66,035,000	9,216,513	—	—	75,251,513
2020	69,665,000	5,577,400	—	—	75,242,400
2021	31,030,000	1,709,125	—	—	32,739,125
Total	$ 610,880,000	$ 309,792,261	$ 37,700	$ 3,629	$ 920,713,590

See accompanying independent auditors’ report.

Schedule 4

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Debt Service Requirements to Maturity – Airports Systems Revenue Bonds

June 30, 2007

	Principal					
	Refunding series of 2000A, 5.50% to 6.00%	**Refunding series of 2000B, 5.00% to 8.00%**	**Refunding series of 2001, 4.00% to 5.75%**	**Total**	**Interest**	**Total requirements**
Years ending June 30,						
2008	$ —	$ 11,295,000	$ 9,845,000	$ 21,140,000	$ 36,075,901	$ 57,215,901
2009	145,000	11,830,000	10,335,000	22,310,000	34,906,116	57,216,116
2010	155,000	12,550,000	10,910,000	23,615,000	33,605,699	57,220,699
2011	160,000	13,550,000	11,530,000	25,240,000	31,966,186	57,206,186
2012	170,000	14,640,000	12,135,000	26,945,000	30,269,561	57,214,561
2013	180,000	15,580,000	30,840,000	46,600,000	28,629,746	75,229,746
2014	190,000	16,595,000	32,615,000	49,400,000	25,833,876	75,233,876
2015	200,000	17,665,000	34,490,000	52,355,000	22,869,649	75,224,649
2016	215,000	18,815,000	36,470,000	55,500,000	19,726,999	75,226,999
2017	225,000	19,960,000	38,565,000	58,750,000	16,471,134	75,221,134
2018	240,000	21,285,000	40,770,000	62,295,000	12,934,356	75,229,356
2019	125,000	22,845,000	43,065,000	66,035,000	9,216,513	75,251,513
2020	8,400,000	22,515,000	38,750,000	69,665,000	5,577,400	75,242,400
2021	16,010,000	—	15,020,000	31,030,000	1,709,125	32,739,125
Total	$ 26,415,000	$ 219,125,000	$ 365,340,000	$ 610,880,000	$ 309,792,261	$ 920,672,261

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2007.

See accompanying independent auditors’ report.

Schedule 5

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Debt Service Requirements to Maturity – General Obligation Bonds

June 30, 2007

	Series CI 4.00% to 5.00% due 2011	Total principal	Interest	Total requirements
Years ending June 30,				
2008	$ 9,425	$ 9,425	$ 1,579	$ 11,004
2009	9,425	9,425	1,133	10,558
2010	9,425	9,425	686	10,111
2011	9,425	9,425	231	9,656
Total	$ 37,700	$ 37,700	$ 3,629	$ 41,329

See accompanying independent auditors' report.

Schedule 6

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Airports System Charges – Fiscal Year 1995 – 97 Lease Extension

Year ended June 30, 2007

	Airline activity			Airports system charges								
						Nonexclusive joint-use premise charges						
	Approved maximum revenue landing weights (1,000-pound units)	Revenue passenger landings	Deplaning international passengers	Airports landing fees	Airports system support charges	Joint-use charges – overseas terminal	Joint-use charges – blended OST terminal	Joint-use charges – interisland terminal	Joint-use charges – neighbor island terminal	International arrivals building charges	Exclusive-use premise charges – terminal space	Total
Signatory airlines:												
Air Canada	372,983	1,203	62,464	$ 719,857	$ —	$ 457,976	$ —	$ —	$ 1,767	$ 251,667	$ 415,692	$ 1,846,959
Air New Zealand, Ltd.	110,378	140	21,826	213,030	—	62,798	—	—	—	87,937	209,834	573,599
Air Pacific, Ltd.	34,352	246	15,434	66,299	—	110,345	—	—	—	62,184	—	238,828
All Nippon Airways Co., Ltd.	—	—	—	—	—	—	—	—	—	—	1,600	1,600
Aloha Airlines, Inc.	5,721,306	41,851	—	4,403,955	—	—	268,104	1,590,006	219,194	—	2,287,221	8,768,480
America West Airlines, Inc.	364,320	1,840	—	703,138	—	218,895	—	—	13,566	—	26,480	962,079
American Airlines, Inc.	1,286,382	5,062	—	2,482,717	—	1,303,055	—	—	20,938	—	774,110	4,580,820
ATA Airlines, Inc.	626,081	3,760	4	1,208,336	—	1,016,966	—	—	14,510	16	300,293	2,540,121
China Airlines, Ltd.	202,408	377	113,650	390,647	—	169,106	—	—	—	457,896	169,615	1,187,264
Continental Airlines, Inc.	523,262	1,525	—	1,009,896	—	653,995	—	—	650	—	1,000,492	2,665,033
Continental Micronesia, Inc.	285,886	946	170,744	551,760	—	424,334	—	—	—	687,928	—	1,664,022
Delta Airlines, Inc.	1,020,250	2,915	—	1,969,083	—	964,395	—	—	7,426	—	1,171,984	4,112,888
Evergreen International Airlines, Inc.	110,240	—	—	212,763	—	—	—	—	—	—	—	212,763
Federal Express Corporation	646,237	—	—	1,247,237	—	—	—	—	—	—	7,006	1,254,243
Hawaii Island Air, Inc.	1,040,140	11,547	—	722,897	—	—	—	—	112,087	—	215,441	1,050,425
Hawaiian Airlines, Inc.	6,722,660	50,197	66,046	6,928,050	—	—	1,750,882	1,810,557	235,793	266,099	1,832,993	12,824,374
JALways Co, Ltd.	1,353,816	2,670	746,004	2,452,246	—	1,034,370	—	—	3,533	3,005,650	—	6,495,799
Japan Air Lines Company, Ltd.	39,751	73	20,628	76,023	—	31,847	—	—	19	83,110	1,706,981	1,897,980
Kalitta Air, LLC	217,665	—	—	420,093	—	—	—	—	—	—	—	420,093
Korean Airlines Company, Ltd.	138,266	293	64,134	266,853	—	131,427	—	—	—	258,396	168,422	825,098
Mesa Airlines, Inc.	1,039,593	11,065	—	722,517	—	—	—	—	107,408	—	391,531	1,221,456
North American Airlines, Inc.	1,369	6	—	2,642	—	2,691	—	—	—	—	—	5,333
Northwest Airlines, Inc.	1,497,512	4,443	353,139	2,754,368	—	1,568,600	—	—	9,183	1,422,797	1,005,749	6,760,697
Pacific Wings LLC	87,329	—	—	60,694	—	—	—	—	—	—	42,697	103,391
Philippine Airlines, Inc.	82,551	158	34,244	159,324	—	70,872	—	—	—	137,969	114,961	483,126
Qantas Airways, Ltd.	237,210	167	45,263	457,815	—	74,909	—	—	—	182,365	343,830	1,058,919
United Airlines, Inc.	2,894,371	9,521	156,409	5,424,246	—	1,940,005	—	—	51,251	630,172	3,312,010	11,357,684
United Parcel Service Co.	762,348	—	—	1,209,364	—	—	—	—	—	—	4,057	1,213,421
Westjet	70,224	480	—	135,532	—	110,345	—	—	2,273	—	922	249,072
Nonsignatory airlines	1,476,678	1,112	101,818	2,978,720	617,845	508,566	—	—	—	340,683	762,728	5,208,542
Total airports system charges billed	28,965,568	151,597	1,971,807	39,950,102	617,845	10,855,497	2,018,986	3,400,563	799,598	7,874,869	16,266,649	81,784,109
Adjusted airports system charges based on final reconciliation				39,950,102	617,845	10,587,568	1,971,230	3,499,376	985,158	8,751,717	16,266,649	82,629,645
Fiscal year 2007 underpayment				$ —	$ —	$ (267,929)	$ (47,756)	$ 98,813	$ 185,560	$ 876,848	$ —	$ 845,536

See accompanying independent auditors' report.

Schedule 7

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Reconciliation of Airport Landing Fees

Year ended June 30, 2007

	Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$ 36,971,382	$ 2,978,720	$ 39,950,102
Less aviation fuel tax credit	(1,768,788)	(131,979)	(1,900,767)
Total	$ 35,202,594	$ 2,846,741	$ 38,049,335

See accompanying independent auditors' report.

Schedule 8

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Underpayment/Overpayment of Airports System Charges – Signatory Airlines

Years ended June 30, 2007 and 2006

Fiscal years 2007 and 2006:

Airports system charges underpayments of $845,536 for fiscal year 2007 and overpayments of $867,093 for fiscal year 2006 have been deducted/transferred to the Prepaid Airport Use Charge Fund.

See accompanying independent auditors' report.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Signatory Airlines

Year ended June 30, 2007

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport					All other airports			
					Gross airport landing fees								
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees	Total adjusted airport landing fees
Air Canada	320,569	—	52,414	372,983	$ 618,698	$ —	$ 618,698	$ —	$ 618,698	$ 101,159	$ —	$ 101,159	$ 719,857
Air New Zealand, Ltd.	110,378	—	—	110,378	213,030	—	213,030	—	213,030	—	—	—	213,030
Air Pacific, Ltd.	34,352	—	—	34,352	66,299	—	66,299	—	66,299	—	—	—	66,299
Aloha Airlines, Inc.	2,659,584	495,134	2,566,588	5,721,306	1,965,689	344,278	2,309,967	(322,414)	1,987,553	2,093,988	—	2,093,988	4,081,541
America West Airlines, Inc.	96,624	—	267,696	364,320	186,484	—	186,484	—	186,484	516,653	—	516,653	703,137
American Airlines, Inc.	780,512	—	505,870	1,286,382	1,506,388	—	1,506,388	(178,242)	1,328,146	976,329	—	976,329	2,304,475
ATA Airlines, Inc.	384,118	49,838	192,125	626,081	741,349	96,187	837,536	(71,437)	766,099	370,801	—	370,801	1,136,900
China Airlines, Ltd.	202,408	—	—	202,408	390,647	—	390,647	—	390,647	—	—	—	390,647
Continental Airlines, Inc.	509,996	—	13,266	523,262	984,292	—	984,292	—	984,292	25,603	(4,620)	20,983	1,005,275
Continental Micronesia, Inc.	285,886	—	—	285,886	551,760	—	551,760	—	551,760	—	—	—	551,760
Delta Airlines, Inc.	752,500	—	267,750	1,020,250	1,452,325	—	1,452,325	(70,913)	1,381,412	516,758	—	516,758	1,898,170
Evergreen International Airlines, Inc.	110,240	—	—	110,240	212,763	—	212,763	—	212,763	—	—	—	212,763
Federal Express Corporation	551,381	94,856	—	646,237	1,064,165	183,071	1,247,236	(83,507)	1,163,729	—	—	—	1,163,729
Hawaii Island Air, Inc.	332,875	57,805	649,460	1,040,140	231,348	40,174	271,522	(31,662)	239,860	451,375	—	451,375	691,235
Hawaiian Airlines, Inc.	3,857,660	416,350	2,448,650	6,722,660	4,576,058	289,363	4,865,421	(575,513)	4,289,908	2,062,629	—	2,062,629	6,352,537
JALways Co., Ltd.	1,223,760	—	130,056	1,353,816	2,201,238	—	2,201,238	—	2,201,238	251,008	(3,253)	247,755	2,448,993
Japan Air Lines Company, Ltd.	38,623	—	1,128	39,751	74,542	—	74,542	—	74,542	1,481	—	1,481	76,023
Kalitta Air, LLC	217,080	—	585	217,665	418,964	—	418,964	—	418,964	1,129	—	1,129	420,093
Korean Airlines Company, Ltd.	138,266	—	—	138,266	266,853	—	266,853	—	266,853	—	—	—	266,853
Mesa Airlines, Inc.	519,538	107,442	412,613	1,039,593	361,079	74,672	435,751	—	435,751	286,766	—	286,766	722,517
North American Airlines, Inc.	1,369	—	—	1,369	2,642	—	2,642	—	2,642	—	—	—	2,642
Northwest Airlines, Inc.	1,285,608	—	211,904	1,497,512	2,481,223	—	2,481,223	(29,033)	2,452,190	273,144	—	273,144	2,725,334
Pacific Wings LLC	20,434	5,865	61,030	87,329	14,202	4,076	18,278	(4,123)	14,155	42,416	—	42,416	56,571
Philippine Airlines, Inc.	82,551	—	—	82,551	159,324	—	159,324	—	159,324	—	—	—	159,324
Qantas Airways, Ltd.	237,210	—	—	237,210	457,815	—	457,815	—	457,815	—	—	—	457,815
United Airlines, Inc.	1,444,130	—	1,450,241	2,894,371	2,785,207	—	2,785,207	(306,580)	2,478,627	2,639,039	(36,607)	2,602,432	5,081,059
United Parcel Service Co.	550,228	—	212,120	762,348	1,061,941	—	1,061,941	(41,462)	1,020,479	147,423	—	147,423	1,167,902
Westjet	35,990	—	34,234	70,224	69,460	—	69,460	(7,923)	61,537	66,075	(1,499)	64,576	126,113
Total	16,783,870	1,227,290	9,477,730	27,488,890	$ 25,115,785	$ 1,031,821	$ 26,147,606	$ (1,722,809)	$ 24,424,797	$ 10,823,776	$ (45,979)	$ 10,777,797	$ 35,202,594

Summary of revenue landing weights:	
Overseas	14,466,887
Interisland	13,022,003
	27,488,890

Aviation fuel tax of $2,169,230 was paid by the users for the year ended June 30, 2007. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $1,900,767 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 1,768,788
Nonsignatory airlines	131,979
	$ 1,900,767

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2007.

See accompanying independent auditors’ report.

Schedule 10

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Nonsignatory Airlines

Year ended June 30, 2007

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport — Gross airport landing fees					All other airports			
	Honolulu International Airport	**Hilo International Airport**	**All other airports**	**Total**	**Honolulu International Airport**	**Hilo International Airport**	**Total**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Gross airport landing fees**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Total adjusted airport landing fees**
Above It All, Inc.	—	741	1,288	2,029	$ —	$ 707	$ 707	$ —	$ 707	$ 1,229	$ (479)	$ 750	$ 1,457
Aero Micronesia dba Asia Pacific	32,636	—	—	32,636	97,255	—	97,255	—	97,255	—	—	—	97,255
Air Japan Co, Ltd.	117,440	—	—	117,440	349,971	—	349,971	—	349,971	—	—	—	349,971
Air Links, Inc.	56	14	21	91	53	13	66	—	66	20	—	20	86
Air Transport International	41,549	—	—	41,549	123,816	—	123,816	(226)	123,590	—	—	—	123,590
Air Ventures Hawaii, LLC	—	—	920	920	—	—	—	—	—	877	(88)	789	789
Armed Hawaii, LLC	18,924	37	394	19,355	18,054	35	18,089	(3,218)	14,871	376	—	376	15,247
Alika Aviation, Inc.	—	—	11,677	11,677	—	—	—	—	—	11,140	—	11,140	11,140
Aloha Airlines, Inc.	1,638	—	—	1,638	4,880	—	4,880	—	4,880	—	—	—	4,880
Alpine Aviation, Inc.	21,565	331	13,378	35,274	20,573	315	20,888	(3,797)	17,091	12,763	—	12,763	29,854
Aris Inc.	—	—	14,094	14,094	—	—	—	—	—	13,445	(1,303)	12,142	12,142
Atlas Air, Inc.	82,188	—	—	82,188	244,920	—	244,920	—	244,920	—	—	—	244,920
Big Island Air, Inc.	55	8	12,753	12,816	52	7	59	—	59	12,166	(342)	11,824	11,883
Bradley Pacific Aviation, Inc.	30,147	338	64,175	94,660	78,900	686	79,586	(883)	78,703	157,892	—	157,892	236,595
Call Air, Inc.	448	63	588	1,099	427	60	487	(146)	341	561	(21)	540	881
Corporate Air	37,513	8,704	20,261	66,478	35,787	8,303	44,090	—	44,090	19,329	—	19,329	63,419
Delta Airlines, Inc.	397	—	—	397	1,183	—	1,183	—	1,183	—	—	—	1,183
Dipiazza, Charles	—	—	11,238	11,238	—	—	—	—	—	10,721	(774)	9,947	9,947
Eva Airways Corporation	12,698	—	—	12,698	37,842	—	37,842	—	37,842	—	—	—	37,842
Fly Kauai, Inc.	—	—	513	513	—	—	—	—	—	490	—	490	490
Gemini Air Cargo, Inc.	6,448	—	—	6,448	19,215	—	19,215	—	19,215	—	—	—	19,215
George’s Aviation Service, Inc.	805	294	3,087	4,186	768	280	1,048	(61)	987	2,945	(576)	2,369	3,356
Gould, Steve	—	—	16,557	16,557	—	—	—	—	—	15,795	—	15,795	15,795
Hale O’Lele Corporation	—	—	323	323	—	—	—	—	—	308	—	308	308
Harter, Jack Helicopters, Inc.	—	—	12,656	12,656	—	—	—	—	—	12,074	(479)	11,595	11,595
Hawaii Air Ambulance, Inc.	11,750	19	58	11,827	11,210	18	11,228	(1,056)	10,172	55	—	55	10,227
Hawaii Helicopters, Inc.	—	—	5,744	5,744	—	—	—	—	—	5,479	—	5,479	5,479
Heli USA Airways, Inc.	11,218	—	—	11,218	10,702	—	10,702	—	10,702	—	—	—	10,702
Helicopter Consultants of Maui, Inc.	461	56,045	55,574	112,080	440	53,466	53,906	(10,580)	43,326	53,018	—	53,018	96,344
HMY Airways, Inc.	53,856	—	52,470	106,326	159,689	—	159,689	(19,785)	139,904	149,541	—	149,541	289,445
Honolulu Soaring Club, Inc.	—	—	2,398	2,398	—	—	—	—	—	2,288	(1,170)	1,118	1,118
Island Helicopters Kauai, Inc.	—	—	15,391	15,391	—	—	—	—	—	14,683	(1,391)	13,292	13,292
Jetstar Airways PTY Limited	50,794	—	—	50,794	151,368	—	151,368	—	151,368	—	—	—	151,368
K&S Helicopters, Inc.	—	7,653	—	7,653	—	7,301	7,301	(1,755)	5,546	—	—	—	5,546
Kamaka Air, Inc.	8,111	30	20,265	28,406	7,738	29	7,767	—	7,767	19,333	—	19,333	27,100
Makani Kai Helicopters, Ltd.	5,223	—	—	5,223	4,982	—	4,982	(809)	4,173	—	—	—	4,173
Marjet, Inc.	2,600	10	3,356	5,966	2,480	9	2,489	—	2,489	3,202	—	3,202	5,691
Maui Island Air, Inc.	154	21	4,361	4,536	147	20	167	—	167	4,160	—	4,160	4,327
Miscellaneous	42,230	481	13	42,724	124,806	1,152	125,958	—	125,958	12	—	12	125,970
Mokulele Flight Service, Inc.	2,249	1,073	26,191	29,513	2,146	1,023	3,169	—	3,169	24,986	(53)	24,933	28,102
Molokai-Lanai Air Shuttle, Inc.	14,745	—	17,606	32,351	14,067	—	14,067	—	14,067	16,796	—	16,796	30,863
Niihau Helicopters, Inc.	—	—	1,547	1,547	—	—	—	—	—	1,476	—	1,476	1,476
Omni Air International, Inc.	101,952	—	1,020	102,972	301,750	—	301,750	(31,569)	270,181	973	—	973	271,154
Pacific Air Charters, Incorporated	264	20	268	552	252	19	271	—	271	255	—	255	526
Pacific Helicopter Tours, Inc.	1,220	—	1,896	3,116	1,164	—	1,164	(135)	1,029	1,809	(708)	1,101	2,130
Pofolk Aviation Hawaii, Inc.	—	—	734	734	—	—	—	—	—	701	—	701	701
Ryan International Airlines, Inc.	2,178	—	—	2,178	6,490	—	6,490	—	6,490	—	—	—	6,490
Safari Aviation, Inc.	—	6,385	14,878	21,263	—	6,091	6,091	—	6,091	14,194	(398)	13,796	19,887
Sky-Med, Inc.	—	—	17,212	17,212	—	—	—	—	—	16,420	—	16,420	16,420
Smokey Mountain Helicopters, Inc.	—	—	9,825	9,825	—	—	—	—	—	9,373	—	9,373	9,373
Will Squyres Helicopters Service, Inc.	—	—	18,353	18,353	—	—	—	—	—	17,509	—	17,509	17,509
Sunshine Helicopters, Inc.	—	7,066	24,380	31,446	—	6,741	6,741	—	6,741	23,259	(4,010)	19,249	25,990
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	21,810	5,247	32,171	59,228	20,806	5,006	25,812	(8,281)	17,531	30,691	—	30,691	48,222
Universal Enterprises, Inc.	73,939	945	60,743	135,627	199,735	2,157	201,892	(35,825)	166,067	147,823	—	147,823	313,890
Westjet	—	—	—	—	—	—	—	—	—	—	(2,058)	(2,058)	(2,058)
Wings Over Kauai, LLC	—	—	1,515	1,515	—	—	—	—	—	1,447	(3)	1,444	1,444
Total	809,261	95,525	571,892	1,476,678	$ 2,053,668	$ 93,438	$ 2,147,106	$ (118,126)	$ 2,028,980	$ 831,614	$ (13,853)	$ 817,761	$ 2,846,741

Summary of revenue landing weights:	
Overseas	774,916
Interisland	701,762
	1,476,678

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2007.

See accompanying independent auditors’ report.