

State of Hawaii
Department of Transportation—
Airports Division
(An Enterprise Fund of the State of Hawaii)

*Financial Statements as of and for the Years Ended
June 30, 2005 and 2004, Supplemental Schedules
as of and for the Year Ended June 30, 2005,
and Independent Auditors' Report*

*Submitted by
The Auditor
State of Hawaii*

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

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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the statements of net assets of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (Airports Division) as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airports Division at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the financial statements present only the activities of the Airports Division and are not intended to present fairly the financial position of the State of Hawaii and the results of its operations, and the cash flows of its proprietary fund type in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the Airports Division. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information listed as "supplementary information—schedules as of and for the

year ended June 30, 2005” in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Airports Division. These schedules are also the responsibility of the management of the Airports Division. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2005 on our consideration of the Airports Division’s internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 14, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

The following Management's Discussion and Analysis (MD&A) of the Airports Division, Department of Transportation, State of Hawaii (Airports Division) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Airports Division for the fiscal year ended June 30, 2005, with selected comparative information for the year ended June 30, 2004. 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 (State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for inter-island flights, domestic overseas flights and international flights to destinations in the Pacific Rim. Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for inter-island flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport also provides 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 61.1% and 60.8% of total passenger traffic in the airports system during fiscal years 2005 and 2004, respectively. The other four principal airports accommodated 37.7% and 37.8% of the total passenger traffic for fiscal years 2005 and 2004, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the United States military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana Airports on the Island of Maui, Waimea-Kohala and Upolu Airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa Airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen Airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.2% and 1.4% of the total passenger traffic for fiscal years 2005 and 2004, 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 (CIP) is funded by airports system revenue bonds issued by the Airports Division, federal grants, passenger facility charges, and the Airports Division's revenues.

USING THE FINANCIAL STATEMENTS

The Airports Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type, which is used to account for the acquisition,

operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

The Airports Division's financial report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

AIRPORTS DIVISION ACTIVITIES AND HIGHLIGHTS

The Airports Division ended fiscal year 2005 with increases in total passenger activity (4.9%) and deplaning international passengers (6.3%) when compared to fiscal year 2004. In addition, aircraft operations, landed weights, and revenue passenger landings increased by 7.3%, 6.8%, and 11.2%, respectively, as compared to fiscal year 2004. In general, the increases are the result of improving economic conditions worldwide and the return of passengers traveling to Hawaii.

In addition, a review of activity statistics over the last four years reflects fiscal year ended June 30, 2005 as the best year since the events of September 11, 2001. The upward trend indicates a positive outlook, provided worldwide economic conditions and events remain stable.

The majority of the operating revenues at the Airports Division is activity-based and directly relates to the number of passengers and aircraft operations.

The following airlines serve the State with scheduled or charter overseas passenger flights: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., All Nippon Airways Co., Ltd., Aloha Airlines, Inc., American Airlines, Inc., ATA Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Airlines, Inc., HMY Airways, Inc., Hawaiian Airlines, Inc., JALways Co., Ltd., Japan Air Lines Company, Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Northwest Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Polynesian Limited, Qantas Airways, Ltd., Ryan International Airlines (resumed service in August, 2004), and United Airlines, Inc. The principal airlines providing inter-island passenger flight service are: Aloha Airlines, Inc., Hawaiian Airlines, Inc., Hawaii Island Air, Inc. (formerly Island Air, Inc.), Pacific Wings, LLC, and Molokai-Lanai Air Shuttle, Inc.

Activity for the airports system for the fiscal years ended June 30, 2005 and 2004 is as follows:

	2005	2004	% Increase (Decrease) from 2004
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	19,900,298	18,877,076	5.4 %
Kahului Airport	5,692,585	5,436,882	4.7 %
Lihue Airport	2,528,997	2,522,191	0.3 %
Kona International Airport at Keahole	2,771,635	2,601,508	6.5 %
Hilo International Airport	1,283,188	1,184,171	8.4 %
All others	<u>412,802</u>	<u>430,669</u>	(4.1)%
Total passengers	<u>32,589,505</u>	<u>31,052,497</u>	4.9 %

	2005	2004	% Increase (Decrease) from 2004
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	334,797	307,507	8.9 %
Kahului Airport	168,184	151,899	10.7 %
Lihue Airport	105,408	101,386	4.0 %
Kona International Airport at Keahole	151,599	122,854	23.4 %
Hilo International Airport	117,550	98,918	18.8 %
All others	<u>249,106</u>	<u>267,075</u>	(6.7)%
 Total aircraft operations	 <u>1,126,644</u>	 <u>1,049,639</u>	 7.3 %
Revenue landed weights (1,000 pound units):			
Honolulu International Airport	16,678,878	15,426,920	8.1 %
Kahului Airport	4,086,945	3,770,773	8.4 %
Lihue Airport	1,618,774	1,587,829	1.9 %
Kona International Airport at Keahole	2,133,963	1,914,180	11.5 %
Hilo International Airport	910,313	844,685	7.8 %
All others	<u>322,746</u>	<u>357,813</u>	(9.8)%
 Total signatory airlines	 25,751,619	 23,902,200	 7.7 %
Nonsignatory airlines	<u>1,559,357</u>	<u>1,681,593</u>	(7.3)%
 Total revenue landed weights	 <u>27,310,976</u>	 <u>25,583,793</u>	 6.8 %
Revenue passenger landings:			
Honolulu International Airport	67,050	62,669	7.0 %
Kahului Airport	23,292	20,703	12.5 %
Lihue Airport	13,524	12,446	8.7 %
Kona International Airport at Keahole	14,652	11,435	28.1 %
Hilo International Airport	<u>7,488</u>	<u>5,863</u>	27.7 %
 Total signatory airlines	 126,006	 113,116	 11.4 %
Nonsignatory airlines	<u>1,348</u>	<u>1,413</u>	(4.6)%
 Total revenue passenger landings	 <u>127,354</u>	 <u>114,529</u>	 11.2 %
Deplaning international passengers:			
Honolulu International Airport	1,990,542	1,877,607	6.0 %
Kona International Airport at Keahole	<u>80,937</u>	<u>75,065</u>	7.8 %
 Total signatory airlines	 2,071,479	 1,952,672	 6.1 %
Nonsignatory airlines	<u>101,965</u>	<u>92,407</u>	10.3 %
 Total deplaning international passengers	 <u>2,173,444</u>	 <u>2,045,079</u>	 6.3 %

FINANCIAL OPERATIONS HIGHLIGHTS

The financial results for fiscal year 2005 improved as a result of increased passenger traffic at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Hilo International Airport. Landing fees for fiscal year 2005 increased by 5.8% or \$1.9 million as compared to fiscal year end 2004. In total, operating revenues for fiscal year 2005 increased by 4.6% or \$9.8 million as compared to fiscal year 2004.

Nonoperating revenues increased by \$17.4 million due to an increase in interest income, federal operating grants, and the imposition of passenger facility charges.

Interest income increased by \$2.2 million due to the rise of interest rates comparing fiscal year 2005 and 2004.

Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect passenger facility charges (PFC) at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport. The PFC revenue is to be utilized for seven FAA approved projects, which must be implemented by September 30, 2006. The terms of the PFC approval do not permit the use of PFC revenues to pay debt service on any new or outstanding bonds issued to finance other-than-approved PFC projects. The maximum approved PFC revenue including interest earned to be collected between October 1, 2004 and February 1, 2007 at all four principal airports is \$42,632,466. The PFC revenues (including interest) generated between October 1, 2004 and June 30, 2005 was \$15.2 million.

Federal capital grants received increased by 67.9% or \$13.4 million comparing fiscal years 2005 and 2004 since the Airports Division regained its eligibility for federal discretionary grants in fiscal year 2004. The Airports Division will utilize such grants to replace and maintain equipment and facilities.

As a result, net assets increased by \$24.9 million for fiscal year 2005, as compared to a decrease of \$17.8 million for fiscal year 2004.

In January 2005, the outstanding balance of \$69.3 million of the Airports System Revenue Bonds, Refunding Series of 2003 was redeemed, resulting in a reduction in the annual debt service requirement for fiscal year 2006 of \$11.9 million.

In summary, the increased passenger traffic to Hawaii, imposition of passenger facility charges, rising interest rates, additional sources of funding from federal discretionary grants, and the redemption of airports system revenue bonds have enhanced the Airports Division's financial position. Therefore, the future financial outlook for the Airports Division continues to remain optimistic and healthy.

A summary of operations and changes in net assets for the years ended June 30, 2005 and 2004 is as follows:

	2005	2004
Operating revenues	\$ 223,802,443	\$ 213,955,239
Operating expenses, excluding depreciation	<u>(149,762,637)</u>	<u>(148,887,785)</u>
Operating income before depreciation	74,039,806	65,067,454
Depreciation	<u>(77,491,244)</u>	<u>(79,032,618)</u>
Operating loss	(3,451,438)	(13,965,164)
Nonoperating expenses—net	<u>(4,782,578)</u>	<u>(25,831,002)</u>
Loss before capital contributions and transfers	<u>(8,234,016)</u>	<u>(39,796,166)</u>
Capital contributions and transfers:		
Federal capital grants	33,139,276	19,736,032
Other capital contribution	<u> </u>	<u>2,300,000</u>
Total capital contributions and transfers	<u>33,139,276</u>	<u>22,036,032</u>
Increase (decrease) in net assets	<u>\$ 24,905,260</u>	<u>\$ (17,760,134)</u>

- Operating revenues increased by 4.6% from \$213.9 million in fiscal year 2004 to \$223.8 million in fiscal year 2005. The primary reasons for the increase were the landing fees and aeronautical rentals. It should be noted that airport system support charges for 2004 reflected a settlement to refund \$5.4 million to the Airlines Committee of Hawaii for overpayments to the Prepaid Airport Use Charge Fund made in prior years.

Operating expenses excluding depreciation increased by 0.6% from \$148.9 million in fiscal year 2004 to \$149.8 million in fiscal year 2005. The primary reasons were increases in salaries and wages of \$2.3 million mainly due to union contract pay raises, utility costs of \$2.3 million as a result of rising fuel costs, and special maintenance costs of \$3.4 million to upkeep facilities, offset by decreases to security costs of \$2 million as a result of lower bid contracts and the State of Hawaii surcharge on gross receipts of \$4.7 million as a result of the airport revenue bond redemption of \$69.3 million.

The net results of the above resulted in operating income before depreciation increasing by 13.8% or \$9 million from fiscal year 2004. Depreciation expense decreased by 2% from \$79 million to \$77.5 million. The operating loss, before nonoperating expenses—net, of \$3.5 million in fiscal year 2005, represents a 75.3% decrease from the operating loss of \$14.0 million in fiscal year 2004.

- Nonoperating expenses—net decreased by 81.5% or \$21 million in fiscal year 2005, primarily due to the increase in interest income and passenger facility charges.
- Loss before capital contributions and transfers decreased by 79.3% or \$31.6 million in fiscal year 2005 due to increases in both operating income before depreciation and nonoperating income.

FINANCIAL POSITION SUMMARY

A condensed summary of the Airports Division's net assets at June 30, 2005 and 2004 is shown below:

	2005	2004
ASSETS:		
Current assets:		
Unrestricted assets	\$ 566,198,806	\$ 608,278,459
Restricted assets	256,016,772	237,623,668
Noncurrent assets:		
Other assets	4,247,183	11,558,178
Restricted assets	39,125,241	40,263,001
Capital assets	<u>1,426,270,724</u>	<u>1,447,216,166</u>
Total	<u>\$ 2,291,858,726</u>	<u>\$ 2,344,939,472</u>
LIABILITIES:		
Current liabilities:		
Payable from unrestricted assets	\$ 32,854,186	\$ 31,459,329
Payable from restricted assets	51,259,451	36,867,079
Long-term liabilities	<u>717,227,527</u>	<u>811,000,762</u>
Total	<u>\$ 801,341,164</u>	<u>\$ 879,327,170</u>
NET ASSETS:		
Invested in capital assets—net of related debt	\$ 783,915,911	\$ 732,069,945
Restricted	178,194,876	158,918,391
Unrestricted	<u>528,406,775</u>	<u>574,623,966</u>
Total	<u>\$ 1,490,517,562</u>	<u>\$ 1,465,612,302</u>

The largest portion of the Airports Division's net assets (52.6% and 49.9% at June 30, 2005 and 2004, 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 (12% at June 30, 2005 and 10.8% at June 30, 2004) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (Certificate), as well as passenger facility charges that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash in the amount of \$537.8 million at June 30, 2005 and \$592.6 million at June 30, 2004. On January 5, 2005, the Airports Division redeemed \$69.3 million of its airports system revenue bonds to decrease annual debt service requirements in order to meet budget constraints and bond covenants. The sizable cash balance provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the

Airports Division's ongoing operations and to fund the CIP projects. In addition, the implementation of the PFC, geared to support the CIP, will help preserve the cash balance.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by \$1,490.5 million at June 30, 2005, representing an increase of \$24.9 million from June 30, 2004.

AIRLINE SIGNATORY RATES AND CHARGES

Lease Agreement with Signatory Airlines

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

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The lease extension agreement's residual rate-setting methodology provided for a final year-end reconciliation containing actual airports system cost data to determine whether airports system charges assessed to the signatory airlines were sufficient to recover airports system costs, including debt service requirements. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement and various agreements between the DOT and airlines since June 30, 1997. The final reconciliation for fiscal years 2005 and 2004 in accordance with these agreements resulted in a net overpayment and underpayment by the signatory airlines of \$1,087,495 and \$1,217,210, respectively.

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

No active negotiations are being conducted with the signatory airlines for a new airport-airline use agreement to replace the existing lease extension agreement.

In the event the lease extension agreement is terminated without a new agreement in place, it is possible that all airlines using the Airports System would be treated as nonsignatory airlines and obligated to pay fees and charges in accordance with the Administrative Rules.

The following summarizes the rates in effect at June 30, 2005 and 2004.

	2005	2004
Airport landing fees (per 1,000 pound units of landed weights):		
Signatory airlines:		
Overseas flights	\$ 1.930	\$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges (per revenue passenger landing):		
Signatory airlines:		
Overseas terminal	520.372	520.372
Blended overseas	400.140	400.140
Inter-island terminal	77.281	77.281
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges (per deplaning international passenger):		
Signatory airlines	4.029	4.029
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges (per revenue passenger landing)—Signatory airlines	15.378	15.378
Airports system support charges (per 1,000 pound units of landed weights)—Nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

Additional information on the Airports Division's rates and charges can be found in Note 8 of this report.

REVENUES

A summary of revenues for the year ended June 30, 2005 and the amount and percentage of change in relation to prior year amounts is as follows:

	2005		Increase (Decrease) from 2004	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Concession fees:				
Duty Free	\$ 42,977,201	16.3 %	\$ (667,496)	(1.5)%
Other concessions	73,901,966	28.0 %	2,807,905	3.9 %
Airport landing fees	35,463,143	13.5 %	1,945,881	5.8 %
Aeronautical rentals:				
Exclusive-use premise charge	27,661,775	10.5 %	569,157	2.1 %
Nonexclusive joint-use premise charge	26,465,047	10.0 %	1,562,626	6.3 %
Nonaeronautical rentals	12,457,247	4.7 %	396,986	3.3 %
Aviation fuel tax	3,434,444	1.3 %	502,759	17.1 %
Airports system support charges	655,759	0.2 %	5,338,444	(114.0)%
Miscellaneous	3,141,128	1.2 %	(1,177,302)	(27.3)%
Bad debt expense	<u>(2,355,267)</u>	(0.9)%	<u>(1,431,756)</u>	155.0 %
Total operating	<u>223,802,443</u>	84.9 %	<u>9,847,204</u>	4.6 %
NONOPERATING:				
Interest income, investments	20,138,153	7.6 %	2,209,779	12.3 %
Interest income, passenger facility charges	118,754	0.0 %	118,754	100.0 %
Interest income, direct financing leases	2,854,210	1.1 %	(74,973)	(2.6)%
Federal operating grants	1,522,937	0.6 %	42,769	2.9 %
Passenger facility charges	<u>15,050,098</u>	5.7 %	<u>15,050,098</u>	100.0 %
Total nonoperating	<u>39,684,152</u>	15.1 %	<u>17,346,427</u>	77.7 %
TOTAL REVENUES	<u>\$ 263,486,595</u>	100.0 %	<u>\$ 27,193,631</u>	11.5 %

EXPENSES

A summary of expenses for the year ended June 30, 2005, and the amount and percentage of change in relation to prior year amounts is as follows:

	2005		Increase (Decrease) from 2004	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Salaries and wages	\$ 53,231,024	19.6 %	\$ 2,318,276	4.6 %
Other personnel services	35,499,251	13.1 %	(2,035,980)	(5.4)%
Utilities	20,879,204	7.7 %	2,256,547	12.1 %
Repairs and maintenance	9,370,571	3.4 %	(732,201)	(7.2)%
State of Hawaii surcharge on gross receipts	5,067,742	1.9 %	(4,703,660)	(48.1)%
Special maintenance	8,579,759	3.2 %	3,357,503	64.3 %
Materials and supplies	3,919,200	1.4 %	(745,090)	(16.0)%
Department of Transportation general administration expenses	5,431,877	2.0 %	(223,545)	(4.0)%
Insurance	2,610,512	1.0 %	(36,496)	(1.4)%
Disbursements out of major maintenance, renewal and replacement account	2,440,969	0.9 %	1,248,510	104.7 %
Claims and benefits—payments made during the year	1,106,854	0.4 %	(172,273)	(13.5)%
Communication	364,040	0.1 %	(8,152)	(2.2)%
Rent	280,978	0.1 %	12,388	4.6 %
Travel	341,505	0.1 %	79,251	30.2 %
Dues and subscriptions	144,103	0.1 %	58,714	68.8 %
Printing and advertising	17,158	0.0 %	4,446	35.0 %
Freight and delivery	5,328	0.0 %	(10,331)	(66.0)%
Miscellaneous	472,562	0.2 %	206,945	77.9 %
Total operating	<u>149,762,637</u>	55.1 %	<u>874,852</u>	0.6 %
DEPRECIATION	<u>77,491,244</u>	28.5 %	<u>(1,541,374)</u>	(2.0)%
NONOPERATING:				
Interest expense:				
Revenue bonds:				
Airports system	40,197,393	14.8 %	(87,455)	(0.2)%
Special facility	2,854,210	1.1 %	(74,973)	(2.6)%
General obligation bonds	2,588	0.0 %	(247)	(8.7)%
Loss on redemption of bonds	125,646	0.0 %	(3,340,562)	(96.4)%
Other expense	1,286,893	0.5 %	(198,760)	(13.4)%
Total nonoperating	<u>44,466,730</u>	16.4 %	<u>(3,701,997)</u>	(7.7)%
TOTAL EXPENSES	<u>\$ 271,720,611</u>	100.0 %	<u>\$ (4,368,519)</u>	(1.6)%

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the fiscal years ended June 30, 2005 and 2004. Cash equivalents include highly liquid investments with an original maturity of three months or less.

	2005	2004
Cash flow provided by operating activities	\$ 72,696,621	\$ 77,610,912
Cash flow provided by noncapital financing activities	1,832,836	3,005,100
Cash flow used in capital and related financing activities	(132,642,788)	(88,574,323)
Cash flow provided by investing activities	<u>28,985,702</u>	<u>18,127,938</u>
Net increase (decrease) in cash and cash equivalents	(29,127,629)	10,169,627
Cash and cash equivalents—beginning of year	<u>744,970,678</u>	<u>734,801,051</u>
Cash and cash equivalents—end of year	<u>\$ 715,843,049</u>	<u>\$ 744,970,678</u>

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

In fiscal year 2005, there were 10 construction bid openings totaling an estimated \$44 million in potential construction contracts. Significant projects include Washwater Containment at the Honolulu International Airport; Terminal Improvements—Phase IB, the General Purpose Apron and Alien Species Action Plan Building at the Kahului Airport; and the Installation of Security Fencing at the Hilo International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2005 that were under construction during the fiscal year. Major projects include Overseas Terminal Improvements—Phase II, Architectural Barrier Removal—Phase II, and the 1st and 2nd Level Roadway Improvements at the Honolulu International Airport; Terminal Improvements—Phase IA at Kahului Airport; Kalaeloa Airport Improvements at Kalaeloa Airport; and General Aviation Apron—Phase II at Lihue Airport. These projects total approximately \$34 million in construction contracts.

Finally, there were five construction projects that were substantially completed in fiscal year 2005. These projects totaled over \$15.6 million and include the Architectural Barrier Removal Phase III, Overseas Terminal Improvement—Phase II, and EDS Integration Terminal Improvements—Phase IA at the Honolulu International and the Architectural Barrier Removal—Phase II at the Lihue and Molokai Airports. During fiscal year 2005, the Airports Division expended nearly \$50 million on capital activities.

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

INDEBTEDNESS

Airports System Revenue Bonds and Reimbursable General Obligation Bonds

As of July 1, 2005, \$673,695,000 of airports system revenue bonds was outstanding compared to \$768,245,000 as of July 1, 2004. The last series of "new money" bonds used to fund capital improvement projects was issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. At June 30, 2005, the balance of authorized but unissued airports system revenue bonds was \$22,043,783.

As of June 30, 2005, \$56,550 of reimbursable general obligation bonds issued for the airports system was outstanding compared to \$65,975 as of June 30, 2004.

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

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, 2005 and 2004, there were outstanding bond obligations of \$38,860,000 and \$39,995,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

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

CREDIT RATING AND BOND INSURANCE

All airports system revenue bonds issued since 1989 have been issued with bond insurance and are rated AAA by Standard & Poor's Corporation, Aaa by Moody's Investors Service, and AAA by Fitch IBCA, Inc. As of May 2005, the underlying ratings for airports system revenue bonds were as follows:

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

REQUEST FOR INFORMATION

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

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

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents—unrestricted (Note 3)	\$ 537,794,926	\$ 592,631,186
Receivables:		
Accounts, net of allowance of \$6,003,729 and \$6,860,951 for uncollectible accounts	14,119,662	10,725,486
Promissory note receivable (Note 8)	6,024,102	
Interest	3,241,286	2,056,172
Claims—federal grants	4,507,507	2,099,010
Aviation fuel tax	244,192	159,672
Due from State of Hawaii	52,240	415,591
	<hr/>	<hr/>
Total receivables	28,188,989	15,455,931
Inventory of materials and supplies, at cost	214,891	191,342
	<hr/>	<hr/>
Total unrestricted current assets	566,198,806	608,278,459
Restricted assets:		
Cash and cash equivalents (Note 3):		
Revenue bond debt service (Note 6)	108,273,960	94,435,084
Revenue bond construction	52,665,556	53,139,020
Passenger facility charges	12,451,715	
Security deposits and customer advance	4,656,892	4,765,388
	<hr/>	<hr/>
Total cash and cash equivalents—restricted	178,048,123	152,339,492
Passenger facility charges receivable	2,717,136	
Investments—revenue bond debt service reserve (Notes 3 and 6)	75,251,513	85,284,176
	<hr/>	<hr/>
Total restricted current assets	256,016,772	237,623,668
	<hr/>	<hr/>
Total current assets	822,215,578	845,902,127

(Continued)

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

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

ASSETS (Continued)	2005	2004
NONCURRENT ASSETS:		
Promissory note receivable (Note 8)	\$ -	\$ 6,024,102
Bond issue costs, net of accumulated amortization of \$2,262,007 and \$2,055,807 (Note 6)	4,247,183	5,534,076
Restricted assets—net investments in direct financing leases (Note 8)	39,125,241	40,263,001
Capital assets, net of accumulated depreciation of \$1,197,305,695 and \$1,125,134,693 (Notes 4, 6 and 7)	<u>1,426,270,724</u>	<u>1,447,216,166</u>
Total noncurrent assets	<u>1,469,643,148</u>	<u>1,499,037,345</u>
TOTAL ASSETS	<u>\$2,291,858,726</u>	<u>\$2,344,939,472</u>

(Concluded)

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

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Payable from unrestricted assets:		
Vouchers payable	\$ 6,433,240	\$ 3,787,525
Contracts payable, including retainage of \$2,241,849 and \$2,488,779	11,003,376	11,036,345
Current portion of general obligation bonds (Notes 5 and 7)	9,425	9,425
Deferred income (Note 8)	3,530,199	5,360,679
Current portion of workers' compensation (Notes 5 and 14)	883,308	871,392
Current portion of compensated absences (Note 5)	2,196,020	2,427,847
Accrued wages	4,564,226	3,470,992
Prepaid airport use charge fund (Note 8)	4,208,161	4,468,666
Other	<u>26,231</u>	<u>26,458</u>
Total payable from unrestricted assets	<u>32,854,186</u>	<u>31,459,329</u>
Payable from restricted assets:		
Contracts payable, including retainage of \$183,269 and \$99,520	575,027	214,910
Current portion of airports system revenue bonds (Notes 5 and 6)	25,250,000	10,765,000
Current portion of special facility revenue bonds (Notes 5 and 8)	965,000	1,005,000
Accrued interest	20,765,133	21,069,382
Security deposits	<u>3,704,291</u>	<u>3,812,787</u>
Total payable from restricted assets	<u>51,259,451</u>	<u>36,867,079</u>
Total current liabilities	84,113,637	68,326,408
LONG-TERM LIABILITIES—Net of current portion:		
Customer advance (Note 13)	952,601	952,601
Compensated absences (Note 5)	5,405,890	4,784,660
Workers' compensation (Notes 5 and 14)	3,216,692	3,228,608
General obligation bonds (Notes 5 and 7)	47,125	56,550
Airports system revenue bonds (Notes 5 and 6)	669,710,219	762,988,343
Special facility revenue bonds (Notes 5 and 8)	<u>37,895,000</u>	<u>38,990,000</u>
Total liabilities	<u>801,341,164</u>	<u>879,327,170</u>
COMMITMENTS AND CONTINGENCIES (Notes 8, 9, 13, 14 and 15)		

(Continued)

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

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

LIABILITIES AND NET ASSETS (Continued)	2005	2004
NET ASSETS:		
Invested in capital assets—net of related debt	<u>\$ 783,919,511</u>	<u>\$ 732,069,945</u>
Restricted:		
Debt service payment	25,250,000	10,765,000
Debt service reserve account	75,251,513	85,284,176
Major maintenance, renewal and replacement account	62,524,511	62,869,215
Passenger facility charges	<u>15,168,852</u>	<u> </u>
Total restricted	178,194,876	158,918,391
Unrestricted	<u>528,403,175</u>	<u>574,623,966</u>
Total net assets	<u>1,490,517,562</u>	<u>1,465,612,302</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$2,291,858,726</u></u>	<u><u>\$2,344,939,472</u></u>

See accompanying notes to financial statements.

(Concluded)

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES (Notes 8, 12 and 15):		
Concession fees	\$ 116,879,167	\$ 114,738,758
Airport landing fees	35,463,143	33,517,262
Aeronautical rentals:		
Exclusive-use premise charges	27,661,775	27,092,618
Nonexclusive joint-use premise charges	26,465,047	24,902,421
Nonaeronautical rentals	12,457,247	12,060,261
Aviation fuel tax	3,434,444	2,931,685
Airports system support charges	655,759	(4,682,685)
Miscellaneous	3,141,128	4,318,430
Bad debt expense	<u>(2,355,267)</u>	<u>(923,511)</u>
Net operating revenues	<u>223,802,443</u>	<u>213,955,239</u>
OPERATING EXPENSES (Notes 4, 8, 9, 11, 12, 13, 14 and 15):		
Salaries and wages	53,231,024	50,912,748
Other personnel services	35,499,251	37,535,231
Utilities	20,879,204	18,622,657
Repairs and maintenance	9,370,571	10,102,772
Special maintenance	8,579,759	5,222,256
Department of Transportation general administration expenses	5,431,877	5,655,422
State of Hawaii surcharge on gross receipts	5,067,742	9,771,402
Materials and supplies	3,919,200	4,664,290
Insurance	2,610,512	2,647,008
Disbursements out of major maintenance, renewal and replacement account	2,440,969	1,192,459
Claims and benefits	1,106,854	1,279,127
Communication	364,040	372,192
Travel	341,505	262,254
Rent	280,978	268,590
Dues and subscriptions	144,103	85,389
Freight and delivery	17,158	15,659
Printing and advertising	5,328	12,712
Miscellaneous	472,562	265,617
Depreciation	<u>77,491,244</u>	<u>79,032,618</u>
Total operating expenses	<u>227,253,881</u>	<u>227,920,403</u>
OPERATING LOSS (Forward)	<u>(3,451,438)</u>	<u>(13,965,164)</u>

(Continued)

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING LOSS (Forwarded)	\$ (3,451,438)	\$ (13,965,164)
NONOPERATING REVENUES (EXPENSES):		
Interest income:		
Certificates of deposit, repurchase agreements and U.S. government securities	20,138,153	17,928,374
Investments in direct financing leases (Note 8)	2,854,210	2,929,183
Interest expense:		
Revenue bonds:		
Airports system (Note 6)	(40,197,393)	(40,284,848)
Special facility (Note 8)	(2,854,210)	(2,929,183)
General obligation bonds (Note 7)	(2,588)	(2,835)
Federal operating grants	1,522,937	1,480,168
Loss on disposal of capital assets (Note 4)	(125,646)	(3,466,208)
Passenger facility charges (Note 9)	15,168,852	
Amortization of deferred bond issue costs	<u>(1,286,893)</u>	<u>(1,485,653)</u>
Total nonoperating revenues (expenses)	<u>(4,782,578)</u>	<u>(25,831,002)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(8,234,016)</u>	<u>(39,796,166)</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS:		
Federal capital grants	33,139,276	19,736,032
Other capital contribution	<u> </u>	<u>2,300,000</u>
Total capital contributions and transfers	<u>33,139,276</u>	<u>22,036,032</u>
INCREASE (DECREASE) IN NET ASSETS	24,905,260	(17,760,134)
TOTAL NET ASSETS—Beginning of year	<u>1,465,612,302</u>	<u>1,483,372,436</u>
TOTAL NET ASSETS—End of year	<u>\$1,490,517,562</u>	<u>\$1,465,612,302</u>

See accompanying notes to financial statements.

(Concluded)

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ 218,124,039	\$ 238,501,112
Cash paid to suppliers	(93,679,031)	(109,831,423)
Cash paid to employees	<u>(51,748,387)</u>	<u>(51,058,777)</u>
Net cash provided by operating activities	<u>72,696,621</u>	<u>77,610,912</u>
CASH FLOWS FROM NONCAPITAL FINANCING		
ACTIVITIES— Proceeds from federal operating grants	<u>1,832,836</u>	<u>3,005,100</u>
CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(53,620,827)	(33,438,499)
Proceeds from federal and other capital grants and contributions	30,420,880	23,671,234
Interest paid on airports system revenue and general obligation bonds	(41,820,132)	(46,065,061)
Principal paid on general obligation bonds	(9,425)	(9,427)
Principal paid on airports system revenue bonds	(10,765,000)	(31,150,000)
Payments to defease airport system revenue bonds	(69,300,000)	(83,035,655)
Proceeds from passenger facility charges program	12,451,716	
Proceeds from issuance of refunding airport system revenue bonds		81,581,178
Bond issue costs paid		(1,080,694)
Customer advance		<u>952,601</u>
Net cash used in capital and related financing activities	<u>(132,642,788)</u>	<u>(88,574,323)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	85,284,176	85,284,176
Interest received on investments	18,953,039	18,127,938
Purchases of investments	<u>(75,251,513)</u>	<u>(85,284,176)</u>
Net cash provided by investing activities	<u>28,985,702</u>	<u>18,127,938</u>
NET INCREASE (DECREASE) IN CASH AND CASH		
EQUIVALENTS	(29,127,629)	10,169,627
CASH AND CASH EQUIVALENTS—Beginning of year	<u>744,970,678</u>	<u>734,801,051</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 715,843,049</u>	<u>\$ 744,970,678</u>

(Continued)

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (3,451,438)	\$ (13,965,164)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	77,491,244	79,032,618
Settlement of airport use charge overpayment		5,393,344
Bad debt expense	2,355,267	923,511
Overpayment of airport use charge to be transferred to the PAUCF	1,087,495	414,657
Changes in operating assets and liabilities:		
Accounts receivable	(5,749,443)	13,089,051
Aviation fuel tax receivable	(84,520)	20,298
Inventory of materials and supplies	(23,549)	10,540
Vouchers payable	2,645,715	(85,470)
Contracts payable	(132,935)	(11,349,039)
Deferred income	(1,830,480)	5,123,270
Accrued wages	1,482,637	(146,029)
Prepaid airport use charge fund	(1,348,000)	(1,348,000)
Due to State of Hawaii	363,351	491,095
Security deposits	(108,496)	821,930
Other	(227)	(815,700)
	<u>\$ 72,696,621</u>	<u>\$ 77,610,912</u>
Net cash provided by operating activities	<u>\$ 72,696,621</u>	<u>\$ 77,610,912</u>

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	\$ 1,135,000	\$ 850,000
Interest payments on special facility revenue bonds	2,856,970	2,934,592
Amortization of revenue bond issue costs	1,286,893	1,485,653
Amortization of revenue bond discount	60,805	303,529
Amortization of revenue bond premium	(2,027,562)	1,755,028
Amortization of deferred loss on refunding revenue bonds	3,238,633	2,390,242

(Continued)

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

SUPPLEMENTAL INFORMATION—NONCASH INVESTING,
CAPITAL AND FINANCING ACTIVITIES (Continued):

- At June 30, 2005 and 2004, contracts payable included \$6,599,713 and \$6,139,631, respectively, for the acquisition of capital assets.
- During fiscal years 2005 and 2004, interest of \$2,590,538 and \$4,468,177, respectively, was capitalized in property, plant and equipment.
- During fiscal years 2005 and 2004, property, plant, and equipment with a net book value of \$125,646 and \$3,466,208, respectively, were written off.

See accompanying notes to financial statements.

(Concluded)

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

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. REPORTING ENTITY

The Airports Division, Department of Transportation, State of Hawaii (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 (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

Passenger Facility Charges—The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of \$3.00 per passenger commencing on October 1, 2004. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects and debt service attributable to such approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the Statements of Revenues, Expenses and Changes in Net Assets.

Capital Contributions—The Airports Division receives federal grants from the FAA through the Airport Improvement Program. The grant is considered earned as the related allowable expenditures are incurred. Grants for the acquisition and construction of land, property, and certain types of equipment

are reported in the Statements of Revenues, Expenses and Changes in Net Assets as capital contributions.

Cash and Cash Equivalents—All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and cash equivalents include amounts held in the State Treasury. The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). The Airports Division’s portion of this cash pool at June 30, 2005 and 2004 is described in Note 3. The Hawaii Revised Statutes authorize the State Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally insured savings and checking accounts, certificates of deposit, and repurchase agreements with federally insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with State statutes. 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.

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

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

Restricted Assets—Restricted assets consist of monies and other resources, the use of which is legally restricted. Certain proceeds of the airports system revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statements of Net Assets because they are maintained separately and the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to make debt service payments, unspent bond proceeds, and amounts restricted for bond reserve requirements.

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

Class of Assets	Estimated Useful Lives	Capitalization Threshold
Land improvements	20 years	\$100,000
Buildings	45 years	100,000
Building improvements	20 years	100,000
Machinery and equipment	10 years	5,000

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

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

Bond Issue Costs, 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 over

the life of the respective issue on a straight-line basis. Original issue discount or premium and deferred loss on refundings are amortized using the effective interest method over the terms of the respective issues and are added to or offset against the long-term debt in the Statements of Net Assets.

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.

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.

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.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Recently Issued Accounting Pronouncements—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement are also to be disclosed. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004. The adoption of the Statement did not have an effect on the financial statements.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2004. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34*. This Statement established and modifies requirements related to restrictions of net assets resulting from enabling legislation. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2005. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

Reclassifications—Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Petty cash	\$ 17,805	\$ 17,805
Cash in State Treasury	715,825,244	744,952,873
Repurchase agreements and certificates of deposit	<u>75,251,513</u>	<u>85,284,176</u>
	<u>\$791,094,562</u>	<u>\$830,254,854</u>

Such amounts are reflected in the Statements of Net Assets at June 30, 2005 and 2004 as follows:

	2005	2004
Cash and cash equivalents:		
Unrestricted	\$537,794,926	\$592,631,186
Restricted	<u>178,048,123</u>	<u>152,339,492</u>
Total cash and cash equivalents	715,843,049	744,970,678
Investments—restricted	<u>75,251,513</u>	<u>85,284,176</u>
Total cash and cash equivalents and investments	<u>\$791,094,562</u>	<u>\$830,254,854</u>

At June 30, 2005 and 2004, information relating to the insurance and collateral of cash deposits was not available since such information is determined on a statewide basis and not for individual departments or divisions. Cash deposits of the State are covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agent in the name of the State.

State statutes authorize the Airports Division to invest, with certain restrictions, in obligations of the State or the United States, and in federally insured savings accounts, certificates of deposit, and repurchase agreements with federally insured financial institutions. Money held as reserves may be invested in obligations of the United States, the State, or any subdivision of the State. At June 30, 2005 and 2004, the investments consisted of certificates of deposit and repurchase agreements. 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.

Effective August 1, 1999, the State established a 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. The Airports Division records the pooled assets as Cash in State Treasury. At June 30, 2005 and 2004, the amounts held in the investment pool amounted to \$715,824,134 and \$744,953,370, respectively.

Fair values of the Airports Division's certificates of deposit and repurchase agreements approximate cost. The fair value of nonparticipating certificates of deposit and repurchase agreements are reported using a cost-based measure.

4. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2005 and 2004 consist of the following:

	Balance, July 1, 2004	Increases	Decreases	Transfers	Balance, June 30, 2005
Capital assets not being depreciated:					
Land	\$ 288,853,840	\$ -	\$ -	\$ -	\$ 288,853,840
Land improvements	23,864,344			2,541,923	26,406,267
Construction in progress	<u>59,612,902</u>	<u>51,871,783</u>	<u>(96,930)</u>	<u>(20,567,527)</u>	<u>90,820,228</u>
Total capital assets not being depreciated	<u>372,331,086</u>	<u>51,871,783</u>	<u>(96,930)</u>	<u>(18,025,604)</u>	<u>406,080,335</u>
Capital assets being depreciated:					
Land improvements	725,585,765			4,169,749	729,755,514
Buildings and improvements	1,302,368,083	185,579		9,670,690	1,312,224,352
Machinery and equipment	<u>172,065,925</u>	<u>4,614,085</u>	<u>(5,348,957)</u>	<u>4,185,165</u>	<u>175,516,218</u>
Total capital assets being depreciated	<u>2,200,019,773</u>	<u>4,799,664</u>	<u>(5,348,957)</u>	<u>18,025,604</u>	<u>2,217,496,084</u>
Less accumulated depreciation:					
Land improvements	463,830,202	26,631,610			490,461,812
Buildings and improvements	510,590,012	45,131,061			555,721,073
Machinery and equipment	<u>150,714,479</u>	<u>5,728,573</u>	<u>(5,320,242)</u>		<u>151,122,810</u>
Total depreciation	<u>1,125,134,693</u>	<u>77,491,244</u>	<u>(5,320,242)</u>		<u>1,197,305,695</u>
Capital assets being depreciated—net	<u>1,074,885,080</u>				<u>1,020,190,389</u>
Total capital assets	<u>\$ 1,447,216,166</u>				<u>\$ 1,426,270,724</u>

	Balance, July 1, 2003	Increases	Decreases	Transfers	Balance, June 30, 2004
Capital assets not being depreciated:					
Land	\$ 288,853,840	\$ -	\$ -	\$ -	\$ 288,853,840
Land improvements	12,287,797	238,175		11,338,372	23,864,344
Construction in progress	<u>85,643,287</u>	<u>41,176,503</u>	<u>(3,394,169)</u>	<u>(63,812,719)</u>	<u>59,612,902</u>
Total capital assets not being depreciated	<u>386,784,924</u>	<u>41,414,678</u>	<u>(3,394,169)</u>	<u>(52,474,347)</u>	<u>372,331,086</u>
Capital assets being depreciated:					
Land improvements	705,638,341	420,805		19,526,619	725,585,765
Buildings and improvements	1,272,279,381	859,733		29,228,969	1,302,368,083
Machinery and equipment	<u>178,243,289</u>	<u>1,351,091</u>	<u>(11,247,214)</u>	<u>3,718,759</u>	<u>172,065,925</u>
Total capital assets being depreciated	<u>2,156,161,011</u>	<u>2,631,629</u>	<u>(11,247,214)</u>	<u>52,474,347</u>	<u>2,200,019,773</u>
Less accumulated depreciation:					
Land improvements	437,214,309	26,615,893			463,830,202
Buildings and improvements	467,892,443	42,697,569			510,590,012
Machinery and equipment	<u>152,170,498</u>	<u>9,719,156</u>	<u>(11,175,175)</u>		<u>150,714,479</u>
Total depreciation	<u>1,057,277,250</u>	<u>79,032,618</u>	<u>(11,175,175)</u>		<u>1,125,134,693</u>
Capital assets being depreciated—net	<u>1,098,883,761</u>				<u>1,074,885,080</u>
Total capital assets	<u>\$ 1,485,668,685</u>				<u>\$ 1,447,216,166</u>

During fiscal year 2003, the Airports Division acquired five buildings upon the expiration of land lease agreements. During fiscal year 2004, the Airports Division acquired one building upon the expiration of the land lease agreement. During fiscal year 2005, the Airports Division acquired one building upon the expiration of the land lease agreement. No amounts have been recorded for these acquisitions as of June 30, 2005 and 2004 as an appraisal at the date of acquisition is not available.

5. LONG-TERM LIABILITIES

A summary of the long-term liabilities changes during fiscal years 2005 and 2004 follows:

	Balance, June 30, 2004	Increases	Decreases	Balance, June 30, 2005	Current	Noncurrent
Workers' compensation	\$ 4,100,000	\$ 945,103	\$ (945,103)	\$ 4,100,000	\$ 883,308	\$ 3,216,692
Compensated absences	7,212,507	3,046,014	(2,656,611)	7,601,910	2,196,020	5,405,890
General obligation bonds	65,975		(9,425)	56,550	9,425	47,125
Airports system revenue bonds	773,753,343	3,299,439	(82,092,563)	694,960,219	25,250,000	669,710,219
Special facility revenue bonds	<u>39,995,000</u>		<u>(1,135,000)</u>	<u>38,860,000</u>	<u>965,000</u>	<u>37,895,000</u>
	<u>\$825,126,825</u>	<u>\$ 7,290,556</u>	<u>\$ (86,838,702)</u>	<u>\$745,578,679</u>	<u>\$29,303,753</u>	<u>\$716,274,926</u>

	Balance, June 30, 2003	Increases	Decreases	Balance, June 30, 2004	Current	Noncurrent
Workers' compensation	\$ 4,100,000	\$ 1,197,384	\$ (1,197,384)	\$ 4,100,000	\$ 871,392	\$ 3,228,608
Compensated absences	7,310,392	3,101,087	(3,198,972)	7,212,507	2,427,847	4,784,660
General obligation bonds	75,402		(9,427)	65,975	9,425	56,550
Airports system revenue bonds	804,574,740	79,699,860	(110,521,257)	773,753,343	10,765,000	762,988,343
Special facility revenue bonds	<u>40,845,000</u>		<u>(850,000)</u>	<u>39,995,000</u>	<u>1,005,000</u>	<u>38,990,000</u>
	<u>\$856,905,534</u>	<u>\$83,998,331</u>	<u>\$ (115,777,040)</u>	<u>\$825,126,825</u>	<u>\$15,078,664</u>	<u>\$810,048,161</u>

6. AIRPORTS SYSTEM REVENUE BONDS

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

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

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

- a. To pay or provide for the payment of the costs of operation, maintenance, and repair of airport properties.
- b. To pay when due all bonds and interest. Payment shall be provided from the following accounts:
 1. Interest account
 2. Serial bond principal account

- 3. Sinking fund account
 - 4. Debt service reserve account
- c. To fund the major maintenance, renewal and replacement account.
 - d. To reimburse the State General Fund for general obligation bond requirements.
 - e. To provide for betterments and improvements to the airports.
 - f. To provide such special reserve funds and other special funds as created by law.
 - g. To provide for any other purpose connected with or pertaining to the bonds or the airports authorized by law.

The primary change effected as of June 30, 2004 is a change in the priority for the use of revenues. Prior to the change, the payment of interest, principal, and sinking fund requirements were the first priority.

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, 2005 and 2004, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2005 and 2004, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying Statements of Net Assets) consisted of the following:

	2005	2004
Debt service reserve account	\$ 75,251,513	\$ 85,284,176
Major maintenance, renewal and replacement account	<u>62,524,511</u>	<u>62,869,215</u>
	137,776,024	148,153,391
Principal and interest due July 1	<u>45,749,449</u>	<u>31,565,869</u>
	<u>\$ 183,525,473</u>	<u>\$ 179,719,260</u>

At June 30, 2005, the balance of authorized but unissued airports system revenue bonds was \$22,043,783.

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

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2005 and 2004:

Series	Interest Rate	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount	
				2005	2004
1994, first refunding	4.15 - 5.60	2004	63,455,000	\$ -	\$ 10,765,000
2000A, refunding	5.50 - 6.00	2021	26,415,000	26,415,000	26,415,000
2000B, refunding	5.00 - 8.00	2020	261,465,000	249,275,000	249,275,000
2001, refunding	4.00 - 5.75	2021	423,255,000	423,255,000	423,255,000
2003, refunding	2.00 - var.	2013	<u>80,900,000</u>		<u>69,300,000</u>
			<u>\$ 855,490,000</u>	698,945,000	779,010,000
Add unamortized premium				13,121,239	15,148,801
Less unamortized discount				(861,682)	(922,487)
Less deferred loss on refunding				(16,244,338)	(19,482,971)
Less current portion				<u>(25,250,000)</u>	<u>(10,765,000)</u>
Noncurrent portion				<u>\$ 669,710,219</u>	<u>\$ 762,988,343</u>

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 30,565,000	\$ 39,557,129	\$ 70,122,129
2007	32,250,000	37,867,591	70,117,591
2008	21,140,000	36,075,901	57,215,901
2009	22,310,000	34,906,116	57,216,116
2010	23,615,000	33,605,699	57,220,699
2011-2015	200,540,000	139,569,018	340,109,018
2016-2020	312,245,000	63,926,402	376,171,402
2021	<u>31,030,000</u>	<u>1,709,125</u>	<u>32,739,125</u>
	<u>\$ 673,695,000</u>	<u>\$ 387,216,981</u>	<u>\$ 1,060,911,981</u>

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2005.

The following is a summary of interest costs incurred for the years ended June 30, 2005 and 2004 and the allocation thereof:

	2005	2004
Expensed as incurred	\$ 40,197,393	\$ 40,284,848
Capitalized in capital assets	<u>2,590,330</u>	<u>4,467,804</u>
	<u>\$ 42,787,723</u>	<u>\$ 44,752,652</u>

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

On August 26, 2003, the Airports Division issued \$80,900,000 of Airports System Revenue Bonds, Refunding Series of 2003, with an initial rate of 2% per annum to June 30, 2004, which will be converted to a weekly rate, fixed rate, or extended rate, at the option of the Airports Division, to refund the \$80,310,000 of its outstanding Refunding Series of 1993 bonds with interest rates ranging from 6.05% to 6.45%. The net proceeds of \$80,500,484 (after payment of \$1,080,694 in underwriting fees, insurance, and other costs), along with an additional \$2,535,170 from the Airport Revenue Fund were deposited in an irrevocable trust with an escrow agent to be used to purchase non-callable direct obligations of the United States, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the Refunding Series of 1993 bonds. On or about September 25, 2003, the refunded bonds were redeemed at a price of 102%. As a result, the refunded portion of the Refunding Series of 1993 bonds is considered to be defeased and the liability for those bonds has been removed from the financial statements.

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

On January 5, 2005, the Airports Division redeemed \$69,300,000 of Airports System Revenue Bonds, Refunding Series of 2003. As a result, the liability has been removed from the financial statements.

7. GENERAL OBLIGATION BONDS

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

The following is a summary of such general obligation bonds reimbursable by the Airports Division at June 30, 2005 and 2004:

Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Outstanding Amount	
				2005	2004
CI	4.00 - 5.00	2011	\$ 141,392	\$ 56,550	\$ 65,975
Less current portion				<u>(9,425)</u>	<u>(9,425)</u>
Noncurrent portion				<u>\$ 47,125</u>	<u>\$ 56,550</u>

Annual debt service requirements for general obligation bonds outstanding at June 30, 2005 are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ 9,425	\$ 2,446	\$ 11,871
2007	9,425	2,017	11,442
2008	9,425	1,579	11,004
2009	9,425	1,133	10,558
2010	9,425	686	10,111
2011	<u>9,425</u>	<u>231</u>	<u>9,656</u>
	<u>\$ 56,550</u>	<u>\$ 8,092</u>	<u>\$ 64,642</u>

The following is a summary of interest costs incurred for the years ended June 30, 2005 and 2004 and the allocation thereof:

	2005	2004
Expensed as incurred	\$ 2,588	\$ 2,835
Capitalized in capital assets	<u>254</u>	<u>373</u>
	<u>\$ 2,842</u>	<u>\$ 3,208</u>

8. LEASES

Airport-Airline Lease Agreement

Airports Division

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

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

support charges based on an airports system residual rate setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units).

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (PAUCF). During fiscal year 2000, the parties discussed the transfer of the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal years 1996 through 2005 have been transferred to the PAUCF. In fiscal years 2005 and 2004, the signatory airlines were paid \$1,348,000 out of the PAUCF.

Aviation Fuel Tax

The aviation fuel tax amounted to \$3,434,444 and \$2,931,685 for fiscal years 2005 and 2004, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

Airport landing fees amounted to \$38,693,157 and \$36,838,817 for fiscal years 2005 and 2004, respectively. Airport landing fees are shown net of aviation fuel tax credits of \$3,230,014 and \$3,321,555 for fiscal years 2005 and 2004, respectively, on the Statements of Revenues, Expenses and Changes in Net Assets, which resulted in net airport landing fees of \$35,463,143 and \$33,517,262 for fiscal years 2005 and 2004, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The inter-island airport landing fees for signatory airlines are set at 36% of the airport landing fees for overseas flights.

Overseas and inter-island joint-use premise charges were established to recover airports system costs allocable to the overseas and inter-island terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to \$26,465,047 and \$24,902,421 for fiscal years 2005 and 2004, respectively. For fiscal year 2004, the State waived \$1,637,867 of signatory airlines underpayment of nonexclusive joint-use premise charges. For fiscal year 2005, the overpayment of \$414,657 was transferred into the PAUCF.

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

International arrivals building charges were established to recover airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger using the international arrivals area. Beginning fiscal year 2000,

nonsignatory airline revenue was applied as a credit in calculating the joint-use premise charge and international arrivals building charges.

Exclusive-use premise charges amounted to \$27,661,775 and \$27,092,618 for fiscal years 2005 and 2004, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to \$15,418,791 and \$15,181,760 for fiscal years 2005 and 2004, respectively.

Airports system support charges amounted to \$655,759 and \$710,659 for fiscal years 2005 and 2004, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system inter-island support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

The following summarizes the rates in effect at June 30, 2005 and 2004:

	2005	2004
Airport landing fees (per 1,000 pound units of landed weights):		
Signatory airlines:		
Overseas flights	\$ 1.930	\$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges (per revenue passenger landing):		
Signatory airlines:		
Overseas terminal	520.372	520.372
Blended overseas	400.140	400.140
Inter-island terminal	77.281	77.281
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges (per deplaning international passenger):		
Signatory airlines	4.029	4.029
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges (per revenue passenger landing)—Signatory airlines		
	15.378	15.378
Airports system support charges (per 1,000 pound units of landed weights)—Nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

Special Facility Leases and Revenue Bonds

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

\$2,300,000 Issue

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

\$25,255,000 Issue

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption 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 and \$3,400,000 in bonds during the years ended June 30, 2005 and 2004, respectively.

The bonds bear interest at 5.625% per annum. Interest-only payments of \$611,016 are due semi-annually 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, 2005:

Years Ending June 30	Principal	Interest	Total
2006	\$ -	\$ 1,222,031	\$ 1,222,031
2007		1,222,031	1,222,031
2008		1,222,031	1,222,031
2009		1,222,031	1,222,031
2010		1,222,031	1,222,031
2011-2015		6,110,156	6,110,156
2016-2020		6,110,156	6,110,156
2021-2025		6,110,156	6,110,156
2026-2028	<u>21,725,000</u>	<u>3,055,078</u>	<u>24,780,078</u>
	<u>\$ 21,725,000</u>	<u>\$ 27,495,701</u>	<u>\$ 49,220,701</u>

\$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, 2005:

Years Ending June 30	Principal	Interest	Total
2006	\$ 565,000	\$ 989,450	\$ 1,554,450
2007	600,000	949,900	1,549,900
2008	640,000	907,900	1,547,900
2009	700,000	863,100	1,563,100
2010	730,000	814,100	1,544,100
2011-2015	4,525,000	3,225,250	7,750,250
2016-2020	<u>6,375,000</u>	<u>1,397,200</u>	<u>7,772,200</u>
	<u>\$14,135,000</u>	<u>\$9,146,900</u>	<u>\$23,281,900</u>

\$6,600,000 Issue

Bonds with a stated maturity date of December 1, 2010 remain outstanding. The bonds are subject to redemption on or after December 1, 2000, at the option of the Airports Division, upon the request of Sky Chefs, Inc., at prices ranging from 103% to 100% of principal depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

The bonds bear interest at 10.125% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2005:

Years Ending June 30	Principal	Interest	Total
2006	\$ 400,000	\$ 293,625	\$ 693,625
2007	400,000	253,125	653,125
2008	400,000	212,625	612,625
2009	400,000	172,125	572,125
2010	500,000	131,625	631,625
2011	<u>900,000</u>	<u>45,562</u>	<u>945,562</u>
	<u>\$3,000,000</u>	<u>\$1,108,687</u>	<u>\$4,108,687</u>

Special facility revenue bonds payable at June 30, 2005 and 2004 consisted of the following:

	Delta	Continental		Sky Chefs	Total
2005					
Current portion	\$ -	\$ 565,000	\$ -	\$ 400,000	\$ 965,000
Noncurrent portion		<u>13,570,000</u>	<u>21,725,000</u>	<u>2,600,000</u>	<u>37,895,000</u>
	<u>\$</u>	<u>\$ 14,135,000</u>	<u>\$ 21,725,000</u>	<u>\$ 3,000,000</u>	<u>\$ 38,860,000</u>
2004					
Current portion	\$ 185,000	\$ 520,000	\$ -	\$ 300,000	\$ 1,005,000
Noncurrent portion		<u>14,135,000</u>	<u>21,855,000</u>	<u>3,000,000</u>	<u>38,990,000</u>
	<u>\$ 185,000</u>	<u>\$ 14,655,000</u>	<u>\$ 21,855,000</u>	<u>\$ 3,300,000</u>	<u>\$ 39,995,000</u>

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

Net investments in direct financing leases at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Cash with bond fund trustee	\$ 3,686,225	\$ 3,297,878
Receivable from lessees, net of unearned interest of \$37,486,047 and \$40,244,102	35,173,775	36,697,122
Interest receivable	<u>265,241</u>	<u>268,001</u>
	<u>\$ 39,125,241</u>	<u>\$ 40,263,001</u>

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, which is required to be disclosed by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

The future minimum rentals from these operating leases at June 30, 2005 are as follows:

Years Ending June 30	
2006	\$ 59,522,084
2007	49,595,324
2008	14,360,224
2009	9,047,291
2010	8,502,540
2011-2015	34,868,604
2016-2020	26,518,966
2021-2025	14,596,787
2026-2030	8,557,591
2031-2032	<u>3,672,606</u>
	<u>\$ 229,242,017</u>

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal years 2005 and 2004 were approximately \$51,740,336 and \$49,837,000, respectively.

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 44% and 57% of total concession fee revenues for fiscal years 2005 and 2004, respectively.

As of June 30, 2003, DFS had been in significant arrears in the 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. Although the Governor had granted temporary rent relief to the Airports Division's concessionaires during fiscal years 2002 and 2003, the major concessionaire still was unable to bring the rent due to a current basis.

After significant negotiations between the State and DFS, both parties entered into a Withdrawal and Settlement Agreement (Agreement) effective August 1, 2003, which included the following terms:

- DFS was required to bring all of its accounts payable under the in-bond lease, as modified by the Agreement, current.
- DFS was required to bring all of its accounts payable under the retail concession agreement, in accordance with their terms, current.
- DFS executed a promissory note to the State for \$6,024,102, which represented underpaid rent from January through May 2003 under the in-bond lease. The note accrues interest at the annual rate of 5% and is due no later than May 31, 2006. The note is collateralized by a performance bond.
- The State exercised its authority to withdraw and recapture all of the leased premises and to terminate early the in-bond lease.
- DFS was allowed to submit a qualifying bid proposal paying at least the minimum upset rent for the new in-bond lease.

DFS was the only bidder for the new in-bond lease and was awarded the contract on September 29, 2003.

The new contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. Highlights of the terms of the new contract are as follows:

Term	Minimum Annual Guarantee	Percentage Rent		
		For Total Concession Receipts	On-Airport Sales	Off-Airport Sales
10/1/03 – 5/31/04	\$26,700,000	> \$100m and < \$133m;	22.5%	18.5%
		> \$133m	30.0%	22.5%
6/1/04 – 5/31/05	\$37,311,121	> \$160m and < \$200m;	22.5%	18.5%
		> \$200m	30.0%	22.5%
6/1/05 – 5/31/06	\$37,311,121	> \$165m and < \$200m;	22.5%	18.5%
		> \$200m	30.0%	22.5%

The in-bound lease was extended for a period of one year, pursuant to the 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.

The DFS Honolulu International Airport retail concession contract, effective March 15, 2001, provides for payment of 20% of gross sales against minimum annual guarantee payments aggregating \$47,250,000 over the five-year contract.

The DFS Honolulu International Airport concession contracts provide for quarterly advance payments due on March 1, June 1, September 1, and December 1 of each year.

9. PASSENGER FACILITY CHARGES

PFC revenue for the period October 1, 2004 (effective date) to June 30, 2005, consisted of the following:

Passenger facility charges	\$ 15,050,098
Interest earned on passenger facility charges	<u>118,754</u>
Total	<u>\$ 15,168,852</u>

10. PENSION INFORMATION

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

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

The pension contribution for fiscal years 2005 and 2004 was \$3,640,182 and \$3,472,098, respectively, which represented 10.8% of covered payroll and was equal to the required contribution for the year.

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

11. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care (medical, prescription drug, vision, and dental) and life insurance benefits for retired employees. Contributions are financed on a pay-as-you-go basis, and are limited by state statute to the actual cost of benefit coverage. The Airports Division pays for 100% of these benefits for employees who have at least 10 years of service. The Airports Division's share of the cost of these benefits is pro-rated for employees with less than 10 years of service. The Airports Division also reimburses Medicare expenses of retirees and qualified spouses (through the State) who are at least 62 years of age and have at least 10 years of service. Contributions are financed on a pay-as-you-go basis, and are limited by state statute to the actual cost of benefit coverage. The amounts allocated to the Airports Division for fiscal years 2005 and 2004 amounted to \$2,846,865 and \$2,815,238, respectively.

12. TRANSACTIONS WITH OTHER GOVERNMENT AGENCIES

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged or encumbered, for the payment of bonds and interest during the year. The assessments amounted to \$5,067,742 and \$9,771,402 in fiscal years 2005 and 2004, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to \$6,652,910 and \$6,077,191 in fiscal years 2005 and 2004, respectively. During fiscal years 2005 and 2004, the Airports Division received assessment refunds from the DOT amounting to \$1,221,033 and \$421,770, respectively. Such refunds reduced operating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

During fiscal years 2005 and 2004, revenues received from other state agencies totaled \$160,006 and \$303,648, respectively, and expenditures to other state agencies totaled \$5,922,311 and \$5,356,997, respectively.

13. COMMITMENTS

Sick Pay

Accumulated sick leave at June 30, 2005 and 2004 was \$15,611,548 and \$14,950,969, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

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.

Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of \$952,601. The upgrades are expected to be performed in the next 5-10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the Statements of Net Assets at June 30, 2005 and 2004.

At June 30, 2005 and 2004, the Airports Division had commitments totaling approximately \$70,971,000 and \$83,757,000, respectively, 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.

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.

Property and Liability Insurance

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

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, 2005 and 2004, the workers' compensation reserve was \$4,100,000 in both years, of which \$883,308 and \$871,392 are included in other current liabilities (payable from current assets) and \$3,216,692 and \$3,228,608 are included in long-term liabilities in the accompanying Statements of Net Assets at June 30, 2005 and 2004, respectively. In the opinion of management, the Airports Division has adequately reserved for such claims.

15. CONTINGENT LIABILITIES AND OTHER

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 Airport Revenue Fund. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

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, 2005 and 2004, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

Asserted Claims

Prepaid Airport Use Charge Fund

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

On October 27, 2003, the State reached a settlement with the ACH under which the Airports Division is to transfer the \$5,393,344 overpayment to the Prepaid Airport Use Charge Fund 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 had been recorded in the Airports Division's financial statements as of June 30, 2004, with an offsetting charge to airports system support charges revenues.

Ceded Lands

Since the passage of Public Law 105-66 on October 27, 1997, the Office of Hawaiian Affairs (OHA) has not received airport revenues for the Airports Division's use of ceded lands at its airports. Public Law 105-66 provides in part that "[t]here shall be no further payment of airport revenues for claims related to ceded lands, whether characterized as operating expense, rent, or otherwise, and whether related to claims for periods of time prior to or after the date of enactment of this Act."

On July 21, 2003, OHA filed a lawsuit against the State of Hawaii, OHA v. State of Hawaii, Civil No. 03-1-1505-07 (First Circuit), for (1) the State's alleged breaches of its fiduciary duties as trustee of the ceded lands public trust, (2) its alleged violation of the U.S. Constitution, the Hawaii State Constitution, Act 304, Session Laws of Hawaii 1990, and Chapter 10, Hawaii Revised Statutes, and (3) its alleged failure to properly account for and pay OHA certain monies OHA alleges are due OHA from the use of ceded lands, including monies for the use of ceded lands at the Airports Division's airports since the passage of Public Law 105-66.

The claims made in OHA v. State of Hawaii are asserted against the State and not the Airports Division. The State intends to vigorously defend against all of OHA's claims, and the State Attorney General is of the view that OHA's claims are without merit. Accordingly, no provision for any payments of monies claimed by OHA has been recorded in the financial statements as of June 30, 2005.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency (EPA). As part of the terms of a proposed consent decree entered into by the parties in October 2005, the Department will be required to pay a \$1 million fine, and expend an additional \$1.2 million to complete certain supplemental environmental projects. The Airports Division's allocated share of the fine would be \$400,000, but its share of the cost of the supplemental project has not been determined at the present time. The consent decree is tentative pending completion of the federally mandated public comment period. No amounts have been recorded in the financial statements as of June 30, 2005.

Criminal Investigation

In fiscal year 2002, the State Attorney General launched a criminal investigation into allegations of forgery, conspiracy to commit theft, theft, and bribery relating to small purchase contracts issued by the Airports Division. The investigation covers the 1997 through 2002 fiscal years. As of the date of this report, several Airports Division employees have been arrested, and the investigation is continuing.

Through June 30, 2005, the Airports Division received \$126,500 in restitution, of which \$43,000 was received during the year ended June 30, 2005.

The effect, if any, on the June 30, 2005 financial statements as a result of the ultimate resolution of the investigation is presently unknown.

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STATE OF HAWAII, DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION

Schedule 1

(An Enterprise Fund of the State of Hawaii)

**OPERATING REVENUES AND OPERATING EXPENSES OTHER THAN DEPRECIATION
FOR THE YEAR ENDED JUNE 30, 2005**

	Total	Statewide	Airports					All Others
			Honolulu International	Hilo International	Kona International at Keahole	Kahului	Lihue	
Operating revenues:								
Concession fees	\$ 116,879,167	\$ -	\$ 84,106,897	\$ 6,736,272	\$ 2,090,463	\$ 16,647,287	\$ 7,045,704	\$ 252,544
Airport landing fees	35,463,143		24,330,800	818,585	2,506,590	5,777,726	1,683,802	345,640
Aeronautical rentals:								
Exclusive-use premise charges	27,661,775		23,576,296	701,256	1,044,491	1,379,316	746,105	214,311
Nonexclusive joint-use premise charges	26,465,047		25,133,070	125,125	591,655	389,210	225,987	
Nonaeronautical rentals	12,457,247		8,124,577	641,443	468,624	2,543,193	623,604	55,806
Aviation fuel tax	3,434,444		2,356,327	79,276	242,752	559,546	163,069	33,474
Airports system support charges	655,759		440,905	20,324	41,055	93,877	34,153	25,445
Miscellaneous	3,141,128		2,120,381	46,915	313,800	311,211	290,470	58,351
Bad debt expense	(2,355,267)		(1,772,397)	(95,491)	(76,018)	(288,489)	(112,608)	(10,264)
Net operating revenues	<u>\$ 223,802,443</u>	<u>\$ -</u>	<u>\$ 168,416,856</u>	<u>\$ 9,073,705</u>	<u>\$ 7,223,412</u>	<u>\$ 27,412,877</u>	<u>\$ 10,700,286</u>	<u>\$ 975,307</u>
Operating expenses other than depreciation:								
Salaries and wages	\$ 53,231,024	\$ 6,203,774	\$ 24,459,164	\$ 3,826,316	\$ 3,870,755	\$ 6,449,385	\$ 4,622,394	\$ 3,799,236
Other personnel services	35,499,251	1,101,270	21,434,633	2,351,244	2,687,150	4,209,918	1,983,392	1,731,644
Utilities	20,879,204		14,202,373	857,810	1,377,064	2,510,300	1,476,784	454,873
Repairs and maintenance	9,370,571	376,147	6,378,839	351,365	593,962	935,854	428,027	306,377
Special maintenance	8,579,759		2,885,571	457,776	484,291	2,658,001	316,533	1,777,587
Department of Transportation general administration expenses	5,431,877	5,431,877						
State of Hawaii surcharge on gross receipts (Note 1)	5,067,742	5,067,742						
Materials and supplies	3,919,200	239,148	1,606,657	378,631	389,283	516,934	432,864	355,683
Insurance	2,610,512	2,616,434	(9,273)	2,425	784			142
Claims and benefits	1,106,854	142,167	553,948	96,963	129,048	59,697	108,178	16,853
Communication	364,040	50,695	116,619	20,062	22,002	53,469	28,812	72,381
Travel	341,505	73,653	66,054	36,099	51,539	43,311	37,641	33,208
Rent	280,978	66,873	121,985	4,691	12,522	38,323	23,331	13,253
Dues and subscriptions	144,103	125,790	11,254	1,811	1,986	533	2,411	318
Freight and delivery	17,158	962	3,151	90	264	8,468	426	3,797
Printing and advertising	5,328	3,911	960				216	241
Miscellaneous	472,562	345,462	43,879	14,528	30,447	11,969	11,643	14,634
Allocation of statewide expenses (Note 2)	<u>147,321,668</u>	<u>21,845,905</u>	<u>71,875,814</u>	<u>8,399,811</u>	<u>9,651,097</u>	<u>17,496,162</u>	<u>9,472,652</u>	<u>8,580,227</u>
Total operating expenses other than depreciation for net revenues and taxes	<u>-</u>	<u>(21,845,905)</u>	<u>12,513,908</u>	<u>1,462,446</u>	<u>1,680,300</u>	<u>3,046,162</u>	<u>1,649,232</u>	<u>1,493,857</u>
Disbursements out of major maintenance, renewal and replacement account not included above	147,321,668	-	84,389,722	9,862,257	11,331,397	20,542,324	11,121,884	10,074,084
Total operating expenses other than depreciation for statement of revenues, expenses and changes in net assets	<u>2,440,969</u>	<u>-</u>	<u>2,277,431</u>	<u>2,500</u>	<u>144,180</u>	<u>16,577</u>	<u>281</u>	
Total operating expenses other than depreciation for statement of revenues, expenses and changes in net assets	<u>\$ 149,762,637</u>	<u>\$ -</u>	<u>\$ 86,667,153</u>	<u>\$ 9,864,757</u>	<u>\$ 11,475,577</u>	<u>\$ 20,542,324</u>	<u>\$ 11,138,461</u>	<u>\$ 10,074,365</u>

NOTES:

- (1) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.
- (2) Statewide 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.

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

CALCULATIONS OF NET REVENUES AND TAXES AND
DEBT SERVICE REQUIREMENT
FOR THE YEAR ENDED JUNE 30, 2005

REVENUES AND TAXES:		
Concession fees		\$ 116,879,167
Aeronautical rentals:		
Exclusive-use premise charges		27,661,775
Nonexclusive joint-use premise charges		26,465,047
Airport landing fees		35,463,143
Nonaeronautical rentals		12,457,247
Aviation fuel tax		3,434,444
Airports system support charges		655,759
Interest income, exclusive of interest on investments in direct financing leases and including interest income of \$12,288,210 on capital improvement projects		20,138,153
Federal operating grants		1,522,937
Miscellaneous		3,141,128
Bad debt expense		<u>(2,355,267)</u>
		245,463,533
DEDUCTIONS:		
Operating expenses other than depreciation for net revenues and taxes (Schedule 1)	\$ 147,321,668	
Amounts required to be paid into the State General Fund for general obligation bond requirements:		
Principal	9,425	
Interest	2,796	
Annual reserve required on major maintenance, renewal, and replacement account	<u>2,998,150</u>	<u>150,332,039</u>
Net revenues and taxes		95,131,494
DEBT SERVICE REQUIREMENT:		
Airports system revenue bonds:		
Principal	\$ 94,550,000	
Interest (Note 1)	<u>41,515,848</u>	
	136,065,848	
Less credits to the interest account (Note 2)	(20,000,000)	
Less funds deposited into the Airport Revenue fund for redemption of bonds (Note 3)	<u>(69,300,000)</u>	
	46,765,848	
Debt service coverage percentage	<u>125%</u>	<u>58,457,310</u>
EXCESS OF NET REVENUES AND TAXES OVER DEBT SERVICE REQUIREMENT		<u>\$ 36,674,184</u>

(Continued)

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

**CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT
FOR THE YEAR ENDED JUNE 30, 2005**

Notes:

1. For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.
2. In fiscal year 2005, the Airports Division deposited \$20,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal year 2005 to the interest account as required in the “Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.”
3. On January 5, 2005, the Airports Division disbursed \$69,300,000 from the Airport Revenue fund to the paying agent to redeem the outstanding balance of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety.

See accompanying independent auditors’ report.

(Concluded)

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

SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY
AS OF JUNE 30, 2005

Year Ending June 30	Annual Principal and Interest Requirements				
	Airports System Revenue Bonds		General Obligation Bonds		Total
	Principal	Interest	Principal	Interest	
2006	\$ 30,565,000	\$ 39,557,129	\$ 9,425	\$ 2,446	\$ 70,134,000
2007	32,250,000	37,867,591	9,425	2,017	70,129,033
2008	21,140,000	36,075,901	9,425	1,579	57,226,905
2009	22,310,000	34,906,116	9,425	1,133	57,226,674
2010	23,615,000	33,605,699	9,425	686	57,230,810
2011	25,240,000	31,966,186	9,425	231	57,215,842
2012	26,945,000	30,269,561			57,214,561
2013	46,600,000	28,629,746			75,229,746
2014	49,400,000	25,833,876			75,233,876
2015	52,355,000	22,869,649			75,224,649
2016	55,500,000	19,726,999			75,226,999
2017	58,750,000	16,471,134			75,221,134
2018	62,295,000	12,934,356			75,229,356
2019	66,035,000	9,216,513			75,251,513
2020	69,665,000	5,577,400			75,242,400
2021	31,030,000	1,709,125			32,739,125
Total	<u>\$673,695,000</u>	<u>\$387,216,981</u>	<u>\$56,550</u>	<u>\$ 8,092</u>	<u>\$1,060,976,623</u>

See accompanying independent auditors' report.

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

DEBT SERVICE REQUIREMENTS TO MATURITY—AIRPORTS SYSTEM REVENUE BONDS
AS OF JUNE 30, 2005

Year Ending June 30	Principal			Total	Interest	Total Requirements
	Refunding Series of 2000A, 5.50% to 6.00%	Refunding Series of 2000B, 5.00% to 8.00%	Refunding Series of 2001, 4.00% to 5.75%			
2006	\$ -	\$ 10,035,000	\$ 20,530,000	\$ 30,565,000	\$ 39,557,129	\$ 70,122,129
2007		10,660,000	21,590,000	32,250,000	37,867,591	70,117,591
2008		11,295,000	9,845,000	21,140,000	36,075,901	57,215,901
2009	145,000	11,830,000	10,335,000	22,310,000	34,906,116	57,216,116
2010	155,000	12,550,000	10,910,000	23,615,000	33,605,699	57,220,699
2011	160,000	13,550,000	11,530,000	25,240,000	31,966,186	57,206,186
2012	170,000	14,640,000	12,135,000	26,945,000	30,269,561	57,214,561
2013	180,000	15,580,000	30,840,000	46,600,000	28,629,746	75,229,746
2014	190,000	16,595,000	32,615,000	49,400,000	25,833,876	75,233,876
2015	200,000	17,665,000	34,490,000	52,355,000	22,869,649	75,224,649
2016	215,000	18,815,000	36,470,000	55,500,000	19,726,999	75,226,999
2017	225,000	19,960,000	38,565,000	58,750,000	16,471,134	75,221,134
2018	240,000	21,285,000	40,770,000	62,295,000	12,934,356	75,229,356
2019	125,000	22,845,000	43,065,000	66,035,000	9,216,513	75,251,513
2020	8,400,000	22,515,000	38,750,000	69,665,000	5,577,400	75,242,400
2021	16,010,000		15,020,000	31,030,000	1,709,125	32,739,125
Total	\$26,415,000	\$239,820,000	\$407,460,000	\$673,695,000	\$387,216,981	\$1,060,911,981

NOTE: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2005.

See accompanying independent auditors' report.

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

DEBT SERVICE REQUIREMENTS TO MATURITY—GENERAL OBLIGATION BONDS
AS OF JUNE 30, 2005

Years Ending June 30	Series CI 4.00% to 5.00% Due 2011	Total Principal	Interest	Total Requirements
2006	\$ 9,425	\$ 9,425	\$ 2,446	\$ 11,871
2007	9,425	9,425	2,017	11,442
2008	9,425	9,425	1,579	11,004
2009	9,425	9,425	1,133	10,558
2010	9,425	9,425	686	10,111
2011	<u>9,425</u>	<u>9,425</u>	<u>231</u>	<u>9,656</u>
Total	<u>\$ 56,550</u>	<u>\$ 56,550</u>	<u>\$ 8,092</u>	<u>\$ 64,642</u>

See accompanying independent auditors' report.

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

Schedule 6

AIRPORTS SYSTEM CHARGES—FISCAL YEAR 1995-97 LEASE EXTENSION
FOR THE YEAR ENDED JUNE 30, 2005

	Airline Activity			Airports System Charges									Total
	Approved Maximum Revenue Landing Weights (1,000 Pound Units)	Revenue Passenger Landings	Deplaning International Passengers	Airport Landing Fees	Airports System Support Charges	Nonexclusive Joint-Use Premise Charges					Exclusive- Use Premise Charges— Terminal Space		
						Joint-Use Charges— Overseas Terminal	Joint-Use Charges— Blended OST Terminal	Joint-Use Charges— Interisland Terminal	Joint-Use Charges— Neighbor Island Terminal	International Arrivals Building Charges			
Signatory airlines:													
Air Canada	408,709	1,210	54,902	\$ 788,808	\$ -	\$ 540,146	\$ -	\$ -	\$ 2,645	\$ 221,200	\$ 415,692	\$ 1,968,491	
Air New Zealand, Ltd.	54,522	135	22,240	105,227		70,250				89,605	209,834	474,916	
Air Pacific, Ltd.	29,344	204	12,550	56,634		106,156				50,564		213,354	
All Nippon Airways Co., Ltd.	9,244	22	4,755	17,841		11,448				19,158	2,403	50,850	
Aloha Airlines, Inc.	5,508,832	41,870	5,542	4,474,227			685,840	1,469,575	325,090	22,329	2,309,554	9,286,615	
American Airlines, Inc.	1,627,336	6,560		3,106,835		1,818,180			47,149		774,110	5,746,274	
ATA Airlines, Inc.	534,720	2,434		1,030,903		825,831			13,025		306,912	2,176,671	
China Airlines, Ltd.	207,519	385	111,125	352,814		200,343				447,723	169,615	1,170,495	
Continental Airlines, Inc.	612,020	1,746		1,180,335		756,101			4,506		1,060,544	3,001,486	
Continental Micronesia, Inc.	222,704	734	147,693	429,819		381,953				595,055		1,406,827	
Delta Airlines, Inc.	987,000	2,820		1,378,174		1,245,771			6,551		1,170,776	3,801,272	
Evergreen International Airlines, Inc.	316,590			611,019								611,019	
Federal Express Corporation	504,934			974,523							7,006	981,529	
Hawaii Island Air, Inc.	1,003,745	6,084		697,603					93,560		237,636	1,028,799	
Hawaiian Airlines, Inc.	5,877,170	44,054	69,822	5,981,593			1,721,002	1,465,016	319,801	281,313	1,798,784	11,567,509	
JALways Co., Ltd.	614,355	1,246	256,107	1,035,437		507,363			4,167	1,031,855		2,578,822	
Japan Air Lines Company, Ltd.	1,232,196	2,327	710,880	2,321,312		1,161,470			1,461	2,864,136	1,428,384	7,776,763	
Kalitta Air, LLC	205,020			395,689								395,689	
Korean Airlines Company, Ltd.	134,866	224	50,647	260,291		116,563				204,057	170,782	751,693	
North American Airlines, Inc.	67,939	321		99,482		82,219			2,507		969	185,177	
Northwest Airlines, Inc.	1,353,048	3,904	327,282	2,487,725		1,594,420			12,917	1,318,619	1,005,749	6,419,430	
Pacific Wings LLC	72,573			50,438							22,052	72,490	
Philippine Airlines, Inc.	394,061	158	32,420	760,538		82,219				130,620	112,811	1,086,188	
Polar Air Cargo, Inc.	90,201			174,088								174,088	
Qantas Airways, Ltd.	205,022	157	54,060	395,692		81,698				217,808	343,830	1,039,028	
United Airlines, Inc.	2,889,429	9,411	211,454	5,507,288		2,418,689			73,245	851,948	3,312,654	12,163,824	
United Parcel Service Co.	588,520			857,307							4,057	861,364	
Nonsignatory airlines	<u>1,559,357</u>	<u>1,348</u>	<u>101,965</u>	<u>3,161,515</u>	<u>655,759</u>	<u>616,500</u>				<u>341,175</u>	<u>554,637</u>	<u>5,329,586</u>	
Total airports system charges billed	<u>27,310,976</u>	<u>127,354</u>	<u>2,173,444</u>	<u>38,693,157</u>	<u>655,759</u>	<u>12,617,320</u>	<u>2,406,842</u>	<u>2,934,591</u>	<u>906,624</u>	<u>8,687,165</u>	<u>15,418,791</u>	<u>82,320,249</u>	
Adjusted airports system charges based on final reconciliation				<u>38,693,157</u>	<u>655,759</u>	<u>10,219,335</u>	<u>2,345,885</u>	<u>3,697,087</u>	<u>985,157</u>	<u>9,217,583</u>	<u>15,418,791</u>	<u>81,232,754</u>	
Fiscal year 2005 overpayment						<u>\$ (2,397,985)</u>	<u>\$ (60,957)</u>	<u>\$ 762,496</u>	<u>\$ 78,533</u>	<u>\$ 530,418</u>	<u>\$ -</u>	<u>\$ (1,087,495)</u>	

See accompanying independent auditors' report.

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

RECONCILIATION OF AIRPORT LANDING FEES
FOR THE YEAR ENDED JUNE 30, 2005

	Signatory Airlines	Nonsignatory Airlines	Total
Gross airport landing fees billed	\$35,531,642	\$3,161,515	\$38,693,157
Less aviation fuel tax credit	<u>(3,018,850)</u>	<u>(211,164)</u>	<u>(3,230,014)</u>
Total	<u>\$32,512,792</u>	<u>\$2,950,351</u>	<u>\$35,463,143</u>

See accompanying independent auditors' report.

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

**UNDERPAYMENT OF AIRPORTS SYSTEM CHARGES—SIGNATORY AIRLINES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

FISCAL YEARS 2005 AND 2004

Airports system charges overpayments of \$1,087,495 for fiscal year 2005 have been transferred to the Prepaid Airport Use Charge Fund.

Airports system charges underpayments of \$1,631,867 were waived for fiscal year 2004 due to the September 11, 2001 terrorist attacks and subsequent decline in the airline and tourism markets.

See accompanying independent auditors' report.

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

Schedule 7

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES—SIGNATORY AIRLINES
FOR THE YEAR ENDED JUNE 30, 2005

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport Gross Airport Landing Fees						All Other Airports			Total Adjusted 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		
Air Canada	359,933	-	48,776	408,709	\$ 694,671	\$ -	\$ 694,671	\$ -	\$ 694,671	\$ 94,137	\$ -	\$ 94,137	\$ 788,808	
Air New Zealand, Ltd.	54,522			54,522	105,227		105,227		105,227				105,227	
Air Pacific, Ltd.	29,344			29,344	56,634		56,634		56,634				56,634	
All Nippon Airways Co., Ltd.	9,244			9,244	17,841		17,841		17,841				17,841	
Aloha Airlines, Inc.	2,701,744	477,415	2,329,673	5,508,832	2,170,189	331,804	2,501,993	(363,563)	2,138,430	1,972,234		1,972,234	4,110,664	
American Airlines, Inc.	924,786		702,550	1,627,336	1,784,837		1,784,837	(429,810)	1,355,027	1,321,998		1,321,998	2,677,025	
ATA Airlines, Inc.	349,032		185,688	534,720	672,802		672,802	(163,328)	509,474	358,101		358,101	867,575	
China Airlines, Ltd.	207,519			207,519	352,814		352,814		352,814				352,814	
Continental Airlines, Inc.	509,470		102,550	612,020	982,413		982,413	(111,500)	870,913	197,922	(25,633)	172,289	1,043,202	
Continental Micronesia, Inc.	222,704			222,704	429,819		429,819		429,819				429,819	
Delta Airlines, Inc.	837,900		149,100	987,000	1,090,411		1,090,411	(246,539)	843,872	287,763		287,763	1,131,635	
Evergreen International Airlines, Inc.	316,590			316,590	611,019		611,019		611,019				611,019	
Federal Express Corporation	422,268	82,666		504,934	814,977	159,546	974,523	(87,346)	887,177				887,177	
Hawaii Island Air, Inc.	366,018	46,240	591,487	1,003,745	254,383	32,136	286,519	(4,006)	282,513	411,084		411,084	693,597	
Hawaiian Airlines, Inc.	3,461,590	294,030	2,121,550	5,877,170	4,092,123	204,351	4,296,474	(551,535)	3,744,939	1,685,119		1,685,119	5,430,058	
JALways Co., Ltd.	478,738		135,617	614,355	773,696		773,696		773,696	261,741		261,741	1,035,437	
Japan Air Lines Company, Ltd.	1,186,183		46,013	1,232,196	2,232,507		2,232,507	(7,060)	2,225,447	88,805	(2,048)	86,757	2,312,204	
Kalitta Air, LLC	205,020			205,020	395,689		395,689		395,689				395,689	
Korean Airlines Company, Ltd.	134,866			134,866	260,291		260,291		260,291				260,291	
North American Airlines, Inc.	33,709		34,230	67,939	33,418		33,418		33,418	66,064		66,064	99,482	
Northwest Airlines, Inc.	1,164,888		188,160	1,353,048	2,248,234		2,248,234	(248,892)	1,999,342	239,491		239,491	2,238,833	
Pacific Wings LLC	11,764	9,962	50,847	72,573	8,176	6,924	15,100	(2,215)	12,885	35,338		35,338	48,223	
Philippine Airlines, Inc.	394,061			394,061	760,538		760,538		760,538				760,538	
Polar Air Cargo Inc.	90,201			90,201	174,088		174,088		174,088				174,088	
Qantas Airways, Ltd.	205,022			205,022	395,692		395,692		395,692				395,692	
United Airlines, Inc.	1,638,777		1,250,652	2,889,429	3,160,578		3,160,578	(599,607)	2,560,971	2,346,710	(62,271)	2,284,439	4,845,410	
United Parcel Service Co.	362,985		225,535	588,520	700,560		700,560	(113,497)	587,063	156,747		156,747	743,810	
Total	16,678,878	910,313	8,162,428	25,751,619	\$25,273,627	\$734,761	\$26,008,388	\$(2,928,898)	\$23,079,490	\$9,523,254	\$ (89,952)	\$9,433,302	\$32,512,792	

Summary of revenue landing weights:
Overseas 14,743,886
Interisland 11,007,733
25,751,619

Aviation fuel tax of \$3,434,444 was paid by the users for the year ended June 30, 2005. Users can claim a credit for aviation fuel taxes paid up to six months after payment. Aviation fuel tax credits of \$3,230,014 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	\$ 3,018,850
Nonsignatory airlines	211,164
	<u>\$ 3,230,014</u>

NOTE 1: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2005.

See accompanying independent auditors' report.

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

Schedule 8

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES—NONSIGNATORY AIRLINES
FOR THE YEAR ENDED JUNE 30, 2005

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport Gross Airport Landing Fees			All Other Airports			Total Adjusted 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
Aero Micronesia dba Asia Pacific	30,504	-	-	30,504	\$ 90,902	\$ -	\$ 90,902	\$ -	\$ 90,902	\$ -	\$ -	\$ -	\$ 90,902
Air Japan Co., Ltd.	122,560			122,560	365,229		365,229		365,229				365,229
Air Nevada Airlines, Inc.	6,180	4,565	21,845	32,590	5,895	4,355	10,250		10,250	20,840		20,840	31,090
Air Transport International	51,206			51,206	152,594		152,594		152,594				152,594
Aloha Airlines, Inc.-Supplemental	3,823	1,278	423	5,524	11,391	2,951	14,342		14,342	1,261		1,261	15,603
Alpine Aviation, Inc.	41,272	9,113	26,073	76,458	39,373	8,694	48,067		48,067	24,873		24,873	72,940
Aris Inc.			13,978	13,978						13,335	(1,375)	11,960	11,960
Atlas Air, Inc.	22,140			22,140	65,977		65,977		65,977				65,977
Big Island Air Incorporation	8	8	12,394	12,410	7	7	14		14	11,824	(474)	11,350	11,364
Bradley Pacific Aviation Inc.	25,542	198	62,265	88,005	67,953	455	68,408	(87,405)	(18,997)	154,645	(42,096)	112,549	93,552
Century Aviation, Inc.	9,404		6,013	15,417	25,818		25,818	(3,413)	22,405	14,273		14,273	36,678
Corporate Air	15,134	344	6,231	21,709	14,438	329	14,767		14,767	5,944		5,944	20,711
Dipiazza, Charles			13,975	13,975						13,332	(370)	12,962	12,962
Harter, Jack Helicopters, Inc.			12,294	12,294						11,728	(1,069)	10,659	10,659
Hawaii Air Ambulance, Inc.	15,728	34	257	16,019	15,004	32	15,036	(1,871)	13,165	245		245	13,410
Heli USA Airways, Inc.	16,237			16,237	15,490		15,490		15,490				15,490
Helicopter Consultants of Maui, Inc.		53,472	38,675	92,147		51,012	51,012	(10,460)	40,552	36,896		36,896	77,448
HMV Airways, Inc.	43,362		30,888	74,250	128,818		128,818		128,818	92,046		92,046	220,864
Island Helicopters Kauai, Inc.			17,613	17,613						16,803	(1,459)	15,344	15,344
Kamaka Air Inc.	4,685		19,213	23,898	4,469		4,469		4,469	18,329		18,329	22,798
Lufthansa Cargo AG	69,231			69,231	206,308		206,308		206,308				206,308
Molokai-Lanai Air Shuttle, Inc.	25,354		29,696	55,050	24,188		24,188		24,188	28,330		28,330	52,518
North American Airlines, Inc.	30,040		23,520	53,560	63,141		63,141		63,141	66,686		66,686	129,827
Oahu North Shore Aviation, Ltd.			16,193	16,193						15,448		15,448	15,448
Omni Air International, Inc.	179,925			179,925	536,176		536,176	(44,912)	491,264				491,264
Polynesian, Limited	6,570			6,570	19,577		19,577		19,577				19,577
Ryan International Airlines, Inc.	22,770	198	20,394	43,362	35,952		35,952		35,952	59,571		59,571	95,523
Safari Aviation, Inc.		6,722	18,023	24,745		6,413	6,413	(102)	6,311	17,194	(1,289)	15,905	22,216
Sky-Med Inc.			17,928	17,928						17,103		17,103	17,103
Skyservice Airlines, Inc.			7,937	7,937						23,651		23,651	23,651
Squyres, Will Helicopters, Inc.			21,099	21,099						20,128		20,128	20,128
Sunshine Helicopters Inc.		10,575	25,318	35,893		10,089	10,089	(1,532)	8,557	24,154	(3,030)	21,124	29,681
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	3,127	1,325	34,450	38,902	2,983	1,264	4,247	(223)	4,024	32,865	(2,861)	30,004	34,028
Universal Enterprises, Inc.	37,571	1,082	51,529	90,182	98,737	1,848	100,585		100,585	124,093		124,093	224,678
Miscellaneous	54,667	9,881	75,298	139,846	136,081	9,888	145,969	(4,024)	141,945	72,080	(3,199)	68,881	210,826
Total	837,040	98,795	623,522	1,559,357	\$2,126,501	\$ 97,337	\$2,223,838	\$(153,942)	\$2,069,896	\$937,677	\$(57,222)	\$880,455	\$2,950,351
Summary of revenue landing weights:													
Overseas				68,432									
Interisland				21,751									
				<u>90,183</u>									

NOTE 1: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2005.

See accompanying independent auditors' report.