KPMG

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

Financial Statements and Supplemental Schedules

June 30, 2011

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

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

Table of Contents

KPMG LLP
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Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statement of net assets of the Department of Transportation, Airports Division, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. 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.

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 to the financial statements, 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, 2011, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Airports Division, State of Hawaii as of June 30, 2011, 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 February 6, 2012 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 19 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 that 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 6, 2012

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

Management's Discussion and Analysis

June 30, 2011

The following Management's Discussion and Analysis 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 year ended June 30, 2011. 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 interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. It has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). 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 interisland 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 59.9% and 60.4% of total passenger traffic in the airports system during fiscal years 2011 and 2010, respectively. The other four principal airports accommodated 38.9% and 38.4% of the total passenger traffic for fiscal years 2011 and 2010, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. 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 1.2% of the total passenger traffic for both fiscal years 2011 and 2010, respectively.

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 is funded by airports system revenue bonds issued by the Airports Division, federal grants, passenger facility charges (PFCs), customer facility charges (CFCs), 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 statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement 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.

Airports Division Activities and Highlights

The Airports Division ended fiscal year 2011 with increases in total passengers, aircraft operations, and deplaning international passengers by 1.3%, 1.2%, and 0.6%, respectively, as compared to fiscal year 2010. Revenue passenger landings and revenue landed weights decreased by 0.4% and 0.1%, respectively, as compared with fiscal year 2010. Increased airline carrier passenger load factor is the reason for such changes. Although oversea carriers account for a higher percentage, 59% of revenue landed weights, the overall carrier mix remains diverse.

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, and Lihue Airport as a result of increased direct flights to such destinations. The majority of the operating revenues at the Airports Division is activity based and directly relates to the number of passengers and aircraft operations.

For fiscal year 2011, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 36% and 11% of the total landed weights, respectively. United Airlines, Inc., Hawaiian Airlines, Inc. and Delta Airlines, Inc. accounted for 18%, 16%, and 13% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 65% and 8% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 47% of the revenue passenger landings and Japan Airlines International Company, Ltd. accounted for 33% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2011: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., All Nippon Airways, Co., American Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Airlines, Inc., Hawaiian Airlines, Inc., JALways Co., Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways, Ltd., United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and Pacific Wings, LLC.

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Activity for the airports system for the fiscal years ended June 30, 2011 and 2010 is as follows:

	2011	**2010**	**Percentage increase (decrease) from 2010**
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	18,338,140	18,238,865	0.5%
Kahului Airport	5,499,218	5,186,585	6.0
Kona International Airport at Keahole	2,438,089	2,639,967	(7.6)
Lihue Airport	2,702,460	2,443,178	10.6
Hilo International Airport	1,257,487	1,328,000	(5.3)
All others	355,133	348,386	1.9
Total passengers	30,590,527	30,184,981	1.3%
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	267,967	263,425	1.7%
Kahului Airport	123,041	116,414	5.7
Kona International Airport at Keahole	106,033	127,964	(17.1)
Lihue Airport	113,516	108,313	4.8
Hilo International Airport	82,499	71,212	15.8
All others	198,806	194,061	2.4
Total aircraft operations	891,862	881,389	1.2%
Revenue landed weights (1,000-pound units):			
Honolulu International Airport	13,372,682	13,305,936	0.5%
Kahului Airport	3,346,145	3,285,188	1.9
Kona International Airport at Keahole	1,737,357	1,789,777	(2.9)
Lihue Airport	1,344,415	1,397,744	(3.8)
Hilo International Airport	774,673	847,170	(8.6)
All others	49,114	43,699	12.4
Total signatory airlines	20,624,386	20,669,514	(0.2)
Nonsignatory airlines	2,547,399	2,606,792	(2.3)
Total revenue landed weights	23,171,785	23,276,306	(0.4)%

	2011	**2010**	**Percentage increase (decrease) from 2010**
Revenue passenger landings:			
Honolulu International Airport	65,374	75,707	(13.6)
Kahului Airport	27,109	21,856	24.0
Kona International Airport at Keahole	11,615	13,155	(11.7)
Lihue Airport	16,320	12,342	32.2
Hilo International Airport	7,130	8,115	(12.1)
Other airports	5,778	3,879	49.0
Total signatory airlines	133,326	135,054	(1.3)
Nonsignatory airlines	512	775	(33.9)
Total revenue passenger landings	133,838	135,829	(1.5)%
Deplaning international passengers:			
Honolulu International Airport	1,832,257	1,686,623	8.6%
Kona International Airport at Keahole	5,612	91,387	(93.9)
Total signatory airlines	1,837,869	1,778,010	3.4
Nonsignatory airlines	56,961	104,761	(45.6)
Total deplaning international passengers	1,894,830	1,882,771	0.6%

Financial Operations Highlights

The financial results for fiscal year 2011 reflected income before capital contributions of $59.2 million. Operating revenues increased by $27.2 million, or 9.6%, and operating expenses increased by $4.3 million, or 1.4%. Total nonoperating revenues increased by $18.4 million mainly due to increases in rental car CFCs of $33.7 million, PFCs of $2.2 million, offset by the change in fair value relating to Airports Division investments held by State Treasury by $13.1 million in fiscal year 2011 as compared to $31.0 million increase in fiscal year 2010.

Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect a $3.00 PFC at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport through 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.

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Effective February 1, 2007, the FAA approved the Airports Division's PFC Application No. 2 to impose a $3.00 PFC 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 1, 2007 and July 1, 2011 (amended from November 30, 2008 to July 1, 2011) from the five principal airports was amended from $104,458,000 to $62,500,000 as of June 30, 2009. The maximum amount of $62,500,000 was further amended to $49,560,000 as of November 30, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and fire fighting facilities improvements, elevator improvements, loading bridge replacements, air conditioning system improvements, and PFC administration costs.

Effective December 1, 2008, the FAA approved the Airports Division's PFC Application No. 3 to impose an increased PFC from $3.00 to $4.50 at Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport. This application was "blended" with PFC Application No. 2 ($49,560,000) amounting to a maximum approved PFC revenue of $76,138,332 (combining PFC Application Nos. 2 and 3) including interest earned during the collection period of December 1, 2008 through January 1, 2010. The collections will be utilized for the same improvements in PFC Application No. 2 in addition to widening taxiways G and L at the Honolulu International Airport.

On June 24, 2009, House Bill No. 1166 amended Hawaii Revised Statute Section 261-5.5 allowing the Airports Division the flexibility of financing capital projects with the proceeds of bonds that would be completely or partially backed by PFCs. This statute would be implemented dependent on FAA approval through another application request, which is currently being prepared by the Airports Division.

Effective January 1, 2010, the FAA approved the Airports Division's PFC Application No. 4 to impose a $4.50 PFC at Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport. The application was approved for a collection of $105,909,130 including interest earned during the collection period from January 1, 2010 through February 1, 2014. The PFC collections will be utilized to fund taxiway and apron pavement improvements, electrical improvements, new hardstands, and PFC administration costs.

Since the inception of this program through June 30, 2011, the total PFC revenues, including interest earned and expenditures were $169.1 million and $99.2 million, respectively.

On July 8, 2008, State Legislative Senate Bill 2365 became law as Act 226 Session Law of Hawaii 2008, authorizing the Airports Division to impose a CFC surcharge of $1 per day on all u-drive rentals at a state airport, effective September 1, 2008. Moneys collected through the CFC are deposited into a restricted fund to be used for enhancement, renovation, operation, and maintenance of existing rental motor vehicle customer facilities and the development of new rental motor vehicle customer facilities and related services at state airports to better serve Hawaii's visitors and residents. The consolidated rental car facilities will provide a single location for travelers to rent a car of their choice and eliminate the need for multiple pick-up and delivery vans from individual rental car companies.

On July 7, 2010, State Legislature Senate Bill 2461 became law as Act 206, Session Laws of Hawaii 2010, authorizing the Airports Division to increase the CFC surcharge to $4.50 per day effective September 1, 2010.

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Since September 1, 2009 through June 30, 2011, the total CFC revenues, including interest earned and expenditures were $64.2 million and $12.8 million, respectively. However, on July 1, 2011, the collection of this fee was suspended by the State Legislature for one year.

Operating expenses before depreciation for fiscal year 2011 increased by 1.2%, or $2.5 million, as compared to fiscal year 2010 mainly due to increases in salaries and wages, other personnel services, repairs and maintenance, and special maintenance costs offset by increases in the State surcharges on gross receipts.

Total nonoperating expenses for fiscal year 2011 increased by 45.8%, or $14.1 million, as compared to fiscal year 2010 mainly due to increased interest expense relating to airports system revenue bonds issued in fiscal year 2010.

As a result, net assets increased by $87.9 million and $76.0 million for fiscal years 2011 and 2010, respectively.

In summary, the Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenues from a diverse mix of sources. Even though passenger traffic has improved slightly, the Airports Division continues to monitor signatory airline requirements and adjust rates and charges accordingly to assure financial stability and bond certificate requirements are met. In addition, the continued implementation of cost saving measures by management relating to personnel, security, and utility costs has improved the Airports Division's financial position. However, such cost saving measures are being monitored to prevent compromising the Airports Division's main objective, which is to adequately serve the traveling public and airport tenants.

A summary of operations and changes in net assets for the years ended June 30, 2011 and 2010 is as follows:

		2011	2010
Operating revenues	$	311,952,386	284,730,618
Operating expenses, excluding depreciation		(215,377,393)	(212,917,814)
Operating income before depreciation		96,574,993	71,812,804
Depreciation		(94,738,701)	(92,860,543)
Operating income (loss)		1,836,292	(21,047,739)
Nonoperating revenues – net		57,394,396	53,059,569
Income before capital contributions		59,230,688	32,011,830
Capital contributions:			
Federal capital grants		16,873,585	27,494,010
Federal stimulus funds		11,787,177	14,735,504
Other capital contribution		124	1,516,145
Total capital contributions		28,660,886	43,745,659
Increase in net assets	$	87,891,574	75,757,489

- Operating revenues increased by 9.6% from $284.7 million in fiscal year 2010 to $312.0 million in fiscal year 2011. The primary reason for the increase was mainly due to rent-a-car lease, concession fee, parking rate, and signatory airline landing and terminal rate increases.

  Operating expenses excluding depreciation increased by 1.2% from $212.9 million in fiscal year 2010 to $215.4 million in fiscal year 2011. The most recognized increase related to utilities and special maintenance amounting to $8.3 million. Salaries and wages increased by $1.7 million as a result of the State's furlough program ending and filling previously frozen and vacated positions. Security cost decreased by $2.7 million due to decreased guard services through further reevaluation of security requirements. These reductions were made in accordance with the Transportation Security Administration requirements and did not compromise airport security. Although the cost of fuel increased this past year, installation of energy-efficient air conditioning units, lighting equipment, and shutdown of certain terminals when not in use supported the stabilization utility costs. Bad debt expense decreased by $2.1 million mostly due to the settlement and payment of disputed joint-use baggage fees made whole by Hawaiian Airlines.

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The net results of the above resulted in operating income before depreciation of $96.6 million in fiscal year 2011. Operating income before depreciation for fiscal year 2011 increased by 32.1%, or $23.1 million, from fiscal year 2010. Depreciation expense increased by 2.0% from $92.9 million in fiscal year 2010 to $94.7 million in fiscal year 2011 due to an increase in capital assets. The operating income before nonoperating revenues, net and capital contributions of $1.8 million in fiscal year 2011 represents a 99.3% change from the operating loss before nonoperating revenues, net and capital contributions of $21.0 million in fiscal year 2010.

- Nonoperating revenues, net increased by 16.5%, or $8.7 million, in fiscal year 2011 primarily due the change in fair value relating to Airports Division investments held by State Treasury and rental car CFC and PFC increases of $33.9 million and $2.9 million, respectively, offset by increased interest expense of $13.9 million relating to revenue bonds issued in fiscal year 2010.
- Income before capital contributions for fiscal year 2011 of $59.2 million as compared to $32.0 million for fiscal year 2010 was a result of an increase in nonoperating revenues, net.
- Capital contributions decreased by 34.5%, or $15.1 million, in fiscal year 2011, mainly due to the decrease of federal capital grants received in fiscal year 2011.

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Financial Position Summary

A condensed summary of the Airports Division's net assets at June 30, 2011 and 2010 is shown below:

	2011	2010
Assets:		
Current assets:		
Unrestricted assets	$ 535,972,293	481,448,998
Restricted assets	67,736,492	146,313,198
Noncurrent assets:		
Capital assets	1,712,801,627	1,693,932,983
Restricted assets	576,456,552	507,687,903
Other noncurrent assets	4,334,194	5,006,055
Total assets	2,897,301,158	2,834,389,137
Liabilities:		
Current liabilities:		
Payable from unrestricted assets	43,819,049	55,097,084
Payable from restricted assets	68,105,008	63,687,384
Long-term liabilities, net of current portion		
Payable from unrestricted assets	45,184,736	36,276,716
Payable from restricted assets	1,005,267,886	1,032,295,048
Total liabilities	1,162,376,679	1,187,356,232
Net assets:		
Invested in capital assets – net of related debt	968,350,047	952,768,400
Restricted	315,271,730	333,247,989
Unrestricted	451,302,702	361,016,516
Total net assets	$ 1,734,924,479	1,647,032,905

The largest portion of the Airports Division's net assets (55.8% and 57.8% at June 30, 2011 and 2010, 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 (18.2% and 20.2% at June 30, 2011 and 2010, 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* (the Certificate), as well as PFCs that can only be used for specific projects.

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The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $494.7 million and $445.8 million at June 30, 2011 and 2010, respectively. The $494.7 million cash balance at June 30, 2011 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 CIP projects.

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 $1,734.9 million at June 30, 2011, representing an increase of $87.9 million from June 30, 2010.

On April 7, 2010, the Airports Division issued $645.0 million in airports system revenue bonds of which $397.0 million is for Airport Modernization Projects. $191.0 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements, and issuance costs.

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.

In October 2007, the Airports Division and a majority of the signatory airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the airport-airline lease agreement were amended to reflect a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. An airports system support charge cost center is set up to serve as the residual cost center to ensure airports system operating revenues are sufficient to cover airports system operating costs.

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona, and

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Lihue. The program is currently estimated to cost $1.4 billion through 2016 and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the First Amended 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.

Revenues

A summary of revenues for the years ended June 30, 2011 and 2010 and the amount and percentage of change in relation to prior year amounts is as follows:

	2011		Increase (decrease) from 2010	
	Amount	Percentage of total	Amount	Percentage
Operating revenues:				
Concession fees:				
Duty free	$ 38,000,000	9.2%	$ —	—%
Other concessions	94,166,157	22.7	4,623,879	5.2
Airport landing fees	60,096,929	14.5	4,149,086	7.4
Aeronautical rentals:				
Nonexclusive joint-use premise charge	49,935,035	10.3	11,390,866	29.6
Exclusive-use premise charge	42,528,929		2,952,872	7.5
Nonaeronautical rentals	13,349,655	3.2	(373,889)	(2.7)
Other	13,875,681	3.4	4,478,954	47.7
Total operating revenues	311,952,386	75.3	27,221,768	9.6
Nonoperating revenues:				
Interest income, investments	5,975,568	1.4	(263,633)	(4.2)
Interest income, passenger facility charges	654,808	0.2	(181,117)	(21.7)
Interest income, rental car customer facility charges	192,943	—	85,934	80.3
Interest income, direct financing leases	2,018,421	0.5	(140,858)	(6.5)
Federal operating grants	5,033,709	1.2	916,842	22.3
Passenger facility charges	30,719,684	7.4	2,233,871	7.8
Rental car customer facility charges	44,531,775	10.8	33,726,793	312.1
Gain on amounts held in State Treasury	13,085,548	3.2	(17,961,382)	(57.9)
Total nonoperating revenues	102,212,456	24.7	18,416,450	22.0
Total revenues	$ 414,164,842	100.0%	$ 45,638,218	12.4%

	2010		Increase (decrease) from 2009	
	Amount	Percentage of total	Amount	Percentage
Operating revenues:				
Concession fees:				
Duty free	$ 38,000,000	10.3%	$ —	—%
Other concessions	89,542,278	24.3	13,479,767	17.7
Airport landing fees	55,947,843	15.2	(4,626,057)	(7.6)
Aeronautical rentals:				
Nonexclusive joint-use premise charge	38,544,169	10.5	3,481,428	9.9
Exclusive-use premise charge	39,576,057	10.7	4,458,294	12.7
Nonaeronautical rentals	13,723,544	3.7	1,417,998	11.5
Other	9,396,727	2.5	843,321	9.9
Total operating revenues	284,730,618	77.3	19,054,751	7.2
Nonoperating revenues:				
Interest income, investments	6,239,201	1.7	(9,910,357)	(61.4)
Interest income, passenger facility charges	835,925	0.2	(591,312)	(41.4)
Interest income, rental car customer facility charges	107,009	—	40,293	60.4
Interest income, direct financing leases	2,159,279	0.6	(90,519)	(4.0)
Federal operating grants	4,116,867	1.1	(2,641,004)	(39.1)
Passenger facility charges	28,485,813	7.7	5,126,555	21.9
Rental car customer facility charges	10,804,982	2.9	2,263,537	26.5
Gain on amounts held in State Treasury	31,046,930	8.4	31,046,930	100.0
Total nonoperating revenues	83,796,006	22.7	25,244,123	43.1
Total revenues	$ 368,526,624	100.0%	$ 44,298,874	13.7%

Expenses

A summary of expenses for the years ended June 30, 2011 and 2010 and the amount and percentage of change in relation to prior year amounts is as follows:

	2011		Increase (decrease) from 2010	
	Amount	Percentage of total	Amount	Percentage
Operating expenses:				
Salaries and wages	$ 72,325,119	20.4%	$ 1,722,027	2.4%
Other personnel services	50,532,511	14.2	(2,720,952)	(5.1)
Utilities	39,981,453	11.3	5,109,154	14.7
Repairs and maintenance	14,721,969	4.1	(752,170)	(4.9)
State of Hawaii surcharge on gross receipts	12,018,283	3.4	(76,468)	(0.6)
Special maintenance	10,306,916	2.9	3,199,215	45.0
Department of Transportation general administration expenses	4,835,990	1.4	(358,893)	(6.9)
Materials and supplies	4,143,224	1.2	(550,310)	(11.7)
Insurance	3,209,770	0.9	(43,478)	(1.3)
Disbursements out of major maintenance, renewal, and replacement account	—	—	(1,256,988)	100.0
Bad debt expense	—	—	(2,066,244)	100.0
Other	3,302,158	0.9	254,686	8.4
Total operating expenses before depreciation	215,377,393	60.6	2,459,579	1.2
Depreciation	94,738,701	26.7	1,878,158	2.0
Total operating expenses	310,116,094	87.3	4,337,737	1.4
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	41,715,701	11.8	13,915,635	50.1
Special facility	2,018,421	0.6	(140,858)	(6.5)
Loss on disposal of capital assets	517,884	0.1	129,199	33.2
Other	566,054	0.2	177,647	45.7
Total nonoperating expenses	44,818,060	12.7	14,081,623	45.8
Total expenses	$ 354,934,154	100.0%	$ 18,419,360	5.5%

(Continued)

	2010		Increase (decrease) from 2009	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 70,603,092	21.0%	$ (4,792,418)	(6.4)%
Other personnel services	53,253,463	15.8	(3,239,852)	(5.7)
Utilities	34,872,299	10.4	672,116	2.0
Special maintenance	7,107,701	2.1	(14,400,539)	(67.0)
Repairs and maintenance	15,474,139	4.6	(1,828,732)	(10.6)
State of Hawaii surcharge on gross receipts	12,094,751	3.6	1,351,217	12.6
Materials and supplies	4,693,534	1.4	(924,082)	(16.4)
Department of Transportation general administration expenses	5,194,883	1.5	355,735	7.4
Insurance	3,253,248	1.0	(867,940)	(21.1)
Disbursements out of major maintenance, renewal, and replacement account	1,256,988	0.4	(655,773)	(34.3)
Bad debt expense	2,066,244	0.6	2,018,801	4,255.2
Other	3,047,472	0.9	(303,296)	(9.1)
Total operating expenses before depreciation	212,917,814	63.3	(22,614,763)	(9.6)
Depreciation	92,860,543	27.6	4,260,689	4.8
Total operating expenses	305,778,357	90.9	(18,354,074)	(5.7)
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	27,800,066	8.3	3,732,590	15.5
Special facility	2,159,279	0.7	(90,519)	(4.0)
General obligation bonds	—	—	(905)	(100.0)
Loss on amounts held in State Treasury	—	—	(26,576,132)	(100.0)
Loss on disposal of capital assets	388,685	0.1	(4,451,727)	(92.0)
Other	388,407	0.1	(17,583)	(4.3)
Total nonoperating expenses	30,736,437	9.2	(27,404,276)	(47.1)
Total expenses	$ 336,514,794	100.0%	$ (45,758,350)	(12.0)%

Capital Acquisitions and Construction Activities

In fiscal year 2011 and 2010, there were three and nine construction bid openings, respectively, totaling an estimated $4.4 million and $108 million, respectively, in potential construction contracts. Significant projects in fiscal year 2011 include Taxiways and Thresholds Pavement Repairs at Hilo International Airport, CCTV System for TSA Security at Kahului Airport, and Strengthen 2nd Level Diamond Head & Ewa Turnaround at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2011, which were under construction during the fiscal year. Major projects include Hold Cargo Building/Light Industrial Facilities at Hilo International Airport, Parking Lot Expansion Phase 3 at Kona International Airport at Keahole, Air Conditioning Replacement at Lihue Airport, Apron Pavement Structural Improvements at Kahului Airport, Third Level Ewa Concourse Sterile Corridor, EDS Integration Improvements, Loading Bridge Replacement at the Overseas Terminal, Overseas Terminal Chiller Plant Replacement, and Escalator Improvements at Honolulu International Airport.

Finally, there were four construction projects that were substantially completed in fiscal year 2011. These projects totaled over $26 million and include Part 139 Culvert Improvements at Molokai Airport, New Airfield Electrical Vault, Loading Bridge Replacement at Overseas Terminal, and Commuter Phase 1 Tenant Relocation Improvements at Honolulu International Airport.

The Airports Division continues its mission to modernize airport facilities to provide efficiency to airport tenants and enhance the passenger experience. At Honolulu International Airport, the Third Level Sterile Corridor was completed in 2010, which provides a secured air conditioned moving sidewalk for arriving international passengers, replacing the shuttle bus transportation to the international arrivals building. A major ongoing project at Honolulu International Airport is the installation of an Explosive Detection System in which baggage security screening is to be conducted behind scenes of the terminal lobby, thereby reducing overcrowding conditions in the check-in lobby areas. Another noticeable project is the renovation of the Ewa Breezeway terminal flooring, which includes terrazzo Hawaiian artwork connecting the inter-island and overseas terminals. At Kona International Airport at Keahole, covered walkways were constructed between check-in counters and hold room areas to provide protection to passengers from the weather elements. Also, a third lane was added for security check-in at the north terminal to reduce wait time. At Kahului Airport, the Explosive Detection System project similar to the system currently being installed at the Honolulu International Airport as mentioned above was completed, providing more space and decreased congestion in the ticket lobby areas. At Lihue Airport, four baggage claim carousel devices were replaced with larger devices to accommodate both interisland as well as overseas flights. At Hilo International Airport, the air conditioning system was upgraded that now allows control of airflow, temperature changes, and humidity. Such projects will improve traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

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

Indebtedness

Airports System Revenue Bonds

As of June 30, 2011, $992,780,000 of airports system revenue bonds were outstanding as compared to $1,016,395,000 as of June 30, 2010. On April 7, 2010, the Airports Division issued $645 million in airports system revenue bonds of which $397 million is for Airport Modernization Projects. $191 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements, and issuance costs. Prior to this issuance, the last series of "new money" bonds used to fund capital improvement projects were 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, 2011, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $706,677,844.

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, 2011, there were outstanding bond obligations of $31,840,000. 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

As of June 30, 2011, there were five series of airports system revenue bonds outstanding in the principal amount of $992,780,000. Payment of principal and interest on three of the five series of bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The credit ratings of FGIC have been revised downward since the issuance of the bonds. Standard & Poor's Corporation upgraded the Hawaii Airports rating from A- to A. On October 4, 2011, the State issued airports system revenue bonds that were rated as follows:

Standard & Poor's Corporation:	A-
Moody's Investors Service:	A2
Fitch IBCA, Inc.:	A

Economic Factors and Current Known Facts

The Airports Division 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 through landing and terminal rate increases. In order to finance the modernization projects, the Airports Division issued bonds in April 2010 and is planning for another bond issue in fiscal year 2013. In addition, the Airports Division has refunded and restructured its Series 2001 Revenue Bonds, which decreased annual debt service requirements by an average of $19.5 million, which allows for additional future debt capacity. Effective July 1, 2011, the Airports Division will be calculating the signatory airline contribution requirement based on the Amended Signatory Airline Lease Agreement replacing negotiated requirements.

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 Ford Fuchigami, 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*.

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

Statement of Net Assets

June 30, 2011

Assets

Current assets:	
Unrestricted assets:	
Cash and cash equivalents – unrestricted (note 3)	$ 494,704,677
Receivables:	
Accounts, net of allowance of $927,247 for uncollectible accounts	24,281,975
Promissory note receivable, net of allowance of $130,589 for uncollectible notes (note 7)	6,768
Interest	3,819,381
Claims – federal grants	11,227,195
Aviation fuel tax	404,463
Due from State of Hawaii	1,302,066
Total receivables	41,041,848
Inventory of materials and supplies, at cost	225,768
Total unrestricted current assets	535,972,293
Restricted assets:	
Cash and cash equivalents (note 3):	
Revenue bond debt service (note 6)	51,430,711
Debt extinguishment (note 6)	12,223,861
Security deposits	4,081,920
Total restricted current assets	67,736,492
Total current assets	603,708,785
Noncurrent assets:	
Unrestricted assets:	
Bond issue costs, net of accumulated amortization of $4,951,634 (note 6)	4,334,194
Capital assets, net of accumulated depreciation of $1,665,735,422 for 2011 (notes 4 and 6)	1,712,801,627
Total unrestricted noncurrent assets	1,717,135,821
Restricted assets:	
Cash and cash equivalents (note 3):	
Major maintenance, renewal, and replacement account (note 6)	58,397,113
Debt extinguishment (note 6)	4,657,011
Passenger facility charges (note 8)	66,600,949
Rental car customer facility charges (note 9)	46,064,024
Customer advances	952,601
Revenue bond construction (note 6)	262,236,803
Total cash and cash equivalents – restricted	438,908,501
Investments – revenue bond debt service reserve (notes 3 and 6)	96,893,008
Passenger facility charges receivable (note 8)	3,278,937
Rental car customer facility charges receivable (note 9)	5,324,348
Net investments in direct financing leases (note 7)	32,051,758
Total restricted noncurrent assets	576,456,552
Total noncurrent assets	2,293,592,373
Total assets	$ 2,897,301,158

(Continued)

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

Statement of Net Assets

June 30, 2011

Liabilities

Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	$	10,582,214
Contracts payable, including retainage of $2,196,689		11,688,227
Current portion of workers' compensation (notes 5 and 14)		1,010,111
Current portion of compensated absences (note 5)		2,941,951
Current portion of postemployment liability (notes 5 and 11)		3,474,000
Deferred income (note 7)		4,078,177
Accrued wages		5,381,750
Pollution remediation liability (note 15)		2,052,735
Prepaid airport use charge fund (notes 7 and 15)		2,500,000
Other		109,884
Total payable from unrestricted assets		43,819,049
Payable from restricted assets:		
Contracts payable, including retainage of $2,352,044		11,545,619
Current portion of airports system revenue bonds (notes 5 and 6)		25,370,000
Current portion of special facility revenue bonds (notes 5 and 7)		835,000
Accrued interest		26,272,469
Security deposits		4,081,920
Total payable from restricted assets		68,105,008
Total current liabilities		111,924,057
Long-term liabilities – net of current portion:		
Payable from unrestricted assets:		
Prepaid airport use charge fund (notes 7 and 15)		8,849,329
Compensated absences (note 5)		6,382,109
Workers' compensation (notes 5 and 14)		2,989,889
Postemployment liability (notes 5 and 11)		26,963,409
Total payable from unrestricted assets		45,184,736
Payable from restricted assets:		
Airports system revenue bonds (notes 5 and 6)		973,310,285
Special facility revenue bonds (notes 5 and 7)		31,005,000
Customer advance (note 13)		952,601
Total payable from restricted assets		1,005,267,886
Total long-term liabilities – net of current portion		1,050,452,622
Total liabilities	$	1,162,376,679

Net Assets

Invested in capital assets – net of related debt	$	968,350,047
Restricted:		
Debt service payment		25,370,000
Debt service reserve account		96,893,008
Debt extinguishment		16,880,872
Major maintenance, renewal, and replacement account		58,397,113
Passenger facility charges		66,461,869
Rental car customer facility charges		51,268,868
Total restricted		315,271,730
Unrestricted		451,302,702
Commitments and contingencies (notes 6, 7, 10, 11, 12, 13, 14, and 15)		
Total net assets	$	1,734,924,479

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

Operating revenues (notes 6, 7, and 12):	
Concession fees	$ 132,166,157
Airport landing fees, net	60,096,929
Aeronautical rentals:	
Nonexclusive joint-use premise charges	49,935,035
Exclusive-use premise charges	42,528,929
Nonaeronautical rentals	13,349,655
Aviation fuel tax	4,140,882
Airports system support charges	711,319
Miscellaneous	9,023,480
Net operating revenues	311,952,386
Operating expenses (notes 4, 10, 11, 12, 14, and 15):	
Depreciation	94,738,701
Salaries and wages	72,325,119
Other personnel services	50,532,511
Utilities	39,981,453
Repairs and maintenance	14,721,969
State of Hawaii surcharge on gross receipts	12,018,283
Special maintenance	10,306,916
Department of Transportation general administration expenses	4,835,990
Materials and supplies	4,143,224
Insurance	3,209,770
Rent	1,219,600
Claims and benefits	895,504
Communication	353,645
Travel	340,123
Dues and subscriptions	146,561
Printing and advertising	21,392
Freight and delivery	16,963
Miscellaneous	308,370
Total operating expenses	310,116,094
Operating income, carried forward	1,836,292

(Continued)

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

Operating income, brought forward	$ 1,836,292
Nonoperating revenues (expenses):	
Interest income:	
Certificates of deposit, repurchase agreements, and U.S. government securities (note 3)	5,975,568
Investments in direct financing leases (note 7)	2,018,421
Interest expense:	
Revenue bonds:	
Airports system (note 6)	(41,715,701)
Special facility (note 7)	(2,018,421)
Federal operating grants	5,033,709
Loss on disposal of capital assets (note 4)	(517,884)
Passenger facility charges (note 8)	31,374,492
Rental car customer facility charges (note 9)	44,724,718
Amortization of deferred bond issue costs	(566,054)
Gain on amounts held in State Treasury	13,085,548
Total nonoperating revenues, net	57,394,396
Income before capital contributions	59,230,688
Capital contributions:	
Federal capital grants	16,873,585
Federal stimulus grants	11,787,177
Other capital contributions (note 4)	124
Total capital contributions	28,660,886
Increase in net assets	87,891,574
Total net assets – beginning of year	1,647,032,905
Total net assets – end of year	$ 1,734,924,479

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:	
Cash received from providing services	$ 300,871,501
Cash paid to suppliers	(144,263,201)
Cash paid to employees	(63,070,529)
Net cash provided by operating activities	93,537,771
Cash flows from noncapital financing activity:	
Proceeds from federal operating grants	6,047,311
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(62,874,502)
Proceeds from federal and other capital grants and contributions	30,782,577
Interest paid on airports system revenue bonds	(44,292,751)
Principal paid on airports system revenue bonds	(23,615,000)
Payments from passenger facility charges program	(44,889,875)
Proceeds from passenger facility charges program	31,766,020
Payments from rental car customer facility charges program	(10,704,913)
Proceeds from rental car customer facility charges	40,634,257
Net cash used in capital and related financing activities	(83,194,187)
Cash flows from investing activities:	
Proceeds from sale and maturities of investments	193,786,016
Interest received on investments	7,659,909
Purchases of investments	(193,786,016)
Gain on amounts held in State Treasury	13,085,548
Net cash provided by investing activities	20,745,457
Net increase in cash and cash equivalents	37,136,352
Cash and cash equivalents – beginning of year	964,213,318
Cash and cash equivalents – end of year	$ 1,001,349,670

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

Statement of Cash Flows

Year ended June 30, 2011

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,836,292
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		94,738,701
Bad debt expense		(2,408,716)
Overpayment of airport use charge to be transferred to the PAUCF		5,047,486
Changes in operating assets and liabilities:		
Accounts receivable		(7,376,260)
Aviation fuel tax receivable		(95,497)
Due from State of Hawaii		(419,013)
Inventory of materials and supplies		1,602
Vouchers payable		1,677,574
Contracts payable		(2,932,944)
Deferred income		(2,249,435)
Accrued wages		1,544,987
Postemployment liability		7,709,603
Pollution remediation liability		461,854
Prepaid airport use charge fund		(4,054,510)
Security deposits		(17,135)
Other current liabilities		73,182
Net cash provided by operating activities	$	93,537,771
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	$	1,685,000
Interest payments on special facility revenue bonds		2,030,594
Amortization of revenue bond issue costs		572,861
Amortization of revenue bond premium		(3,373,378)
Amortization of deferred loss on refunding revenue bonds		2,551,216

At June 30, 2011, contracts payable included $17,625,983 for the acquisition of capital assets.

During fiscal year 2011, interest of $9,583,565 was capitalized in property, plant, and equipment.

During fiscal year 2011, property, plant, and equipment with a net book value of $8,709,631 were written off.

See accompanying notes to financial statements.

(1) Reporting Entity

The Department of Transportation, Airports Division, 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 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.

(d) Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $4.50 per passenger. 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 statement of revenues, expenses, and changes in net assets.

(e) Rental Car Customer Facility Charge

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of $1 a day on all u-drive rentals at a state airport, effective September 1, 2008. The net receipts from CFCs are restricted to be used for funding approved rental car facility capital projects. CFC revenue, along with the related interest income, is reported as nonoperating revenue in the statement of revenues, expenses, and changes in net assets. Effective September 1, 2010, the CFC was raised to $4.50 a day on all u-drive rentals at a state airport. Effective July 1, 2011, the collection of this fee will be suspended by the State Legislature for one year.

(f) 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 statement of revenues, expenses, and changes in net assets as capital contributions.

(g) Cash and Cash Equivalents

All highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased are considered to be cash equivalents.

(h) 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 creditworthiness 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, 2011 was as follows: current – $23,212,601; 30 days – $263,837; 60 days – $153,706; and over 90 days – $1,579,078.

(i) 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.

(j) 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 statement 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 PFCs, unspent CFCs, and security deposits and customer advances.

(k) 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	10 to 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.

(l) Bond Issue Costs and Original Issue Discount or Premium and Deferred Loss on Refundings

Bond issue costs relating to the issuance of airports system revenue bonds are deferred and are amortized using the effective-interest method over the terms of the respective issues. 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 statement of net assets.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2011 consisted of the following:

Petty cash	$ 17,805
Amounts held in State Treasury	1,001,331,865
Certificates of deposit	81,060,558
Repurchase agreements	15,832,450
	$ 1,098,242,678

Such amounts are reflected in the statement of net assets at June 30, 2011 as follows:

Cash and cash equivalents:	
Unrestricted	$ 494,704,677
Restricted	506,644,993
Total cash and cash equivalents	1,001,349,670
Investments – restricted	96,893,008
Total cash and cash equivalents and investments	$ 1,098,242,678

(a) Amounts Held 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, 2011, the amount reported as amounts held in State Treasury reflects the Airports Division's relative position in the State's investment pool and amounted to $1,001,331,865. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by $13,085,548 during the year ended June 30, 2011.

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.

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State. 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 undercollateralized 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.

The State's investment pool at June 30, 2010 is summarized in the table below (amounts in thousands):

			Maturity (in years)		
		Fair value	**Less than 1**	**1 – 5**	**>5**
Investments – primary government:					
Student loan auction rate securities	$	337,948	—	—	337,948
Certificates of deposit		7,504	3,937	3,567	—
U.S. government securities		294,145	207,364	73,431	13,350
Repurchase agreements		269,557	234,408	35,149	—
	$	909,154	445,709	112,147	351,298
Investments – fiduciary funds:					
Student loan auction rate securities	$	46,804	—	—	46,804
Certificates of deposit		731	731	—	—
U.S. government securities		23,401	—	—	23,401
Repurchase agreements		2,194	2,194	—	—
	$	73,130	2,925	—	70,205

Information relating to the State's investment pool at June 30, 2011 will be included in the comprehensive annual financial report of the State when issued.

(b) *Investments*

At June 30, 2011, 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. 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.

(Continued)

(4) Capital Assets

Capital assets activity for the year ended June 30, 2011 consist of the following:

	Balance, June 30, 2010	Increases	Decreases	Transfers	Balance, June 30, 2011
Capital assets not being depreciated:					
Land	$ 308,438,655	—	(8,190,530)	—	300,248,125
Land improvements	26,481,609	200,000	—	—	26,681,609
Construction in progress	229,546,967	122,162,073	(5,019)	(50,683,191)	301,020,830
Total capital assets not being depreciated	564,467,231	122,362,073	(8,195,549)	(50,683,191)	627,950,564
Capital assets being depreciated:					
Land improvements	881,502,325	—	(1,065,193)	15,031,128	895,468,260
Buildings and improvements	1,608,378,584	—	(1,348,802)	21,756,582	1,628,786,364
Machinery and equipment	216,834,267	158,703	(4,356,593)	13,695,484	226,331,861
Total capital assets being depreciated	2,706,715,176	158,703	(6,770,588)	50,483,194	2,750,586,485
Less accumulated depreciation:					
Land improvements	(628,500,282)	(30,083,415)	—	—	(658,583,697)
Buildings and improvements	(796,343,117)	(54,562,813)	—	—	(850,905,930)
Machinery and equipment	(152,406,025)	(10,092,473)	6,258,392	(5,689)	(156,245,795)
Total depreciation	(1,577,249,424)	(94,738,701)	6,258,392	(5,689)	(1,665,735,422)
Capital assets being depreciated, net	1,129,465,752				1,084,851,063
Total capital assets	$ 1,693,932,983				1,712,801,627

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal year 2011 is as follows:

	Balance, June 30, 2010	Increases	Decreases	Balance, June 30, 2011	Current	Noncurrent
Workers' compensation (note 14)	$ 4,000,000	846,016	(846,016)	4,000,000	1,010,111	2,989,889
Compensated absences	8,532,708	5,089,450	(4,298,098)	9,324,060	2,941,951	6,382,109
Prepaid airport use charge fund (notes 7 and 15)	10,356,353	5,047,486	(4,054,510)	11,349,329	2,500,000	8,849,329
Postemployment liability (note 10)	22,727,806	11,026,195	(3,316,592)	30,437,409	3,474,000	26,963,409
Airports system revenue bonds (note 6)	1,023,117,447	2,551,216	(26,988,378)	998,680,285	25,370,000	973,310,285
Special facility revenue bonds (note 7)	33,525,000	—	(1,685,000)	31,840,000	835,000	31,005,000
	$ 1,102,259,314	24,560,363	(41,188,594)	1,085,631,083	36,131,062	1,049,500,021

(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* (the 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, 2011, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2011, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statement of net assets) consisted of the following:

		2011
Debt service reserve account	$	96,893,008
RHB Debt extinguishment		16,880,872
Major maintenance, renewal, and replacement account		58,397,113
		172,170,993
Principal and interest due July 1		51,430,711
	$	223,601,704

At June 30, 2011, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $706,677,844.

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.

 (Continued)

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2011:

Series	**Interest rate**	**Final maturity date (July 1)**	**Original amount of issue**	**Outstanding amount**
2000B, refunding	5.00% – 6.00%	2020	$ 261,465,000	13,550,000
2001, refunding	4.00% – 5.75%	2021	423,255,000	334,250,000
2010A, refunding	2.00% – 5.25%	2039	478,980,000	478,980,000
2010B, refunding	3.00% – 5.00%	2020	166,000,000	166,000,000
			$ 1,329,700,000	992,780,000
Add unamortized premium				15,921,617
Less deferred loss on refunding				(10,021,332)
Less current portion				(25,370,000)
Noncurrent portion				$ 973,310,285

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

	Principal	**Interest**	**Total**
Year ending June 30:			
2012	$ 27,680,000	50,427,803	78,107,803
2013	46,145,000	49,003,450	95,148,450
2014	46,725,000	46,471,255	93,196,255
2015	52,960,000	43,897,328	96,857,328
2016	55,835,000	41,028,898	96,863,898
2017 – 2021	284,120,000	156,726,327	440,846,327
2022 – 2026	90,000,000	106,284,529	196,284,529
2027 – 2031	113,195,000	80,864,390	194,059,390
2032 – 2036	145,080,000	48,982,775	194,062,775
2037 – 2039	105,670,000	10,774,425	116,444,425
	$ 967,410,000	634,461,180	1,601,871,180

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- 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, 2011 of $25,370,000 and $26,060,714, respectively.

The following is a summary of interest costs incurred for the year ended June 30, 2011 and the allocation thereof:

		2011
Expensed as incurred	$	41,715,701
Capitalized in capital assets		9,583,565
	$	51,299,266

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranges of 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. The average interest rates of the refunded bonds were 5.749928% and 6.429042%, respectively. Of the net proceeds of $656,136,858 (after the payment of $3,572,788 in underwriting fees, insurance, and other costs), along with an additional $3,069,096 from the debt service reserve account, $204,061,069 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds on July 1, 2010. As a result, the refunded portion of the Refunding Series 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The remainder of the net proceeds are held in the State Treasury to be used to pay all or part of the cost of the acquisition, purchase, construction, reconstruction, improvement, betterment, or extension of any project authorized by the State.

At June 30, 2011, the aggregate outstanding defeased bonds amounted to $16,845,000.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,147. 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.

On October 4, 2011, the Airports Division issued $300,885,000 of airports system revenue bonds (Refunding Series 2011 (AMT)) at interest rates ranges of 2.00% to 5.00%. The amounts are not included in the revenue bonds payable balance as of June 30, 2011.

(7) 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. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

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 1,000-pound units).

Effective January 1, 2008, under the first amended lease extension agreement, the airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-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 2010 have been transferred to the PAUCF (note 15).

(Continued)

Aviation Fuel Tax

The aviation fuel tax amounted to $4,140,882 for fiscal year 2011. 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 $63,829,502 for fiscal year 2011. Airport landing fees are shown net of aviation fuel tax credits of $3,732,573 for fiscal year 2011, on the statement of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $60,096,929 for fiscal year 2011. 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 interisland airport landing fees for signatory airlines are set at 39% of the airport landing fees for overseas flights for fiscal year 2011, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland 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 $49,935,035 for fiscal year 2011.

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 is 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 interisland terminal operations at the Honolulu International Airport.

Effective January 1, 2008, joint-use premise charges are recovered based on a computed rate per enplaning or deplaning passenger.

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.

(Continued)

Exclusive-use premise charges amounted to $42,528,929 for fiscal year 2011, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $25,795,075 for fiscal year 2011.

Airports system support charges amounted to $711,319 for fiscal year 2011, 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 interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

(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 $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.

$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, 2011:

		Principal	Interest	Total
Year ending June 30:				
2012	$	—	1,222,031	1,222,031
2013		—	1,222,031	1,222,031
2014		—	1,222,031	1,222,031
2015		—	1,222,031	1,222,031
2016		—	1,222,031	1,222,031
2017 – 2021		—	6,110,156	6,110,156
2022 – 2026		—	6,110,156	6,110,156
2027 – 2028		21,725,000	1,833,047	23,558,047
	$	21,725,000	20,163,514	41,888,514

$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, 2011:

		Principal	Interest	Total
Year ending June 30:				
2012	$	835,000	708,050	1,543,050
2013		905,000	649,600	1,554,600
2014		970,000	586,250	1,556,250
2015		1,030,000	518,350	1,548,350
2016		1,110,000	446,250	1,556,250
2017 – 2020		5,265,000	950,950	6,215,950
	$	10,115,000	3,859,450	13,974,450

(Continued)

$6,600,000 Issue

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds were 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 beared interest at 10.125% per annum.

Special facility revenue bonds payable at June 30, 2011 consisted of the following:

	Continental		Total
2011:			
Current portion	$ 835,000	—	835,000
Noncurrent portion	9,280,000	21,725,000	31,005,000
	$ 10,115,000	21,725,000	31,840,000

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 statement of net assets.

Net investments in direct financing leases at June 30, 2011 consisted of the following:

Cash with bond fund trustee	$ 3,203,600
Receivable from lessees, net of unearned interest of $23,811,208	28,636,400
Interest receivable	211,758
	$ 32,051,758

(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 with 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, 2011 are as follows:

Year ending June 30:	
2012	$ 104,900,166
2013	100,489,281
2014	93,987,125
2015	54,484,386
2016	45,312,204
2017 – 2020	73,617,235
2021 – 2025	10,667,835
2026 – 2030	4,865,609
2031 – 2035	2,064,795
2036 – 2040	1,498,765
	$ 491,887,401

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 year 2011 were $32,448,156.

In fiscal year 2006, the Airports Division converted certain past-due amounts from two lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 0 months to 9 years. The balance of $224,357 at June 30, 2011 is due as follows: 2012 – $137,357; 2013 – $12,000; 2014 – $12,000; and thereafter – $63,000.

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 28% of total concession fee revenues for fiscal year 2011.

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, 30.0% 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. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended 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, 2011, 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, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009 and terminating on March 14, 2014. 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).

(8) Passenger Facility Charges

Passenger facility charge activity for the year ended June 30, 2011 is as follows:

Restricted assets – passenger facility charges, beginning of year	$ 83,395,269
Passenger facility charges during the year	30,719,684
Interest earned on passenger facility charges during the year	654,808
Capital expenditures during the year	(44,889,875)
Restricted assets – passenger facility charges, end of year	$ 69,879,886

Restricted assets – passenger facility charges are presented on the statement of net assets as of June 30, 2011 as follows:

Cash and cash equivalents	$	66,600,949
Receivable		3,278,937
Total restricted assets – passenger facility charges	$	69,879,886

(9) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the year ended June 30, 2011 is as follows:

Restricted assets – rental car customer facility charge, beginning of year	$	17,368,567
Rental car customer facility charges during the year		44,531,775
Interest earned on rental car customer facility charges during the year		192,943
Capital expenditures during the year		(10,704,913)
Restricted assets – rental car customer facility charges, end of year	$	51,388,372

Restricted assets – rental car customer facility charges are presented on the statement of net assets as of June 30, 2011 as follows:

Cash and cash equivalents	$	46,064,024
Receivable		5,324,348
Total restricted assets – rental car customer facility charges	$	51,388,372

(10) Pension Information

All eligible employees of the Airports Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the ERS of the State, a cost sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability benefits with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

(Continued)

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.).

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

(a) Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

(b) Hybrid Plan

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

(c) Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Airports Division is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited service or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total

(Continued)

employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increased, as of July 1, 2008, to 19.70% for police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The required pension contributions by the Airports Division for the years ended June 30, 2011, 2010, and 2009 were $7,552,624, $7,472,099, and $7,924,498, respectively, which represented 16.25% of covered payroll for the years then ended and were equal to the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

The ERS issues a comprehensive annual financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

(11) Postretirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

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 service, 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.

For employees hired after June 30, 2001, 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 service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self-plan. For employees hired after June 30, 2001, 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.

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Airports Division's contribution for the year ended June 30, 2011 was $3,316,592, which represented 30%, of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $11,026,195.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2011:

Balance at June 30, 2010	$	22,727,806
Additions		11,026,195
Deletions		(3,316,592)
Balance at June 30, 2011		30,437,409
Less current portion		(3,474,000)
	$	26,963,409

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

(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 $12,018,283 in fiscal year 2011.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $4,835,990 in fiscal year 2011. During fiscal year 2011, the Airports Division received assessment refunds from the DOT amounting to $1,130,004. Such refunds reduced operating expenses in the accompanying statement of revenues, expenses, and changes in net assets.

(Continued)

During fiscal year 2011, revenues received from other state agencies totaled $3,165,719, and expenditures to other state agencies totaled $8,157,982.

(13) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2011 was $19,106,081. 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) Pledged Future Revenues

In accordance with the Certificate, the Airports Division has pledged future revenues net of operation, maintenance and repair expenses, and certain adjustments (net revenues and taxes available for debt service) to repay $1,329,700,000 in revenue bonds issued in 2000, 2001, and 2010, and are payable through 2039. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $1,601,871,180. In fiscal year 2010, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were $75,736,428 and $123,722,013, respectively. See also note 6 for further discussion on the revenue bonds.

(d) 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 statement of net assets at June 30, 2011.

At June 30, 2011, the Airports Division had commitments totaling approximately $322,543,888, for construction and service contracts.

(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 $750 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, 2011, the workers' compensation reserve was $4,000,000, of which $1,010,111 is included in current liabilities (payable from unrestricted net assets) and $2,989,889 is included in long-term liabilities in the accompanying statement of net assets at June 30, 2011. 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, 2011, 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 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 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.

In fiscal year 2008, the PAUCF was decreased by a payment of $1,069,792 for the 2005 overpayment. The payable balance of the PAUCF was $463,926 at June 30, 2009 and 2008.

On November 15, 2010, the State reached a settlement with the ACH under which the Airports Division transferred an overpayment of $10,303,174 for fiscal year 2010 to the PAUCF escrow account in four annual installments beginning in fiscal year 2011. A liability for the refund was recorded in the Airports Division's financial statements as of June 30, 2010, with an offsetting charge to operating revenues. The payable balance of the PAUCF at June 30, 2010 was $10,356,353.

In fiscal year 2011, the PAUCF was decreased by a payment of $2,500,000 for the 2010 overpayment as well as the use of $1,554,510 from the PAUCF to settle a dispute with a signatory airline over baggage joint-use charges. The PAUCF was increased by $5,047,486 due to an overpayment for fiscal year 2011. The payable balance of the PAUCF at June 30, 2011 was $11,349,329.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the DOT 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 $2,052,735 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(16) Subsequent Events

The Airports Division has evaluated subsequent events from the balance sheet date through February 6, 2012, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

Schedule 1

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

Operating Revenues and Operating Expenses Other than Depreciation

Year ended June 30, 2011

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 132,166,157	—	80,927,353	2,584,330	11,765,593	24,277,768	12,388,651	222,462
Airport landing fees	60,096,929	—	40,874,076	1,310,544	4,372,023	9,798,694	3,367,489	374,103
Aeronautical rentals:								
Exclusive-use premise charges	42,528,929	—	33,224,149	1,022,656	1,247,768	4,850,805	1,768,153	415,398
Nonexclusive joint-use premise charges	49,935,035	—	36,656,131	1,407,625	1,899,519	7,570,200	2,401,560	—
Nonaeronautical rentals	13,349,655	—	8,031,865	373,263	1,110,815	2,897,638	855,093	80,981
Aviation fuel tax	4,140,882	—	2,816,363	90,301	301,247	675,163	232,031	25,777
Airports system support charges	711,319	—	418,872	38,362	56,544	78,959	53,989	64,593
Miscellaneous	8,700,967	4,330,509	2,558,385	118,481	687,220	483,207	509,935	13,230
	311,629,873	4,330,509	205,507,194	6,945,562	21,440,729	50,632,434	21,576,901	1,196,544
Allocation of statewide miscellaneous revenues (note 1)	—	(4,330,509)	2,535,000	117,398	680,938	478,790	505,274	13,109
Total operating revenues for net revenues and taxes	311,629,873	—	208,042,194	7,062,960	22,121,667	51,111,224	22,082,175	1,209,653
Major maintenance, renewal, and replacement account not included above	322,513	—	322,513	—	—	—	—	—
Total operating revenues for statement of revenues, expenses, and changes in net assets	$ 311,952,386	—	208,364,707	7,062,960	22,121,667	51,111,224	22,082,175	1,209,653
Operating expenses other than depreciation:								
Salaries and wages	$ 72,325,119	15,179,602	29,112,196	4,549,880	4,657,020	8,119,844	5,448,511	5,258,066
Other personnel services	50,532,511	1,459,328	29,580,160	3,500,019	4,163,357	5,774,050	4,117,771	1,937,826
Utilities	39,981,453	3,945	29,274,937	1,229,654	2,294,713	4,396,977	2,117,982	663,245
Repairs and maintenance	14,721,969	3,266,187	8,711,650	341,218	774,606	1,091,334	231,487	305,487
State of Hawaii surcharge on gross receipts (note 2)	12,018,283	12,018,283	—	—	—	—	—	—
Special maintenance	10,306,916	1,338,189	2,651,954	1,120,259	2,431,034	922,397	414,857	1,428,226
Department of Transportation general administration expenses	4,835,990	4,835,990	—	—	—	—	—	—
Materials and supplies	4,143,224	51,206	2,122,773	356,728	326,064	744,384	236,988	305,081
Insurance	3,209,770	3,208,193	31	(246)	1,793	—	—	(1)
Rent	1,219,600	971,756	154,996	10,082	18,051	26,267	20,993	17,455
Claims and benefits	895,504	38,112	294,725	51,535	214,474	184,260	70,257	42,141
Communication	353,645	62,849	67,658	46,929	25,530	48,465	45,862	56,352
Travel	340,123	59,097	70,596	35,735	37,994	49,495	33,515	53,691
Dues and subscriptions	146,561	136,838	1,332	3,060	850	625	2,800	1,056
Printing and advertising	21,392	17,865	260	—	2,567	—	700	—
Freight and delivery	16,963	329	273	376	—	7,619	109	8,257
Miscellaneous	308,370	47,112	54,098	40,584	40,734	14,074	98,944	12,824
	215,377,393	42,694,881	102,097,639	11,285,813	14,988,787	21,379,791	12,840,776	10,089,706
Allocation of statewide expenses (note 3)	—	(42,694,881)	25,243,127	2,790,360	3,705,902	5,286,046	3,174,817	2,494,629
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets	$ 215,377,393	—	127,340,766	14,076,173	18,694,689	26,665,837	16,015,593	12,584,335

Notes:

(1) 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.

(2) 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.

(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

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

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2011

Revenues and taxes:	
Concession fees	$ 132,166,157
Airport landing fees	60,096,929
Aeronautical rentals:	
Nonexclusive joint-use premise charges	49,935,035
Exclusive-use premise charges	42,528,929
Nonaeronautical rentals	13,349,655
Aviation fuel tax	4,140,882
Airports system support charges	711,319
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $1,753,318 on capital improvement projects	5,975,568
Federal operating grants	5,033,709
Miscellaneous	8,700,967
Total revenues and taxes	322,639,150
Deductions:	
Operating expenses other than depreciation for net revenues and taxes (schedule 1)	215,377,393
Annual reserve required on major maintenance, renewal, and replacement account	2,912,601
Total deductions	218,289,994
Net revenues and taxes	104,349,156
Add funded coverage per bond certificate	19,372,857
Adjusted net revenues and taxes	123,722,013
Debt service requirement:	
Airports system revenue bonds:	
Principal	25,370,000
Interest (note 1)	35,319,303
Total debt service requirement	60,689,303
Debt service coverage percentage	125%
Total debt service with coverage requirement	75,861,629
Excess of net revenues and taxes over debt service requirement	$ 47,860,384

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, and amounts from the Series 2010 bond proceeds used to pay interest on the Series 2010 bonds until the projects funded by the Series 2010 bonds are in service.

See accompanying independent auditors’ report.

Schedule 3

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

Summary of Debt Service Requirements to Maturity

June 30, 2011

	Annual principal and interest requirements		
	Airports system revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2012	$ 27,680,000	50,427,803	78,107,803
2013	46,145,000	49,003,450	95,148,450
2014	46,725,000	46,471,255	93,196,255
2015	52,960,000	43,897,328	96,857,328
2016	55,835,000	41,028,898	96,863,898
2017	58,880,000	37,971,560	96,851,560
2018	62,105,000	34,757,720	96,862,720
2019	65,485,000	31,408,008	96,893,008
2020	68,120,000	28,028,644	96,148,644
2021	29,530,000	24,560,395	54,090,395
2022	18,005,000	23,011,445	41,016,445
2023	16,650,000	22,168,945	38,818,945
2024	17,510,000	21,296,545	38,806,545
2025	18,440,000	20,379,107	38,819,107
2026	19,395,000	19,428,487	38,823,487
2027	20,400,000	18,412,970	38,812,970
2028	21,460,000	17,356,370	38,816,370
2029	22,570,000	16,233,945	38,803,945
2030	23,755,000	15,053,750	38,808,750
2031	25,010,000	13,807,355	38,817,355
2032	26,255,000	12,556,855	38,811,855
2033	27,575,000	11,244,105	38,819,105
2034	28,945,000	9,865,355	38,810,355
2035	30,395,000	8,418,105	38,813,105
2036	31,910,000	6,898,355	38,808,355
2037	33,520,000	5,299,245	38,819,245
2038	35,195,000	3,619,455	38,814,455
2039	36,955,000	1,855,725	38,810,725
Total	$ 967,410,000	634,461,180	1,601,871,180

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- 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, 2011.

See accompanying independent auditors' report.

Schedule 4

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2011

		Refunding series of 2001, 4.00% to 5.75%	Refunding series of 2010A, 2.00% to 5.25%	Refunding series of 2010B, 3.00% to 5.00%	Total	Interest	Total requirements
Year ending June 30:							
2012	$	12,135,000	295,000	15,250,000	27,680,000	50,427,803	78,107,803
2013		30,840,000	305,000	15,000,000	46,145,000	49,003,450	95,148,450
2014		32,615,000	310,000	13,800,000	46,725,000	46,471,255	93,196,255
2015		34,490,000	320,000	18,150,000	52,960,000	43,897,328	96,857,328
2016		36,470,000	335,000	19,030,000	55,835,000	41,028,898	96,863,898
2017		38,565,000	340,000	19,975,000	58,880,000	37,971,560	96,851,560
2018		40,770,000	355,000	20,980,000	62,105,000	34,757,720	96,862,720
2019		43,065,000	255,000	22,165,000	65,485,000	31,408,008	96,893,008
2020		38,750,000	7,720,000	21,650,000	68,120,000	28,028,644	96,148,644
2021		15,020,000	14,510,000	—	29,530,000	24,560,395	54,090,395
2022		—	18,005,000	—	18,005,000	23,011,445	41,016,445
2023		—	16,650,000	—	16,650,000	22,168,945	38,818,945
2024		—	17,510,000	—	17,510,000	21,296,545	38,806,545
2025		—	18,440,000	—	18,440,000	20,379,107	38,819,107
2026		—	19,395,000	—	19,395,000	19,428,487	38,823,487
2027		—	20,400,000	—	20,400,000	18,412,970	38,812,970
2028		—	21,460,000	—	21,460,000	17,356,370	38,816,370
2029		—	22,570,000	—	22,570,000	16,233,945	38,803,945
2030		—	23,755,000	—	23,755,000	15,053,750	38,808,750
2031		—	25,010,000	—	25,010,000	13,807,355	38,817,355
2032		—	26,255,000	—	26,255,000	12,556,855	38,811,855
2033		—	27,575,000	—	27,575,000	11,244,105	38,819,105
2034		—	28,945,000	—	28,945,000	9,865,355	38,810,355
2035		—	30,395,000	—	30,395,000	8,418,105	38,813,105
2036		—	31,910,000	—	31,910,000	6,898,355	38,808,355
2037		—	33,520,000	—	33,520,000	5,299,245	38,819,245
2038		—	35,195,000	—	35,195,000	3,619,455	38,814,455
2039		—	36,955,000	—	36,955,000	1,855,725	38,810,725
Total	$	322,720,000	478,690,000	166,000,000	967,410,000	634,461,180	1,601,871,180

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- 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, 2011.

See accompanying independent auditors' report.

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

Airports System Charges – Fiscal Year 2008 Lease Extension

Year ended June 30, 2011

	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 baggage**	**Joint-use charges – overseas holdroom**	**Joint-use charges – overseas**	**Joint-use charges – interisland baggage**	**Joint-use charges – interisland holdroom**	**Joint-use charges – commuter baggage**	**Joint-use charges – commuter holdroom**	**International arrivals building charges**	**Preferential use**	**Exclusive-use premise charges – terminal space**	**Total**
Signatory airlines:																
Air Canada	192,640	602	—	$ 749,370	—	—	247,577	232,315	—	—	—	—	—	—	715,362	1,944,624
Air New Zealand, Ltd.	37,760	118	21,468	146,886	—	—	35,556	—	—	—	—	—	181,834	—	—	364,276
Air Pacific, Ltd.	21,984	158	13,146	85,518	—	—	16,100	—	—	—	—	—	111,347	—	—	212,965
Alaska Air, Inc.	710,352	4,933	—	2,763,269	—	—	1,496,348	1,234,470	—	—	—	—	—	—	313,790	5,807,877
All Nippon Airways, Inc.	221,584	626	130,219	861,962	—	—	183,721	—	—	—	—	—	1,102,955	—	3,962	2,152,600
American Airlines, Inc.	1,050,952	4,702	—	4,088,203	—	—	1,460,849	1,643,553	—	—	—	—	—	—	1,778,699	8,971,304
China Airlines, Ltd.	161,609	277	94,180	628,657	—	—	134,258	—	—	—	—	—	797,705	—	38,138	1,598,758
Continental Airlines, Inc.	587,618	2,554	62,657	2,284,808	—	—	672,734	687,997	55	82	—	—	530,705	—	185,303	4,361,684
Continental Micronesia, Inc.	79,334	300	55,702	308,608	—	—	76,558	—	—	—	—	—	471,796	—	1,315,458	2,172,420
Delta Airlines, Inc.	1,735,415	5,631	380,434	6,750,765	—	—	1,911,555	2,246,457	—	—	—	—	3,222,276	—	2,575,797	16,706,850
Evergreen International Airlines, Inc.	139,230	—	—	541,605	—	—	—	—	—	—	—	—	—	—	—	541,605
Federal Express Corporation	749,310	—	—	2,501,824	—	—	—	—	—	—	—	—	—	—	7,611	2,509,435
Hawaiian Airlines, Inc.	8,454,926	63,392	194,930	18,108,327	—	—	1,893,313	1,726,349	7,136,792	—	—	—	1,651,057	3,283,766	6,918,326	40,717,930
JALways Co, Ltd.	476,534	1,062	315,300	1,767,686	—	—	451,805	—	—	5,556	—	—	2,670,591	—	—	4,895,638
Japan Airlines Company, Ltd.	439,967	1,315	295,737	1,711,472	—	—	426,403	—	—	—	—	—	2,504,892	—	2,221,366	6,864,133
Kalitta Air, LLC	184,206	—	—	654,811	—	—	—	—	—	—	—	—	—	—	—	654,811
Korean Airlines Company, Ltd.	282,281	597	138,518	1,098,073	—	—	204,154	—	—	—	—	—	1,173,247	—	318,554	2,794,028
Mesa Airlines, Inc.	762,622	16,226	—	1,159,185	—	—	—	—	251,593	365,274	238,236	321,613	—	—	338,893	2,674,794
Mokulele Flight Service, Inc.	127,075	14,950	—	193,154	—	—	—	—	—	—	15,938	20,610	—	—	12,107	241,809
North American Airlines, Inc.	3,720	13	—	14,471	—	—	—	—	—	—	—	—	—	—	—	14,471
Northwest Airlines, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Pacific Wings LLC	31,790	3,740	—	48,321	—	—	—	—	—	—	—	5,123	—	—	8,732	62,176
Philippine Airlines, Inc.	233,152	435	37,074	906,961	—	—	49,432	—	—	—	—	—	314,017	—	238,219	1,508,629
Qantas Airways, Ltd.	193,368	383	34,324	752,202	—	—	51,123	—	—	—	—	—	290,724	—	490,294	1,584,343
United Airlines, Inc.	2,458,698	8,235	64,180	9,560,794	—	—	3,221,550	3,323,944	—	—	—	—	576,844	—	6,412,364	23,095,496
United Parcel Service Co.	728,124	—	—	2,436,370	—	—	—	—	—	—	—	—	—	—	36,742	2,473,112
US Airways, Inc.	399,470	2,005	—	1,553,938	—	—	581,182	585,669	—	—	—	—	—	—	451,449	3,172,238
Westjet	160,665	1,072	—	624,985	—	—	341,447	275,568	—	—	—	—	—	—	85,725	1,327,725
Nonsignatory airlines	2,547,399	512	56,961	3,428,435	711,319	234,160	—	—	—	—	—	—	190,592	—	1,328,184	5,892,690
Total airports system charges billed	23,171,785	133,838	1,894,830	65,730,660	711,319	234,160	13,455,665	11,956,322	7,388,440	370,912	254,174	347,346	15,790,582	3,283,766	25,795,075	145,318,421
Signatory airlines requirements				60,401,071	—	—	12,163,588	11,291,769	8,108,582	702,446	254,174	347,346	13,358,612	3,283,766	24,466,891	134,378,245
Nonsignatory airlines requirements				3,428,435	711,319	234,160	—	—	—	—	—	—	190,592	—	1,328,184	5,892,690
Fiscal year 2011 overpayment (underpayment)				$ 1,901,154	—	—	1,292,077	664,553	(720,142)	(331,534)	—	—	2,241,378	—	—	5,047,486

See accompanying independent auditors' report.

Schedule 6

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

Summary of Billed Airport Landing Fees

Year ended June 30, 2011

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	62,302,225	3,428,435	65,730,660
Less aviation fuel tax credit		(3,500,413)	(232,164)	(3,732,577)
Net airport landing fees billed	$	58,801,812	3,196,271	61,998,083

See accompanying independent auditors' report.

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

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

Year ended June 30, 2011

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport					All other airports			Total
					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	103,680	—	88,960	192,640	$ 403,315	—	403,315	—	403,315	346,054	—	346,054	749,369
Air New Zealand, Ltd.	37,760	—	—	37,760	146,886	—	146,886	—	146,886	—	—	—	146,886
Air Pacific, Ltd.	21,984	—	—	21,984	85,518	—	85,518	—	85,518	—	—	—	85,518
Alaska Airlines, Inc.	210,528	—	499,824	710,352	818,954	—	818,954	(413,820)	405,134	1,944,315	—	1,944,315	2,349,449
All Nippon Airways	221,584	—	—	221,584	861,962	—	861,962	—	861,962	—	—	—	861,962
American Airlines, Inc.	631,212	—	419,740	1,050,952	2,455,415	—	2,455,415	(262,901)	2,192,514	1,632,789	—	1,632,789	3,825,303
China Airlines, Ltd.	161,609	—	—	161,609	628,657	—	628,657	—	628,657	—	—	—	628,657
Continental Airlines, Inc.	534,117	3,658	49,843	587,618	2,077,715	14,228	2,091,943	—	2,091,943	192,865	—	192,865	2,284,808
Continental Micronesia, Inc.	79,334	—	—	79,334	308,608	—	308,608	—	308,608	—	—	—	308,608
Delta Airlines, Inc.	1,433,663	—	301,752	1,735,415	5,576,950	—	5,576,950	(113,770)	5,463,180	1,173,815	—	1,173,815	6,636,995
Evergreen International Airlines, Inc.	139,230	—	—	139,230	541,605	—	541,605	—	541,605	—	—	—	541,605
Federal Express Corporation	650,648	90,958	7,704	749,310	2,351,857	138,256	2,490,113	(194,495)	2,295,618	11,710	—	11,710	2,307,328
Hawaiian Airlines, Inc.	4,876,481	604,340	2,974,105	8,454,926	11,931,985	918,597	12,850,582	(1,619,762)	11,230,820	5,257,745	—	5,257,745	16,488,565
JALways Co., Ltd.	440,234	—	36,300	476,534	1,626,479	—	1,626,479	—	1,626,479	141,207	(159)	141,048	1,767,527
Japan Airlines International Co., Ltd.	439,667	—	300	439,967	1,710,305	—	1,710,305	—	1,710,305	1,167	—	1,167	1,711,472
Kalitta Air, LLC	147,036	—	37,170	184,206	571,970	—	571,970	—	571,970	82,841	—	82,841	654,811
Korean Airlines Company, Ltd.	282,281	—	—	282,281	1,098,073	—	1,098,073	—	1,098,073	—	—	—	1,098,073
Mesa Airlines, Inc.	377,410	75,717	309,495	762,622	573,663	115,090	688,753	(70,266)	618,487	470,432	—	470,432	1,088,919
Mokulele Flight Service, Inc.	24,242	—	102,833	127,075	36,848	—	36,848	(7,486)	29,362	156,306	—	156,306	185,668
North American Airlines, Inc.	3,400	—	320	3,720	13,226	—	13,226	—	13,226	1,245	—	1,245	14,471
Northwest Airlines, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—
Pacific Wings LLC	5,746	—	26,044	31,790	8,734	—	8,734	(2,000)	6,734	39,587	—	39,587	46,321
Philippine Airlines, Inc.	233,152	—	—	233,152	906,961	—	906,961	—	906,961	—	—	—	906,961
Qantas Airways, Ltd.	193,368	—	—	193,368	752,202	—	752,202	—	752,202	—	—	—	752,202
United Airlines, Inc.	1,342,753	—	1,115,945	2,458,698	5,219,768	—	5,219,768	(498,652)	4,721,116	4,341,026	(121,127)	4,219,899	8,941,015
United Parcel Service Co.	561,055	—	167,069	728,124	2,170,159	—	2,170,159	(37,454)	2,132,705	266,211	—	266,211	2,398,916
US Airways, Inc.	151,376	—	248,094	399,470	588,853	—	588,853	(153,302)	435,551	965,086	—	965,086	1,400,637
Westjet	69,132	—	91,533	160,665	268,924	—	268,924	—	268,924	356,061	(5,219)	350,842	619,766
Total	13,372,682	774,673	6,477,031	20,624,386	$ 43,735,592	1,186,171	44,921,763	(3,373,908)	41,547,855	17,380,462	(126,505)	17,253,957	58,801,812

Summary of revenue landing weights:	
Overseas	13,069,821
Interisland	7,554,565
	20,624,386

Aviation fuel tax of $4,045,385 was paid by the users for the year ended June 30, 2011. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,732,577 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,500,413
Nonsignatory airlines	232,164
	$ 3,732,577

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2011.

See accompanying independent auditors’ report.

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

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

Year ended June 30, 2011

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport: Gross airport landing fees					All other airports			Total
	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.	—	1,541	1,193	2,734	$ —	1,470	1,470	(235)	1,235	1,138	(129)	1,009	2,244
Aeko Kula, Inc.	492,414	104,967	251,022	848,403	469,764	100,139	569,903	—	569,903	239,475	—	239,475	809,378
Aero Micronesia dba Asia Pacific	30,668	—	—	30,668	91,391	—	91,391	—	91,391	—	—	—	91,391
Air Transport International LLC	36,250	—	—	36,250	108,025	—	108,025	—	108,025	—	—	—	108,025
Air Ventures Hawaii, LLC	—	—	6,052	6,052	—	—	—	—	—	5,774	(413)	5,361	5,361
Alika Aviation Inc.	—	—	9,483	9,483	—	—	—	—	—	9,047	—	9,047	9,047
Aris Inc.	—	—	16,788	16,788	—	—	—	—	—	14,603	(2,689)	11,914	11,914
Atlas Air Inc.	28,296	—	—	28,296	84,322	—	84,322	(724)	83,598	—	—	—	83,598
Big Island Air Incorporation	—	—	5,983	5,983	—	—	—	—	—	5,707	—	5,707	5,707
Bradley Pacific Aviation Inc.	37,319	686	63,712	101,717	90,984	1,349	92,333	—	92,333	165,531	—	165,531	257,864
Castle & Cooke Homes Hawaii, Inc.	12,378	—	266	12,644	34,190	—	34,190	—	34,190	793	—	793	34,983
Corporate Air	47,895	136	57,665	105,696	45,692	130	45,822	—	45,822	55,012	—	55,012	100,834
Fly Kauai, Inc.	—	—	401	401	—	—	—	—	—	383	—	383	383
George’s Aviation Service, Inc.	350	252	462	1,064	334	240	574	(509)	65	441	(162)	279	344
Hale O’Lele Corporation	—	—	390	390	—	—	—	—	—	372	—	372	372
Harter, Jack Helicopters, Inc.	—	—	11,791	11,791	—	—	—	—	—	11,249	(2,348)	8,901	8,901
Hawaii Air Ambulance, Inc.	30,806	—	—	30,806	29,389	—	29,389	—	29,389	—	—	—	29,389
Hawaii Helicopters, Inc.	—	—	8,864	8,864	—	—	—	—	—	8,456	—	8,456	8,456
Hawaii Island Air, Inc.	220,689	271	370,459	591,419	210,537	259	210,796	(33,039)	177,757	353,418	—	353,418	531,175
Helicopter Consultations of Maui, Inc.	10,537	54,278	74,087	138,902	10,052	51,781	61,833	(16,426)	45,407	70,679	(7,614)	63,065	108,472
Honolulu Soaring Club Inc.	—	—	1,809	1,809	—	—	—	—	—	1,726	(414)	1,312	1,312
Island Helicopters Kauai, Inc.	—	—	13,938	13,938	—	—	—	—	—	13,296	(1,978)	11,318	11,318
Jetstar Airways PTY Limited	89,684	—	—	89,684	267,259	—	267,259	—	267,259	—	—	—	267,259
K&S Helicopters, Inc.	—	9,591	—	9,591	—	9,150	9,150	(4,043)	5,107	—	—	—	5,107
Kamaka Air, Inc.	8,561	—	13,232	21,793	8,167	—	8,167	—	8,167	12,623	—	12,623	20,790
Makani Kai Helicopters Ltd.	6,288	7	1,317	7,612	5,583	7	5,590	(364)	5,226	1,256	—	1,256	6,482
Marjet, Inc.	291	10	398	699	278	9	287	—	287	379	—	379	666
Maui Island Air Inc.	21	7	2,576	2,604	20	7	27	—	27	2,458	—	2,458	2,485
Miscellaneous	46,294	368	459	47,121	136,073	1,084	137,157	(36)	137,121	564	—	564	137,685
Niihau Helicopters Inc.	—	—	871	871	—	—	—	—	—	831		831	831
Omni Air International, Inc.	78,446	—	—	78,446	233,770	—	233,770	(38,300)	195,470	—	—	—	195,470
Pacific Air Charters, Incorporated	351	22	2,067	2,440	335	21	356	(146)	210	1,972	(147)	1,825	2,035
Pacific Helicopter Tours, Inc.	1,194	16	1,182	2,392	1,139	15	1,154	(464)	690	1,128	(535)	593	1,283
Paragon Air Inc.	339	—	586	925	323	—	323	—	323	559	—	559	882
Pofolk Aviation Hawaii, Inc.	—	—	515	515	—	—	—	—	—	491	—	491	491
Safari Aviation Inc.	—	6,846	12,025	18,871	—	6,531	6,531	—	6,531	11,472	—	11,472	18,003
Sky-Med Inc.	—	—	22,750	22,750	—	—	—	—	—	21,704	—	21,704	21,704
Skyview Soaring, LLC	—	—	432	432	—	—	—	—	—	412	—	412	412
Smoky Mountain Helicopters	—	—	4,500	4,500	—	—	—	—	—	4,293	—	4,293	4,293
Squyres, Will Helicopter, Inc.	—	—	14,052	14,052	—	—	—	—	—	13,406	(608)	12,798	12,798
Sunshine Helicopters Inc.	—	1,228	17,333	18,561	—	1,172	1,172	—	1,172	16,535	(8,302)	8,233	9,405
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	32,834	11,157	40,042	84,033	31,323	10,643	41,966	(1,612)	40,354	38,200	(2,646)	35,554	75,908
Universal Enterprises, Inc.	60,930	518	52,464	113,912	160,195	830	161,025	(108,281)	52,744	137,640	—	137,640	190,384
Wings Over Kauai, LLC	—	—	1,499	1,499	—	—	—	—	—	1,430	—	1,430	1,430
Total	1,272,835	191,901	1,082,665	2,547,401	$ 2,019,145	184,837	2,203,982	(204,179)	1,999,803	1,224,453	(27,985)	1,196,468	3,196,271

Summary of revenue landing weights:	
Overseas	495,227
Interisland	2,052,174
	2,547,401

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2011.

See accompanying independent auditors’ report.