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

Financial Statements and Supplemental Schedules

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

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

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# Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statements of net assets of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Airports Division's management. Our responsibility is to express an opinion on these financial statements based on our 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.

As discussed in note 1 to the financial statements, the financial statements of the Airports Division are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Airports Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2008, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airports Division as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2, the Airports Division adopted the provisions of Governmental Accounting Standards Board Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets*, as of July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2009 on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 20 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed as "supplementary information schedules" in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. These supplemental information schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

May 14, 2009

The following Management's Discussion and Analysis of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal years ended June 30, 2008 and 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 59.3% and 60.2% of total passenger traffic in the airports system during fiscal years 2008 and 2007, respectively. The other four principal airports accommodated 39.3% and 38.4% of the total passenger traffic for fiscal years 2008 and 2007, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the United States military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.4% of the total passenger traffic for fiscal years 2008 and 2007.

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

### Using the Financial Statements

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

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

**Airports Division Activities and Highlights**

The Airports Division ended fiscal year 2008 with an increase to total passenger activity of 1.1% when compared with fiscal year 2007. However, aircraft operations, revenue landed weights, revenue passenger landings, and deplaning international passengers decreased by (1.8)%, (6.1)%, (9.2)%, and (3.0)%, respectively, as compared with fiscal year 2007. Increased airline carrier load factors and the decrease in visitors from Japan are the reasons for the decrease in aircraft operations and international passengers, respectively. Although interisland carriers account for a higher percentage (49%) of revenue landed weights, the overall carrier mix remains diverse.

The Honolulu International Airport continues to be the dominant airport although a portion of the market share shifted to the Kahului Airport, Kona International Airport at Keahole, Hilo International Airport, and Lihue Airport as a result of increased direct flights to such destinations. The majority of the operating revenues at the Airports Division is activity-based and directly relates to the number of passengers and aircraft operations.

Until March 31, 2008, interisland air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. On March 20, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On March 31, 2008, Aloha Airlines ceased all passenger operations. On April 29, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's interisland air cargo, ceased all air cargo operations as well as maintenance cleaning services. Such operations have since been replaced by Aeko Kula, Inc. (cargo) and Aloha Contract Services LLC (maintenance services). Both the bankruptcy of Aloha Airlines and the rising cost of fuel have led to decreased statewide enplanement activities of 14%, comparing the periods April 1 to June 30, 2008 and 2007.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2008: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., 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., 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., Qantas Airways, Ltd., Ryan International Airlines, Inc., United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Aloha Airlines, Inc., Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., and Pacific Wings, LLC.

Activity for the airports system for the fiscal years ended June 30, 2008 and 2007 is as follows:

| | 2008 | 2007 | Percentage increase (decrease) from 2007 |
|---|---|---|---|
| Passengers (enplaning and deplaning passengers activity): | | | |
| Honolulu International Airport | 20,808,838 | 20,908,614 | (0.5)% |
| Kahului Airport | 6,219,640 | 5,956,314 | 4.4 |
| Kona International Airport at Keahole | 3,131,118 | 3,131,819 | — |
| Lihue Airport | 2,884,600 | 2,617,941 | 10.2 |
| Hilo International Airport | 1,562,813 | 1,616,844 | (3.3) |
| All others | 488,147 | 477,954 | 2.1 |
| Total passengers | 35,095,156 | 34,709,486 | 1.1 |
| Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower): | | | |
| Honolulu International Airport | 304,839 | 320,112 | (4.8) |
| Kahului Airport | 142,126 | 158,807 | (10.5) |
| Kona International Airport at Keahole | 140,052 | 148,673 | (5.8) |
| Lihue Airport | 121,979 | 125,164 | (2.5) |
| Hilo International Airport | 90,167 | 99,437 | (9.3) |
| All others | 241,965 | 208,279 | 16.2 |
| Total aircraft operations | 1,041,128 | 1,060,472 | (1.8) |
| Revenue landed weights (1,000 pound units): | | | |
| Honolulu International Airport | 15,833,745 | 16,783,870 | (5.7) |
| Kahului Airport | 4,225,002 | 4,562,915 | (7.4) |
| Kona International Airport at Keahole | 2,241,326 | 2,500,899 | (10.4) |
| Lihue Airport | 1,823,644 | 2,014,809 | (9.5) |
| Hilo International Airport | 1,155,111 | 1,227,290 | (5.9) |
| All others | 340,816 | 399,107 | (14.6) |
| Total signatory airlines | 25,619,644 | 27,488,890 | (6.8) |
| Nonsignatory airlines | 1,588,892 | 1,476,678 | 7.6 |
| Total revenue landed weights | 27,208,536 | 28,965,568 | (6.1) |



(Continued)

| | 2008 | 2007 | Percentage increase (decrease) from 2007 |
|---|---|---|---|
| Revenue passenger landings: | | | |
| Honolulu International Airport | 63,266 | 68,242 | (7.3)% |
| Kahului Airport | 29,482 | 33,642 | (12.4) |
| Kona International Airport at Keahole | 16,999 | 19,015 | (10.6) |
| Lihue Airport | 16,154 | 18,259 | (11.5) |
| Hilo International Airport | 10,784 | 11,327 | (4.8) |
| Total signatory airlines | 136,685 | 150,485 | (9.2) |
| Nonsignatory airlines | 947 | 1,112 | (14.8) |
| Total revenue passenger landings | 137,632 | 151,597 | (9.2) |
| Deplaning international passengers: | | | |
| Honolulu International Airport | 1,726,243 | 1,804,551 | (4.3) |
| Kona International Airport at Keahole | 70,271 | 65,438 | 7.4 |
| Total signatory airlines | 1,796,514 | 1,869,989 | (3.9) |
| Nonsignatory airlines | 115,306 | 101,818 | 13.2 |
| Total deplaning international passengers | 1,911,820 | 1,971,807 | (3.0) |

**Financial Operations Highlights**

The financial results for fiscal year 2008 reflected a loss before capital contributions of $48.7 million as compared with a loss before capital contributions of $17.3 million for fiscal year 2007. Operating revenues increased by $10.9 million or 4.7%, while operating expenses increased by $29.4 million or 10.0%. Total nonoperating revenues increased by $2.2 million mainly due to increases in federal operating grants amounting $5.0 million offset by decreases in interest income of $1.5 million and PFCs of $1.3 million.

Loss before capital contributions for fiscal year 2007 was $17.3 million as compared with income before capital contributions of $1.3 million for fiscal year 2006. Operating revenues increased by $4.4 million or 1.9% while operating expenses increased by $41.4 million or 16.4%. Total nonoperating revenues increased by $14.9 million mainly due to increases in interest income and federal operating grants amounting to $3.0 million and $12.2 million, respectively.

Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect a $3.00 PFCs at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport through February 1, 2007. During this period, the Airports Division was able to collect the maximum approved PFC revenue, including interest earned amounting to $42,632,466. The PFC collections are currently utilized to fund flight information display and public address system improvements, air conditioning system improvements, South Ramp environmental compliance measures, runway safety area improvements, perimeter road improvements and fencing, and general aviation lighting projects.

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

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

Since the inception of this program through June 30, 2008, the total PFC revenues, including interest earned, and expenditures were $83.7 million and $33.5 million, respectively.

Operating expenses before depreciation for fiscal year 2008 increased by 15.0% or $31.5 million as compared to fiscal year 2007 mainly due to increases in salaries and wages, other personnel services (security), utilities, bad debt expense, and repair and maintenance costs.

Operating expenses before depreciation for fiscal year 2007 increased by 19.5% or $34.3 million as compared with fiscal year 2006 mainly due to increases in salaries and wages, other personnel services (security), special maintenance, and repair and maintenance costs.

Total nonoperating expenses for fiscal years 2008 and 2007 increased by 40.8% or $15.2 million and decreased by 8.6% or $3.5 million, respectively, as compared with the previous years mainly due to the decrease in airport revenue bond interest expense tied to lower average outstanding balances during the year, where in 2008 the amounts held in State Treasury experienced losses. In addition, the Airports Division wrote down their amounts held in State Treasury by $20.0 million in fiscal year 2008.

During fiscal year 2006, the Airports Division recorded the acquisition of seven buildings upon the expiration of land lease agreements and Hickam land that was donated by the United States government amounting to $46.4 million. During fiscal year 2008, the Airports Division recorded the acquisition of a heliport and office space upon the expiration of land lease agreements amounting to $3.1 million.

As a result, net assets decreased by $16.7 million for fiscal year 2008, as compared with an increase of $34.1 million for fiscal year 2007.

In summary, Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. Although passenger traffic to Hawaii appears to have stabilized along with operational revenue, operational expenses have increased in order to maintain airport services and facilities. Despite the steady income stream from the Airports Division's diverse mix of operational revenue sources, interest income, and federal discretionary grants along with the decrease in airports system revenue bond interest have supported the sizeable increase in operational expenses and a loss in the State investment pool has resulted in a decrease in net assets in 2008.

A summary of operations and changes in net assets for the years ended June 30, 2008, 2007, and 2006 is as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Operating revenues | $ 244,377,274 | $ 233,433,057 | $ 228,998,181 |
| Operating expenses, excluding depreciation | (241,684,888) | (210,215,030) | (175,884,514) |
| Operating income before depreciation | 2,692,386 | 23,218,027 | 53,113,667 |
| Depreciation | (80,570,580) | (82,631,333) | (75,596,942) |
| Operating loss | (77,878,194) | (59,413,306) | (22,483,275) |
| Nonoperating revenues – net | 29,165,607 | 42,137,688 | 23,762,438 |
| (Loss) income before capital contributions | (48,712,587) | (17,275,618) | 1,279,163 |
| Capital contributions: | | | |
| Federal capital grants | 28,881,614 | 51,380,310 | 26,904,130 |
| Other capital contribution | 3,091,250 | — | 46,368,857 |
| Total capital contributions | 31,972,864 | 51,380,310 | 73,272,987 |
| Increase in net assets | $ (16,739,723) | $ 34,104,692 | $ 74,552,150 |



(Continued)

- Operating revenues increased by 4.7% from $233.4 million in fiscal year 2007 to $244.4 million in fiscal year 2008. Operating revenues increased by 1.9% from $229.0 million in fiscal year 2006 to $233.4 million in fiscal year 2007. The primary reasons for the increases were mainly due to rate increases related to increases in aeronautical rental rates. Aviation fuel taxes increased to $4.5 million in fiscal year 2008 as a result of increasing the tax from one to two cents per gallon. The tax on aviation fuel was one cent per gallon since May 1, 1962. On June 26, 2007, House Bill 1757 (Act 209) was signed into law increasing the tax to two cents per gallon effective July 1, 2007.

  Operating expenses excluding depreciation increased by 15.0% from $210.2 million in fiscal year 2007 to $241.7 million in fiscal year 2008. The primary reasons for the increases were due to increases in salaries and wages of $10.8 million as a result of negotiated union contract pay raises and new accounting pronouncements related to postemployment benefit liabilities, other personnel services of $5.4 million mainly due to security costs mirroring State employee union contracts, utilities expenses of $8.6 million affected by rising fuel costs, bad debt expense of $4.0 million mainly due to the bankruptcies of Aloha Airlines, Inc. and ATA Airlines, Inc., and repairs and maintenance costs of $1.4 million to maintain the functionability of our facilities.

  The net results of the above resulted in operating income before depreciation of $2.7 million in fiscal year 2008. However, operating income before depreciation for fiscal year 2008 decreased by 88.4% or $20.5 million from fiscal year 2007. Depreciation expense decreased by 2.5% from $82.6 million in fiscal year 2007 to $80.6 million in fiscal year 2008 due to the disposal of assets in the current year and a greater percentage of capital assets being construction-in-progress (CIP). The operating loss before nonoperating revenues, net and capital contributions of $77.9 million in fiscal year 2008 represents a 31.1% increase from the operating loss before nonoperating revenues, net and capital contributions of $59.4 million in fiscal year 2007.

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

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



(Continued)

- Nonoperating revenues, net decreased by 30.8% or $13.0 million and 77.3% or $18.4 million in fiscal years 2008 and 2007, respectively, primarily due to losses in the amounts held in State Treasury in 2008 and increases in federal operating grants and decreases in interest expense in 2007. Federal operating grants increased by 24.9% or $5.0 million in fiscal year 2008 due to reimbursements received in fiscal year 2008 from applications submitted as a result of the Airports Division regaining its eligibility in fiscal year 2004 to apply for federal discretionary grants. Federal operating grants increased by 157.8% or $12.2 million in fiscal year 2007 due to reimbursements received in fiscal year 2007 from applications submitted as a result of the Airports Division regaining its eligibility in fiscal year 2004 to apply for federal discretionary grants. Airports system revenue bond interest expense decreased by $4.7 million and $2.6 million in fiscal years 2008 and 2007, respectively, as a result of redeeming Refunding Series 2003 bonds in January 2005. In addition, the Airports Division wrote down their amounts held in State Treasury by $20.0 million in fiscal year 2008.
- Loss before capital contributions for fiscal year 2008 of $48.7 million as compared with loss before capital contributions of $17.3 million for fiscal year 2007 was a result of an increase in operating expenses.

  Loss before capital contributions for fiscal year 2007 of $17.3 million as compared with income before capital contributions of $1.3 million for fiscal year 2006 was a result of an increase in operating expenses.
- Capital contributions decreased by 37.8% or $19.4 million and 29.9% or $21.9 million in fiscal years 2008 and 2007, respectively, mainly due to the reduction of federal and other capital grants.

**Financial Position Summary**

A condensed summary of the Airports Division's net assets at June 30, 2008, 2007, and 2006 is shown below:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Assets: | | | |
| Current assets: | | | |
| Unrestricted assets | $ 479,292,741 | $ 551,383,428 | $ 565,417,323 |
| Restricted assets | 263,507,383 | 277,969,200 | 278,276,513 |
| Noncurrent assets: | | | |
| Capital assets | 1,535,613,752 | 1,485,773,891 | 1,457,377,510 |
| Restricted assets | 36,094,866 | 37,141,975 | 38,148,850 |
| Other noncurrent assets | 3,047,815 | 3,480,415 | 6,916,798 |
| Total assets | 2,317,556,557 | 2,355,748,909 | 2,346,136,994 |
| Liabilities: | | | |
| Current liabilities: | | | |
| Payable from unrestricted assets | 46,452,432 | 43,968,110 | 37,691,638 |
| Payable from restricted assets | 55,565,308 | 60,110,609 | 57,652,223 |
| Long-term liabilities, net of current portion | 633,104,136 | 652,495,786 | 685,723,421 |
| Total liabilities | 735,121,876 | 756,574,505 | 781,067,282 |
| Net assets: | | | |
| Invested in capital assets – net of related debt | 955,900,642 | 881,703,354 | 834,478,768 |
| Restricted | 230,216,845 | 237,469,809 | 226,358,957 |
| Unrestricted | 396,317,194 | 480,001,241 | 504,231,987 |
| Total net assets | $ 1,582,434,681 | $ 1,599,174,404 | $ 1,565,069,712 |

The largest portion of the Airports Division's net assets (60.4%, 55.1%, and 53.3% at June 30, 2008, 2007, and 2006, respectively) represents its investments in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net assets (14.5%, 14.8%, and 14.5% at June 30, 2008, 2007, and 2006, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate), as well as PFCs that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $451.0 million, $528.5 million, and $537.8 million at June 30, 2008, 2007, and 2006, respectively. On January 5, 2005, the Airports Division redeemed $69.3 million of its airports system revenue bonds to decrease annual debt service requirements in order to meet budget constraints and bond covenants. The $637.7 million cash balance at June 30, 2008 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 $1,582.4 million and $1,599.2 million at June 30, 2008 and 2007, respectively, representing a decrease of $16.7 million and an increase of $34.1 million from June 30, 2008 and 2007, respectively.

## Airline Signatory Rates and Charges

### *Lease Agreement with Signatory Airlines*

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

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

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

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona, and Lihue. The program is currently estimated to cost in excess of $2.4 billion through 2021 and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

The final reconciliation for fiscal year 2008, in accordance with these agreements resulted in a net underpayment by the signatory airlines of $12,256,533, compared to a net underpayment of $845,536 and net overpayment of $867,093 in fiscal years 2007 and 2006, respectively. The Airports Division granted the signatory airlines a waiver for the entire underpayment amount for the fiscal year June 30, 2008.

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

### Revenues

A summary of revenues for the years ended June 30, 2008 and 2007 and the amount and percentage of change in relation to prior year amounts are as follows:

| | 2008 | | Increase (decrease) from 2007 | |
|---|---|---|---|---|
| | **Amount** | **Percentage of total** | **Amount** | **Percentage** |
| Operating revenues: | | | | |
| Concession fees: | | | | |
| Duty Free | $ 38,000,000 | 11.7% | $ 631,472 | 1.7% |
| Other concessions | 83,917,432 | 25.7 | 596,410 | 0.7 |
| Airport landing fees | 36,952,719 | 11.3 | (1,096,616) | (2.9) |
| Aeronautical rentals: | | | | |
| Exclusive-use premise charge | 33,913,698 | 10.4 | 4,315,727 | 14.6 |
| Nonexclusive joint-use premise charge | 29,161,701 | 9.0 | 3,366,652 | 13.1 |
| Nonaeronautical rentals | 12,663,511 | 3.9 | 305,600 | 2.5 |
| Other | 9,768,213 | 3.0 | 2,824,972 | 40.7 |
| Total operating revenues | 244,377,274 | 75.0 | 10,944,217 | 4.7 |
| Nonoperating revenues: | | | | |
| Interest income, investments | 31,677,874 | 9.7 | (1,744,047) | (5.2) |
| Interest income, passenger facility charges | 2,104,358 | 0.6 | 363,507 | 20.9 |
| Interest income, direct financing leases | 2,335,448 | 0.7 | (82,733) | (3.4) |
| Federal operating grants | 24,958,330 | 7.7 | 4,975,152 | 24.9 |
| Passenger facility charges | 20,338,696 | 6.3 | (1,330,791) | (6.1) |
| Total nonoperating revenues | 81,414,706 | 25.0 | 2,181,088 | 2.8 |
| Total revenues | $ 325,791,980 | 100.0 | $ 13,125,305 | 4.2 |


(Continued)

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



(Continued)

### Expenses

A summary of expenses for the years ended June 30, 2008 and 2007 and the amount and percentage of change in relation to prior year amounts are as follows:

| | 2008 | | Increase (decrease) from 2007 | |
|---|---|---|---|---|
| | **Amount** | **Percentage of total** | **Amount** | **Percentage** |
| Operating expenses: | | | | |
| Salaries and wages | $ 71,989,594 | 19.2% | $ 10,785,742 | 17.6% |
| Other personnel services | 51,589,531 | 13.8 | 5,444,266 | 11.8 |
| Utilities | 34,875,139 | 9.3 | 8,617,795 | 32.8 |
| Special maintenance | 32,986,045 | 8.8 | (571,754) | (1.7) |
| Repairs and maintenance | 14,180,818 | 3.8 | 1,377,616 | 10.8 |
| State of Hawaii surcharge on gross receipts | 10,886,295 | 2.9 | 1,121,507 | 11.5 |
| Materials and supplies | 5,647,652 | 1.5 | 1,127,362 | 24.9 |
| Department of Transportation general administration expenses | 4,852,112 | 1.3 | (871,728) | (15.2) |
| Insurance | 4,248,337 | 1.1 | 230,431 | 5.7 |
| Bad debt expense | 3,967,919 | 1.1 | 3,967,919 | 100.0 |
| Disbursements out of major maintenance, renewal, and replacement account | 2,473,331 | 0.7 | (1,015,540) | (29.1) |
| Other | 3,988,115 | 1.1 | 1,256,242 | 46.0 |
| Total operating expenses before depreciation | 241,684,888 | 64.6 | 31,469,858 | 15.0 |
| Depreciation | 80,570,580 | 21.5 | (2,060,753) | (2.5) |
| Total operating expenses | 322,255,468 | 86.1 | 29,409,105 | 10.0 |
| Nonoperating expenses: | | | | |
| Interest expense: | | | | |
| Revenue bonds: | | | | |
| Airports system | 29,527,428 | 7.9 | (4,666,430) | (13.6) |
| Special facility | 2,335,448 | 0.6 | (82,733) | (3.4) |
| General obligation bonds | 1,185 | — | (524) | (30.7) |
| Loss on amounts held in State Treasury | 19,952,028 | 5.3 | 19,952,028 | 100.0 |
| Other | 433,010 | 0.1 | (49,172) | (10.2) |
| Total nonoperating expenses | 52,249,099 | 13.9 | 15,153,169 | 40.8 |
| Total expenses | $ 374,504,567 | 100.0 | $ 44,562,274 | 13.5 |



(Continued)

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

## Capital Acquisitions and Construction Activities

In fiscal years 2008 and 2007, there were 24 and 7 construction bid openings, respectively, totaling an estimated $184 million and $79 million, respectively, in potential construction contracts. Significant projects in fiscal year 2008 include the Air Conditioning System Replacement at Hilo International Airport, Holdroom Shelters and Additional Security Lane at Kona International Airport at Keahole, Baggage Claim Improvements, Phase II at Lihue Airport, and the Third Level Sterile Corridor, EDS Integration Improvements, Phase II, and Interisland Maintenance Facility Site Preparation at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2008, which were under construction during the fiscal year. Major projects include the Heliport Improvements at Lihue Airport, EDS Integration Improvements, and the two air conditioning projects (Diamond Head Chiller Plant Replacement and Chilled Water Loop) at Honolulu International Airport.

Finally, there were six construction projects that were substantially completed in fiscal year 2008. These projects totaled over $27 million and include the General Purpose Apron and A.S.A.P Building at Kahului Airport, the Airfield Lights and Sign Replacement, Signage and Graphics Improvements, Phase IVA, Sign Directories, and Expand Parking Lot N at Honolulu International Airport.

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 June 30, 2008, $610,880,000 of airports system revenue bonds were outstanding as compared to $643,130,000 as of June 30, 2007. The last series of "new money" bonds used to fund capital improvement projects were issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. At June 30, 2008, the balance of authorized but unissued airports system revenue bonds was $321,122,655.

As of June 30, 2008, $28,275 of reimbursable general obligation bonds issued for the airports system were outstanding compared to $37,700 as of June 30, 2007.

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.

On September 1, 2008, the Airports Division fully paid its reimbursable general obligation bonds.

***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, 2008 and 2007, there were outstanding bond obligations of $35,855,000 and $36,895,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

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

**Credit Rating and Bond Insurance**

As of June 30, 2008, there were three series of airports system revenue bonds outstanding in the principal amount of $610,880,000. Payment of principal and interest on all three series of bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC). The credit ratings of FGIC have been revised downward since the issuance of the bonds. As of June 30, 2008, the ratings for the airports system were as follows:

| | |
|---|---|
| Standard & Poor's Corporation: | A- |
| Moody's Investors Service: | A-2 |
| Fitch IBCA, Inc.: | A |

**Economic Factors and Current Known Facts**

The Airports Division has launched plans to modernize airport facilities over the next 12 years. The most noticeable project under construction is the parking structure adjacent to the interisland terminal at the Honolulu International Airport, projected to be completed in late December 2008. Other projects include new and renovated concourses, support facilities, and parking terminals at other principal airports. Such projects will improve traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

The Airports Division and current signatory airline carriers have agreed to an amended lease extension agreement effective January 1, 2008. The agreement is intended for the airline carriers to support the increase in operational expenses and financing of modernization projects. In order to finance the modernization projects, the Airports Division is planning for a bond sale in the fourth quarter of calendar year 2009.

As a result, the Airports Division has increased signatory airline fees, as well as continuing ongoing initiatives to maximize various concession revenues. In addition, under the amended lease agreement, landing fees and terminal rental rates will be calculated per an agreed formula, and airports system support charges will be reimposed and assessed to signatory airlines as needed.

## Request for Information

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

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

Statements of Net Assets

June 30, 2008 and 2007

| Assets | 2008 | 2007 |
|---|---|---|
| Current assets: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents – unrestricted (note 3) | $ 451,011,189 | $ 528,557,445 |
| Receivables: | | |
| Accounts, net of allowance of $4,853,567 and $240,337 for uncollectible accounts for 2008 and 2007, respectively | 13,289,500 | 15,432,405 |
| Promissory note receivable, net of allowance of $2,491,255 and $219,376 for uncollectible notes for 2008 and 2007, respectively (note 8) | 324,886 | 152,200 |
| Interest | 2,225,733 | 4,658,422 |
| Claims – federal grants | 10,258,849 | 1,896,527 |
| Aviation fuel tax | 425,517 | 189,312 |
| Due from State of Hawaii | 1,489,240 | 252,203 |
| Total receivables | 28,013,725 | 22,581,069 |
| Inventory of materials and supplies, at cost | 267,827 | 244,914 |
| Total unrestricted current assets | 479,292,741 | 551,383,428 |
| Restricted assets: | | |
| Cash and cash equivalents (note 3): | | |
| Revenue bond debt service (note 6) | 104,766,211 | 115,068,476 |
| Revenue bond construction | 28,307,304 | 35,843,367 |
| Passenger facility charges (note 9) | 48,676,025 | 43,849,369 |
| Security deposits and customer advances | 4,983,234 | 4,656,024 |
| Total cash and cash equivalents – restricted | 186,732,774 | 199,417,236 |
| Passenger facility charges receivable (note 9) | 1,523,096 | 3,300,451 |
| Investments – revenue bond debt service reserve (notes 3 and 6) | 75,251,513 | 75,251,513 |
| Total restricted current assets | 263,507,383 | 277,969,200 |
| Total current assets | 742,800,124 | 829,352,628 |
| Noncurrent assets: | | |
| Promissory note receivable, net of allowance of $0 and $2,834,478 for uncollectible notes for 2008 and 2007, respectively (note 8) | 123,000 | 132,999 |
| Bond issue costs, net of accumulated amortization of $3,584,376 and $3,161,775 for 2008 and 2007, respectively (note 6) | 2,924,815 | 3,347,416 |
| Restricted assets – net investments in direct financing leases (note 8) | 36,094,866 | 37,141,975 |
| Capital assets, net of accumulated depreciation of $1,401,205,304 and $1,347,246,055 for 2008 and 2007, respectively (notes 4, 6, and 7) | 1,535,613,752 | 1,485,773,891 |
| Total noncurrent assets | 1,574,756,433 | 1,526,396,281 |
| Total assets | 2,317,556,557 | 2,355,748,909 |



(Continued)

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

Statements of Net Assets

June 30, 2008 and 2007

| Liabilities | 2008 | 2007 |
|---|---|---|
| Current liabilities: | | |
| Payable from unrestricted assets: | | |
| Vouchers payable | $ 8,742,694 | $ 6,931,775 |
| Contracts payable, including retainage of $3,169,711 and $3,215,428 for 2008 and 2007, respectively | 19,744,578 | 23,499,273 |
| Current portion of general obligation bonds (notes 5 and 7) | 9,425 | 9,425 |
| Current portion of workers' compensation (notes 5 and 14) | 1,119,573 | 1,184,400 |
| Current portion of compensated absences (note 5) | 2,638,713 | 2,576,968 |
| Current portion of postemployment liability (notes 5 and 11) | 4,714,000 | — |
| Deferred income (note 8) | 3,997,328 | 3,611,266 |
| Accrued wages | 4,993,683 | 4,592,448 |
| Prepaid airport use charge fund (notes 8 and 15) | 463,926 | 1,533,718 |
| Other | 28,512 | 28,837 |
| Total payable from unrestricted assets | 46,452,432 | 43,968,110 |
| Payable from restricted assets: | | |
| Contracts payable, including retainage of $1,583,469 and $319,008 for 2008 and 2007, respectively | 11,016,632 | 3,936,115 |
| Current portion of airports system revenue bonds (notes 5 and 6) | 21,140,000 | 32,250,000 |
| Current portion of special facility revenue bonds (notes 5 and 8) | 1,100,000 | 1,040,000 |
| Accrued interest | 18,278,043 | 19,181,071 |
| Security deposits | 4,030,633 | 3,703,423 |
| Total payable from restricted assets | 55,565,308 | 60,110,609 |
| Total current liabilities | 102,017,740 | 104,078,719 |
| Long-term liabilities – net of current portion: | | |
| Airports system revenue bonds (notes 5 and 6) | 586,852,139 | 607,626,204 |
| Special facility revenue bonds (notes 5 and 8) | 34,755,000 | 35,855,000 |
| General obligation bonds (notes 5 and 7) | 18,850 | 28,275 |
| Compensated absences (note 5) | 5,119,546 | 5,018,106 |
| Workers' compensation (notes 5 and 14) | 3,180,427 | 3,015,600 |
| Postemployment liability (notes 5 and 11) | 2,225,573 | — |
| Customer advance (note 13) | 952,601 | 952,601 |
| Total liabilities | 735,121,876 | 756,574,505 |
| **Net Assets** | | |
| Net assets: | | |
| Invested in capital assets – net of related debt | 955,900,642 | 881,703,354 |
| Restricted: | | |
| Debt service payment | 39,177,951 | 51,183,795 |
| Debt service reserve account | 75,251,513 | 75,251,513 |
| Major maintenance, renewal, and replacement account | 65,588,260 | 63,884,681 |
| Passenger facility charges | 50,199,121 | 47,149,820 |
| Total restricted | 230,216,845 | 237,469,809 |
| Unrestricted | 396,317,194 | 480,001,241 |
| Commitments and contingencies (notes 6, 8, 10, 11, 12, 13, 14, 15, and 16) | | |
| Total net assets | $ 1,582,434,681 | $ 1,599,174,404 |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Operating revenues (notes 6, 8, and 12): | | |
| Concession fees | $ 121,917,432 | $ 120,689,550 |
| Airport landing fees | 36,952,719 | 38,049,335 |
| Aeronautical rentals: | | |
| Exclusive-use premise charges | 33,913,698 | 29,597,971 |
| Nonexclusive joint-use premise charges | 29,161,701 | 25,795,049 |
| Nonaeronautical rentals | 12,663,511 | 12,357,911 |
| Aviation fuel tax | 4,452,232 | 2,169,230 |
| Airports system support charges | 617,257 | 617,845 |
| Miscellaneous | 4,698,724 | 4,156,166 |
| Net operating revenues | 244,377,274 | 233,433,057 |
| Operating expenses (notes 4, 10, 11, 12, 14, and 15): | | |
| Depreciation | 80,570,580 | 82,631,333 |
| Salaries and wages | 71,989,594 | 61,203,852 |
| Other personnel services | 51,589,531 | 46,145,265 |
| Utilities | 34,875,139 | 26,257,344 |
| Special maintenance | 32,986,045 | 33,557,799 |
| Repairs and maintenance | 14,180,818 | 12,803,202 |
| State of Hawaii surcharge on gross receipts | 10,886,295 | 9,764,788 |
| Materials and supplies | 5,647,652 | 4,520,290 |
| Department of Transportation general administration expenses | 4,852,112 | 5,723,840 |
| Insurance | 4,248,337 | 4,017,906 |
| Bad debt expense | 3,967,919 | — |
| Disbursements out of major maintenance, renewal, and replacement account | 2,473,331 | 3,488,871 |
| Claims and benefits | 1,365,011 | 1,218,413 |
| Rent | 1,264,561 | 320,837 |
| Travel | 452,879 | 369,546 |
| Communication | 296,314 | 331,412 |
| Dues and subscriptions | 189,092 | 184,958 |
| Printing and advertising | 24,863 | 49,330 |
| Freight and delivery | 13,309 | 11,952 |
| Miscellaneous | 382,086 | 245,425 |
| Total operating expenses | 322,255,468 | 292,846,363 |
| Operating loss, carried forward | (77,878,194) | (59,413,306) |

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Operating loss, brought forward | $ (77,878,194) | $ (59,413,306) |
| Nonoperating revenues (expenses): | | |
| Interest income: | | |
| Certificates of deposit, repurchase agreements, and U.S. government securities (note 3) | 31,677,874 | 33,421,921 |
| Investments in direct financing leases (note 8) | 2,335,448 | 2,418,181 |
| Interest expense: | | |
| Revenue bonds: | | |
| Airports system (note 6) | (29,527,428) | (34,193,858) |
| Special facility (note 8) | (2,335,448) | (2,418,181) |
| General obligation bonds (note 7) | (1,185) | (1,709) |
| Federal operating grants | 24,958,330 | 19,983,178 |
| Loss on disposal of capital assets (note 4) | (10,409) | (43,832) |
| Passenger facility charges (note 9) | 22,443,054 | 23,410,338 |
| Amortization of deferred bond issue costs | (422,601) | (438,350) |
| Loss on amounts held in State Treasury | (19,952,028) | — |
| Total nonoperating revenues, net | 29,165,607 | 42,137,688 |
| Loss before capital contributions | (48,712,587) | (17,275,618) |
| Capital contributions: | | |
| Federal capital grants | 28,881,614 | 51,380,310 |
| Other capital contributions (note 4) | 3,091,250 | — |
| Total capital contributions | 31,972,864 | 51,380,310 |
| Increase (decrease) in net assets | (16,739,723) | 34,104,692 |
| Total net assets – beginning of year | 1,599,174,404 | 1,565,069,712 |
| Total net assets – end of year | $ 1,582,434,681 | $ 1,599,174,404 |

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from providing services | $ 245,764,442 | $ 230,466,492 |
| Cash paid to suppliers | (167,865,376) | (147,711,409) |
| Cash paid to employees | (64,385,601) | (60,558,634) |
| Net cash provided by operating activities | 13,513,465 | 22,196,449 |
| Cash flows from noncapital financing activities: | | |
| Proceeds from federal operating grants | 20,514,969 | 21,438,958 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (98,992,228) | (85,605,559) |
| Proceeds from sale of capital assets | 17,305 | — |
| Proceeds from federal and other capital grants and contributions | 24,962,653 | 50,036,601 |
| Interest paid on airports system revenue and general obligation bonds | (36,972,648) | (38,714,379) |
| Principal paid on general obligation bonds | (9,425) | (9,425) |
| Principal paid on airports system revenue bonds | (32,250,000) | (30,565,000) |
| Payments from passenger facility charges program | (19,393,753) | (14,108,847) |
| Proceeds from passenger facility charges program | 24,220,409 | 23,287,635 |
| Net cash used in capital and related financing activities | (138,417,687) | (95,678,974) |
| Cash flows from investing activities: | | |
| Proceeds from sale and maturities of investments | 107,741,739 | 101,180,576 |
| Interest received on investments | 34,110,563 | 32,701,101 |
| Purchases of investments | (107,741,739) | (101,180,576) |
| Loss on amounts held in State Treasury | (19,952,028) | — |
| Net cash provided by investing activities | 14,158,535 | 32,701,101 |
| Net decrease in cash and cash equivalents | (90,230,718) | (19,342,466) |
| Cash and cash equivalents – beginning of year | 727,974,681 | 747,317,147 |
| Cash and cash equivalents – end of year | $ 637,743,963 | $ 727,974,681 |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | $ (77,878,194) | $ (59,413,306) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 80,570,580 | 82,631,333 |
| Bad debt expense | 3,967,919 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,987,701) | (1,613,972) |
| Aviation fuel tax receivable | (236,205) | 4,759 |
| Due from State of Hawaii | (1,237,037) | 327,183 |
| Inventory of materials and supplies | (22,913) | 10,257 |
| Vouchers payable | 1,810,919 | (408,651) |
| Contracts payable | 1,278,949 | 1,370,980 |
| Deferred income | 386,062 | 865,695 |
| Accrued wages | 664,420 | 645,218 |
| Postemployment liability | 6,939,573 | — |
| Prepaid airport use charge fund | (1,069,792) | (2,193,536) |
| Security deposits | 327,210 | (32,589) |
| Other | (325) | 3,078 |
| Net cash provided by operating activities | $ 13,513,465 | $ 22,196,449 |



(Continued)

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

Statements of Cash Flows

Years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| 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 | $ 1,040,000 | $ 1,000,000 |
| Interest payments on special facility revenue bonds | 2,342,556 | 2,425,056 |
| Amortization of revenue bond issue costs | 422,601 | 438,350 |
| Amortization of revenue bond discount | 60,806 | 60,804 |
| Amortization of revenue bond premium | (1,306,846) | (1,373,759) |
| Amortization of deferred loss on refunding revenue bonds | 1,611,975 | 1,673,605 |

At June 30, 2008 and 2007, contracts payable included $20,515,902 and $18,469,029, respectively, for the acquisition of capital assets.

During fiscal years 2008 and 2007, interest of $6,914,050 and $4,034,621, respectively, was capitalized in property, plant, and equipment.

During fiscal years 2008 and 2007, property, plant, and equipment with a net book value of $27,713 and $43,832, respectively, were written off.

During fiscal year 2008, buildings with a value of $3,091,250 were recorded for buildings acquired upon the expiration of land lease agreements.

During fiscal year 2008, amounts held in State Treasury were written down by $19,952,028.

See accompanying notes to financial statements.

## (1) Reporting Entity

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

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

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Accounting*

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

### *(b) Financial Statement Presentation*

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

### *(c) Operating Revenues and Expenses*

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

### *(d) Passenger Facility Charges*

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $3.00 per passenger commencing on October 1, 2004. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along


(Continued)

with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

***(e) Capital Contributions***

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

***(f) Cash and Cash Equivalents***

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

***(g) Receivables***

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

An aging of the accounts receivable at June 30, 2008 was as follows: current – $13,009,284; 30 days – $703,770; 60 days – $2,305,107; and over 90 days – $2,124,906. An aging of the accounts receivable at June 30, 2007 was as follows: current – $14,143,817; 30 days – $18,758; 60 days – $30,920; and over 90 days – $1,479,247.

***(h) Investments***

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

***(i) Restricted Assets***

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

***(j) Capital Assets***

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

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

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

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

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

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

***(l) Accrued Vacation and Compensatory Pay***

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

***(m) Employees’ Retirement System***

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

### *(n) Risk Management*

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

### *(o) Use of Estimates*

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

### *(p) Recently Adopted Governmental Accounting Pronouncements*

Effective July 1, 2007, the Airports Division adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses how state and local governments should account for and report their costs and obligations related to postemployment benefits, healthcare, and other nonpension benefits.

Effective July 1, 2007, the Airports Division adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets*, which requires additional disclosures related to pledged future revenues. The Airports Division has pledged future revenue including all aviation fuel taxes levied to repay the Airport System Revenue Bonds. These revenue bonds are payable solely from and collateralized solely by the revenues generated by the Airports Division including all aviation fuel taxes levied.

In accordance with the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds*, as amended (the Certificate), the Airports Division has pledged future revenues net of operation, maintenance and repair expenses and certain adjustments (net revenues and taxes available for debt service) to repay $711,135,000 in revenue bonds issued in 2000 and 2001, and are payable through 2021. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $863,456,360. In fiscal year 2008, total debt service paid and net revenues and taxes available for debt service, for the Airports Division were $68,325,901 and $76,090,313, respectively. See also note 6 for further discussion on the revenue bonds.

### *(q) Reclassifications*

Certain 2007 amounts were reclassified to conform to the 2008 presentation. Such reclassifications had no effect on previously reported changes in net assets.

## (3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| Petty cash | $ 17,805 | $ 17,805 |
| Amounts held in State Treasury | 637,726,158 | 727,956,876 |
| Repurchase agreements | 56,952,787 | 56,952,787 |
| Certificates of deposit | 18,298,726 | 18,298,726 |
| | $ 712,995,476 | $ 803,226,194 |

Such amounts are reflected in the statements of net assets at June 30, 2008 and 2007 as follows:

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents: | | |
| Unrestricted | $ 451,011,189 | $ 528,557,445 |
| Restricted | 186,732,774 | 199,417,236 |
| Total cash and cash equivalents | 637,743,963 | 727,974,681 |
| Investments – restricted | 75,251,513 | 75,251,513 |
| Total cash and cash equivalents and investments | $ 712,995,476 | $ 803,226,194 |

### *(a) Amounts Held in State Treasury*

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2008 and 2007, the amount reported as amounts held in State Treasury reflects the Airports Division's relative position in the State's investment pool and amounted to $637,726,158 and $727,956,876, respectively. The Airports Division wrote down their amounts held in State Treasury by $19,952,028 during the year ended June 30, 2008.

The State Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury (investment pool). The State Director of Finance may invest any moneys of the State, which in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions.

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

The Airports Division's share of the State's investment pool, as summarized in the table below, is 35% at June 30, 2007 (amounts in thousands):

| | | Maturity (in years) | | |
|---|---|---|---|---|
| | **Fair value** | **Less than 1** | **1 – 5** | **>5** |
| Investments – Primary Government: | | | | |
| Certificates of deposit | $ 123,372 | $ 68,455 | $ 54,917 | $ — |
| U.S. government securities | 1,466,930 | 3,427 | 852,363 | 611,140 |
| Repurchase agreements | 374,218 | 263,799 | 110,419 | — |
| | $ 1,964,520 | $ 335,681 | $ 1,017,699 | $ 611,140 |
| Investments – Fiduciary Funds: | | | | |
| Certificates of deposit | $ 5,861 | $ 5,861 | $ — | $ — |
| U.S. government securities | 79,123 | 316 | 78,728 | 79 |
| Repurchase agreements | 12,699 | 12,636 | 63 | — |
| | $ 97,683 | $ 18,813 | $ 78,791 | $ 79 |

Information relating to the State's investment pool at June 30, 2008 is included in the comprehensive annual financial report of the State.

### *(b) Investments*

At June 30, 2008 and 2007, the Airports Division's investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.

**Interest Rate Risk**

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

**Credit Risk**

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

**Custodial Risk**

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

## (4) Capital Assets

Capital assets activity for the years ended June 30, 2008 and 2007 consist of the following:

| | Balance, July 1, 2007 | Increases | Decreases | Transfers | Balance, June 30, 2008 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 308,438,655 | $ — | $ — | $ — | $ 308,438,655 |
| Land improvements | 26,481,609 | — | — | — | 26,481,609 |
| Construction in progress | 168,922,521 | 119,178,799 | — | (68,970,335) | 219,130,985 |
| Total capital assets not being depreciated | 503,842,785 | 119,178,799 | — | (68,970,335) | 554,051,249 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 758,469,005 | 335,447 | — | 24,782,699 | 783,587,151 |
| Buildings and improvements | 1,378,017,618 | 3,091,250 | — | 43,651,429 | 1,424,760,297 |
| Machinery and equipment | 192,690,538 | 7,834,148 | (26,643,197) | 538,870 | 174,420,359 |
| Total capital assets being depreciated | 2,329,177,161 | 11,260,845 | (26,643,197) | 68,972,998 | 2,382,767,807 |
| Less accumulated depreciation: | | | | | |
| Land improvements | (544,414,491) | (25,924,498) | — | — | (570,338,989) |
| Buildings and improvements | (646,393,903) | (47,855,251) | — | — | (694,249,154) |
| Machinery and equipment | (156,437,661) | (6,790,831) | 26,615,484 | (4,153) | (136,617,161) |
| Total depreciation | (1,347,246,055) | (80,570,580) | 26,615,484 | (4,153) | (1,401,205,304) |
| Capital assets being depreciated, net | 981,931,106 | | | | 981,562,503 |
| Total capital assets | $ 1,485,773,891 | | | | $ 1,535,613,752 |



(Continued)

During fiscal year 2008, the Airports Division acquired two properties for $3,091,250 upon the expiration of land lease agreements at the Kahului Airport.

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



(Continued)

## (5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2008 and 2007 follows:

| | Balance June 30, 2007 | Increases | Decreases | Balance June 30, 2008 | Current | Noncurrent |
|---|---|---|---|---|---|---|
| Workers' compensation (note 14) | $ 4,200,000 | $ 1,214,992 | $ (1,114,992) | $ 4,300,000 | $ 1,119,573 | $ 3,180,427 |
| Compensated absences | 7,595,074 | 4,161,943 | (3,998,758) | 7,758,259 | 2,638,713 | 5,119,546 |
| Postemployment liability (note 11) | — | 6,939,573 | — | 6,939,573 | 4,714,000 | 2,225,573 |
| General obligation bonds (note 7) | 37,700 | — | (9,425) | 28,275 | 9,425 | 18,850 |
| Airports system revenue bonds (note 6) | 639,876,204 | 1,672,781 | (33,556,846) | 607,992,139 | 21,140,000 | 586,852,139 |
| Special facility revenue bonds (note 8) | 36,895,000 | — | (1,040,000) | 35,855,000 | 1,100,000 | 34,755,000 |
| | $ 688,603,978 | $ 13,989,289 | $ (39,720,021) | $ 662,873,246 | $ 30,721,711 | $ 632,151,535 |

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

## (6) Airports System Revenue Bonds

In 1969, the Director issued the Certificate under which $40,000,000 of revenue bonds were initially authorized for issuance. Subsequent issues of revenue bonds were covered by First through Twenty-Eighth supplemental certificates to the original 1969 Certificate.

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

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

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

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

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

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

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

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

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

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

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

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal, and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2008 and 2007, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2008 and 2007, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net assets) consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| Debt service reserve account | $ 75,251,513 | $ 75,251,513 |
| Major maintenance, renewal, and replacement account | 65,588,260 | 63,884,681 |
| | 140,839,773 | 139,136,194 |
| Principal and interest due July 1 | 39,177,951 | 51,183,795 |
| | $ 180,017,724 | $ 190,319,989 |



(Continued)

At June 30, 2008 and 2007, the balance of authorized but unissued airports system revenue bonds was $321,122,655 and $167,426,969, respectively.

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

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2008 and 2007:

| Series | Interest rate | Final maturity date (July 1) | Original amount of issue | Outstanding amount 2008 | Outstanding amount 2007 |
|---|---|---|---|---|---|
| 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 | 219,125,000 | 229,785,000 |
| 2001, refunding | 4.00 – 5.75 | 2021 | 423,255,000 | 365,340,000 | 386,930,000 |
| | | | $ 711,135,000 | 610,880,000 | 643,130,000 |
| Add unamortized premium | | | | 8,991,261 | 10,298,107 |
| Less unamortized discount | | | | (679,267) | (740,073) |
| Less deferred loss on refunding | | | | (11,199,855) | (12,811,830) |
| Less current portion | | | | (21,140,000) | (32,250,000) |
| Noncurrent portion | | | | $ 586,852,139 | $ 607,626,204 |

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

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2009 | $ 22,310,000 | $ 34,906,116 | $ 57,216,116 |
| 2010 | 23,615,000 | 33,605,699 | 57,220,699 |
| 2011 | 25,240,000 | 31,966,186 | 57,206,186 |
| 2012 | 26,945,000 | 30,269,561 | 57,214,561 |
| 2013 | 46,600,000 | 28,629,746 | 75,229,746 |
| 2014 – 2018 | 278,300,000 | 97,836,014 | 376,136,014 |
| 2019 – 2021 | 166,730,000 | 16,503,038 | 183,233,038 |
| | $ 589,740,000 | $ 273,716,360 | $ 863,456,360 |

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, 2008 of $21,140,000 and $36,075,901, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2008 and 2007 and the allocation thereof:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Expensed as incurred | $ | 29,527,428 | $ | 34,193,858 |
| Capitalized in capital assets | | 6,913,730 | | 4,034,385 |
| | $ | 36,441,158 | $ | 38,228,243 |

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

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

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

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

At June 30, 2008, the aggregate outstanding defeased bonds amounted to $61,130,000.

## (7) General Obligation Bonds

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

The following is a summary of such general obligation bonds reimbursable by the Airports Division at June 30, 2008 and 2007:

| Series | Interest rate | Final maturity date (July 1) | Original amount of issue | Outstanding amount 2008 | Outstanding amount 2007 |
|---|---|---|---|---|---|
| CI | 4.00% – 5.00% | 2011 | $ 141,392 | $ 28,275 | $ 37,700 |
| Less current portion | | | | (9,425) | (9,425) |
| Noncurrent portion | | | | $ 18,850 | $ 28,275 |

Annual debt service requirements for general obligation bonds outstanding at June 30, 2008 are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2009 | $ 9,425 | $ 1,133 | $ 10,558 |
| 2010 | 9,425 | 686 | 10,111 |
| 2011 | 9,425 | 231 | 9,656 |
| | $ 28,275 | $ 2,050 | $ 30,325 |

The following is a summary of interest costs incurred for the years ended June 30, 2008 and 2007 and the allocation thereof:

| | 2008 | 2007 |
|---|---|---|
| Expensed as incurred | $ 1,185 | $ 1,709 |
| Capitalized in capital assets | 320 | 236 |
| | $ 1,505 | $ 1,945 |

## (8) Leases

### *(a) Airport-Airline Lease Agreement*

**Airports Division**

The DOT and the airline companies serving the airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992 (lease agreement). Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the lease extension agreement). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

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

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

**Prepaid Airport Use Charge Fund**

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (the PAUCF). Net excess payments for fiscal years 1996 through 2008 have been transferred to the PAUCF (note 15).

**Aviation Fuel Tax**

The aviation fuel tax amounted to $4,452,232 and $2,169,230 for fiscal years 2008 and 2007, 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 $40,558,804 and $39,950,102 for fiscal years 2008 and 2007, respectively. Airport landing fees are shown net of aviation fuel tax credits of $3,606,085 and $1,900,767 for fiscal years 2008 and 2007, respectively, on the statements of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $36,952,719 and $38,049,335 for fiscal years 2008 and 2007, 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 interisland airport landing fees for signatory airlines are set at 36% of the airport landing fees for overseas flights.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to $29,161,701 and $25,795,049 for fiscal years 2008 and 2007, respectively.

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.


(Continued)

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

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

Exclusive-use premise charges amounted to $33,913,698 and $29,597,971 for fiscal years 2008 and 2007, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $16,979,919 and $16,266,649 for fiscal years 2008 and 2007, respectively.

Airports system support charges amounted to $617,257 and $617,845 for fiscal years 2008 and 2007, 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 interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

Under the rate-making methodology set forth in the lease extension agreement for the period July 1, 2007 to December 31, 2007, and the first amended lease extension agreement for the period January 1, 2008 to June 30, 2008, the affected signatory airlines underpaid their airports system rates and charges by $12,256,533. The Airports Division granted the signatory airlines a waiver for the entire underpayment amount for the fiscal year June 30, 2008.

Under the rate-making methodology set forth in the lease extension agreement for fiscal year 2007, the signatory airlines underpaid their airports system rates and charges by $845,536. The PAUCF was decreased for this underpayment.

### *(b) Special Facility Leases and Revenue Bonds*

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

**$2,300,000 Issue**

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

**$25,255,000 Issue**

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

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2008:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2009 | $ — | $ 1,222,031 | $ 1,222,031 |
| 2010 | — | 1,222,031 | 1,222,031 |
| 2011 | — | 1,222,031 | 1,222,031 |
| 2012 | — | 1,222,031 | 1,222,031 |
| 2013 | — | 1,222,031 | 1,222,031 |
| 2014 – 2018 | — | 6,110,156 | 6,110,156 |
| 2019 – 2023 | — | 6,110,156 | 6,110,156 |
| 2024 – 2028 | 21,725,000 | 5,499,141 | 27,224,141 |
| | $ 21,725,000 | $ 23,829,608 | $ 45,554,608 |

**$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, 2008:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2009 | $ 700,000 | $ 863,100 | $ 1,563,100 |
| 2010 | 730,000 | 814,100 | 1,544,100 |
| 2011 | 785,000 | 763,000 | 1,548,000 |
| 2012 | 835,000 | 708,050 | 1,543,050 |
| 2013 | 905,000 | 649,600 | 1,554,600 |
| 2014 – 2018 | 5,575,000 | 2,205,000 | 7,780,000 |
| 2019 – 2020 | 2,800,000 | 296,800 | 3,096,800 |
| | $ 12,330,000 | $ 6,299,650 | $ 18,629,650 |

**$6,600,000 Issue**

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

The bonds bear interest at 10.125% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2008:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2009 | $ 400,000 | $ 172,125 | $ 572,125 |
| 2010 | 500,000 | 131,625 | 631,625 |
| 2011 | 900,000 | 45,562 | 945,562 |
| | $ 1,800,000 | $ 349,312 | $ 2,149,312 |

Special facility revenue bonds payable at June 30, 2008 and 2007 consisted of the following:

| | Continental | | Sky chefs | Total |
|---|---|---|---|---|
| 2008: | | | | |
| Current portion | $ 700,000 | $ — | $ 400,000 | $ 1,100,000 |
| Noncurrent portion | 11,630,000 | 21,725,000 | 1,400,000 | 34,755,000 |
| | $ 12,330,000 | $ 21,725,000 | $ 1,800,000 | $ 35,855,000 |
| 2007: | | | | |
| Current portion | $ 640,000 | $ — | $ 400,000 | $ 1,040,000 |
| Noncurrent portion | 12,330,000 | 21,725,000 | 1,800,000 | 35,855,000 |
| | $ 12,970,000 | $ 21,725,000 | $ 2,200,000 | $ 36,895,000 |

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, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| Cash with bond fund trustee | $ 4,089,593 | $ 3,854,099 |
| Receivable from lessees, net of unearned interest of $30,722,132 and $33,071,759 | 31,765,407 | 33,040,901 |
| Interest receivable | 239,866 | 246,975 |
| | $ 36,094,866 | $ 37,141,975 |

### *(c) Other Operating Leases*

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



(Continued)

The future minimum rentals from these operating leases at June 30, 2008 are as follows:

| | |
|---|---|
| Year ending June 30: | |
| 2009 | $ 67,760,178 |
| 2010 | 59,182,775 |
| 2011 | 57,876,801 |
| 2012 | 52,510,392 |
| 2013 | 13,256,218 |
| 2014 – 2018 | 34,049,138 |
| 2019 – 2023 | 15,406,265 |
| 2024 – 2028 | 9,693,133 |
| 2029 – 2033 | 2,350,757 |
| 2034 – 2038 | 1,024,697 |
| | $ 313,110,354 |

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 2008 and 2007 were $59,122,856 and $56,326,495, respectively.

In fiscal year 2006, the Airports Division converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 7 months to 13 years. The balance of $2,939,141 at June 30, 2008 is due as follows: 2009 – $2,816,141; 2010 – $12,000; 2011 – $12,000; and thereafter – $99,000.

Concession fee revenues from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 39% of total concession fee revenues for fiscal years 2008 and 2007.

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

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

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

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

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

## (9) Passenger Facility Charges

Passenger facility charges activity for the years ended June 30, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Restricted assets – passenger facility charges, beginning of year | $ 47,149,820 | $ 37,848,329 |
| Passenger facility charges during the year | 20,338,696 | 21,669,487 |
| Interest earned on passenger facility charges during the year | 2,104,358 | 1,740,851 |
| Capital expenditures during the year | (19,393,753) | (14,108,847) |
| Restricted assets – passenger facility charges, end of year | $ 50,199,121 | $ 47,149,820 |

Restricted assets – passenger facility charges are presented on the statement of net assets as of June 30, 2008 and 2007 as follows:

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | $ 48,676,025 | $ 43,849,369 |
| Receivable | 1,523,096 | 3,300,451 |
| Total restricted assets passenger facility charges | $ 50,199,121 | $ 47,149,820 |

## (10) Pension Information

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

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

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

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5% the second year, 7.5% the third year, etc.).


(Continued)

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

**Contributory Plan**

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

**Hybrid Plan**

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

**Noncontributory Plan**

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

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increase, as of July 1, 2008, to 19.70% for police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The required pension contributions by the Airports Division for the years ended June 30, 2008, 2007, and 2006, were $6,859,479, $6,500,114, and $6,123,102, respectively, which represented 13.75% of covered payroll for the years then ended and was equal to the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

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

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

## (11) Postretirement Healthcare and Life Insurance Benefits

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

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

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

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For employees hired after June 30, 2001, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium, for those retiring with over 25 years of service, the State pays the entire healthcare premium.

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

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Airports Division's contribution for the year ended June 30, 2008 was $4,141,249, which represented 36% of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $11,520,728.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2008:

| | | |
|---|---|---|
| Balance at June 30, 2007 | $ | — |
| Additions | | 11,080,822 |
| Deletions | | (4,141,249) |
| Balance at June 30, 2008 | | 6,939,573 |
| Less current portion | | 4,714,000 |
| | $ | 2,225,573 |

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

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

## (12) Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $10,866,295 and $9,764,788 in fiscal years 2008 and 2007, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $6,312,409 and $6,126,796 in fiscal years 2008 and 2007, respectively. During fiscal years 2008 and 2007, the Airports Division received assessment refunds from the DOT amounting to $1,460,297 and $402,956, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

During fiscal years 2008 and 2007, revenues received from other state agencies totaled $1,985,076 and $1,342,194, respectively, and expenditures to other state agencies totaled $8,556,093 and $8,315,039, respectively.

## (13) Commitments

### *(a) Sick Pay*

Accumulated sick leave at June 30, 2008 and 2007 was $16,282,237 and $16,226,470, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

***(b) Deferred Compensation Plan***

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

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

***(c) Other***

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next 5 – 10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net assets at June 30, 2008 and 2007.

At June 30, 2008 and 2007, the Airports Division had commitments totaling approximately $278,194,000 and $260,009,000, 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.

***(a) Torts***

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

***(b) Property and Liability Insurance***

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

### *(c) Workers' Compensation*

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2008 and 2007, the workers' compensation reserve was $4,300,000 and $4,200,000, respectively, of which $1,119,573 and $1,184,400 are included in current liabilities (payable from unrestricted net assets) and $3,180,427 and $3,015,600 are included in long-term liabilities in the accompanying statements of net assets at June 30, 2008 and 2007, respectively. In the opinion of management, the Airports Division has adequately reserved for such claims.

## (15) Contingent Liabilities and Other

### *(a) Litigation*

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

### *(b) Arbitrage*

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2008 and 2007, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

### *(c) Asserted Claims*

#### Prepaid Airport Use Charge Fund

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

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

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

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

**Environmental Protection Agency**

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

## (16) Subsequent Events

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the Airports Division, which impacted the value of investments after the date of these financial statements.

Schedule 1

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

Operating Revenues and Operating Expenses Other Than Depreciation

Year ended June 30, 2008

| | | | Airports | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total** | **Statewide** | **Honolulu International** | **Hilo International** | **Kona International at Keahole** | **Kahului** | **Lihue** | **All others** |
| Operating revenues: | | | | | | | | |
| Concession fees | $ 121,917,432 | $ — | $ 82,648,407 | $ 2,324,100 | $ 9,078,843 | $ 18,839,800 | $ 8,729,066 | $ 297,216 |
| Airport landing fees | 36,952,719 | — | 24,516,487 | 1,158,128 | 2,645,240 | 6,187,687 | 2,088,139 | 357,038 |
| Aeronautical rentals: | | | | | | | | |
| Exclusive-use premise charges | 33,913,698 | — | 28,627,857 | 831,439 | 1,192,006 | 1,705,459 | 1,214,084 | 342,853 |
| Nonexclusive joint-use premise charges | 29,161,701 | — | 23,804,285 | 536,233 | 1,286,027 | 1,945,278 | 1,589,878 | — |
| Nonaeronautical rentals | 12,663,511 | — | 8,223,044 | 708,312 | 447,736 | 2,553,985 | 653,393 | 77,041 |
| Aviation fuel tax | 4,452,232 | — | 2,953,857 | 139,537 | 318,711 | 745,521 | 251,588 | 43,018 |
| Airports system support charges | 617,257 | — | 426,298 | 30,558 | 47,406 | 53,421 | 38,602 | 20,972 |
| Miscellaneous | 4,698,724 | 177,405 | 3,107,515 | 103,803 | 405,122 | 457,286 | 423,512 | 24,081 |
| | 244,377,274 | 177,405 | 174,307,750 | 5,832,110 | 15,421,091 | 32,488,437 | 14,988,262 | 1,162,219 |
| Allocation of statewide miscellaneous revenues (note 2) | — | (177,405) | 121,931 | 4,073 | 15,895 | 17,943 | 16,618 | 945 |
| Net operating revenues | $ 244,377,274 | $ — | $ 174,429,681 | $ 5,836,183 | $ 15,436,986 | $ 32,506,380 | $ 15,004,880 | $ 1,163,164 |
| Operating expenses other than depreciation: | | | | | | | | |
| Salaries and wages | $ 71,989,594 | $ 8,830,768 | $ 32,172,494 | $ 4,772,262 | $ 5,049,463 | $ 8,887,121 | $ 6,401,655 | $ 5,875,831 |
| Other personnel services | 51,589,531 | 2,606,920 | 30,823,937 | 3,988,489 | 3,931,939 | 5,280,456 | 3,031,654 | 1,926,136 |
| Utilities | 34,875,139 | 170 | 24,291,774 | 1,297,839 | 2,222,556 | 4,110,737 | 2,217,821 | 734,242 |
| Special maintenance | 32,986,045 | 893,095 | 12,439,718 | 7,256,592 | 769,089 | 1,984,073 | 1,251,718 | 8,391,760 |
| Repairs and maintenance | 14,180,818 | 774,751 | 9,751,343 | 532,308 | 556,192 | 1,538,014 | 700,066 | 328,144 |
| State of Hawaii surcharge on gross receipts (note 3) | 10,886,295 | 10,886,295 | — | — | — | — | — | — |
| Materials and supplies | 5,647,652 | 248,322 | 2,437,215 | 400,031 | 408,489 | 1,042,935 | 604,245 | 506,415 |
| Department of Transportation general administration expenses | 4,852,112 | 4,852,112 | — | — | — | — | — | — |
| Insurance | 4,248,337 | 4,246,916 | 135 | 1,040 | 427 | — | — | (181) |
| Bad debt expense (note 1) | 3,967,919 | — | 3,034,583 | 77,874 | 205,981 | 433,744 | 200,216 | 15,521 |
| Claims and benefits | 1,365,011 | 244,873 | 556,821 | 128,433 | 150,756 | 90,605 | 108,071 | 85,452 |
| Rent | 1,264,561 | 982,172 | 159,388 | 5,402 | 16,565 | 47,532 | 15,700 | 37,802 |
| Travel | 452,879 | 118,928 | 71,129 | 29,250 | 47,097 | 60,824 | 35,370 | 90,281 |
| Communication | 296,314 | 73,071 | 51,877 | 18,014 | 21,126 | 51,835 | 25,586 | 54,805 |
| Dues and subscriptions | 189,092 | 177,819 | 4,516 | 983 | 1,441 | 1,619 | 1,437 | 1,277 |
| Printing and advertising | 24,863 | 10,744 | 12,631 | — | 778 | — | 710 | — |
| Freight and delivery | 13,309 | 1,202 | 1,380 | 501 | 438 | 4,810 | 330 | 4,648 |
| Miscellaneous | 382,086 | 36,205 | 179,581 | 44,576 | 20,053 | 45,786 | 33,637 | 22,248 |
| | 239,211,557 | 34,984,363 | 115,988,522 | 18,553,594 | 13,402,390 | 23,580,091 | 14,628,216 | 18,074,381 |
| Allocation of statewide expenses (note 4) | — | (34,984,363) | 19,868,973 | 3,178,253 | 2,295,845 | 4,039,298 | 2,505,831 | 3,096,163 |
| Total operating expenses other than depreciation for net revenues and taxes | 239,211,557 | — | 135,857,495 | 21,731,847 | 15,698,235 | 27,619,389 | 17,134,047 | 21,170,544 |
| Disbursements out of major maintenance, renewal, and replacement account not included above | 2,473,331 | — | 1,498,459 | — | 149,377 | 727,853 | — | 97,642 |
| Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets | $ 241,684,888 | $ — | $ 137,355,954 | $ 21,731,847 | $ 15,847,612 | $ 28,347,242 | $ 17,134,047 | $ 21,268,186 |

Notes:
(1) Bad debt expense is allocated primarily by individually identifiable bad debts with the remainder allocated to the airports based upon their respective current-year revenues to total current-year revenues for all airports.
(2) Statewide miscellaneous revenues are allocated to the airports based upon their respective current-year miscellaneous revenues to total current-year miscellaneous revenues for all airports.
(3) 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.
(4) Statewide expenses are allocated to the airports based upon their respective current-year operating expenses to total current-year operating expenses for all airports.

See accompanying independent auditors' report.

**Schedule 2**

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

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2008

| | |
|---|---|
| Revenues and taxes: | |
| Concession fees | $ 121,917,432 |
| Airport landing fees | 36,952,719 |
| Aeronautical rentals: | |
| Exclusive-use premise charges | 33,913,698 |
| Nonexclusive joint-use premise charges | 29,161,701 |
| Nonaeronautical rentals | 12,663,511 |
| Aviation fuel tax | 4,452,232 |
| Airports system support charges | 617,257 |
| Interest income, exclusive of interest on investments in direct financing leases and including interest income of $16,443,812 on capital improvement projects | 31,677,874 |
| Federal operating grants | 24,958,330 |
| Miscellaneous | 4,698,724 |
| | 301,013,478 |
| Deductions: | |
| Operating expenses other than depreciation for net revenues and taxes (schedule 1) | 239,211,557 |
| Amounts required to be paid into the State General Fund for general obligation bond requirements: | |
| Principal | 9,425 |
| Interest | 1,505 |
| Annual reserve required on major maintenance, renewal, and replacement account | 4,654 |
| | 239,227,141 |
| Net revenues and taxes | 61,786,337 |
| Add funded coverage per bond certificate | 14,303,976 |
| | 76,090,313 |
| Debt service requirement: | |
| Airports system revenue bonds: | |
| Principal | 21,140,000 |
| Interest (note 1) | 36,075,901 |
| | 57,215,901 |
| Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2) | (10,000,000) |
| | 47,215,901 |
| Debt service coverage percentage | 125% |
| | 59,019,876 |
| Excess of net revenues and taxes over debt service requirement | $ 17,070,437 |

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 2008, the Airports Division deposited $10,000,000 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 2008 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

See accompanying independent auditors' report.

**Schedule 3**

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

Summary of Debt Service Requirements to Maturity

June 30, 2008

| | Annual principal and interest requirements | | | | |
|---|---|---|---|---|---|
| | Airports system revenue bonds | | General obligation bonds | | |
| | **Principal** | **Interest** | **Principal** | **Interest** | **Total** |
| Year ending June 30: | | | | | |
| 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 | $ 589,740,000 | $ 273,716,360 | $ 28,275 | $ 2,050 | $ 863,486,685 |

See accompanying independent auditors’ report.

**Schedule 4**

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2008

| | Principal | | | | | |
|---|---|---|---|---|---|---|
| | **Refunding series of 2000A, 5.50% to 6.00%** | **Refunding series of 2000B, 5.00% to 8.00%** | **Refunding series of 2001, 4.00% to 5.75%** | **Total** | **Interest** | **Total requirements** |
| Year ending June 30: | | | | | | |
| 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 | $ 207,830,000 | $ 355,495,000 | $ 589,740,000 | $ 273,716,360 | $ 863,456,360 |

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, 2008.

See accompanying independent auditors' report.

**Schedule 5**

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

Debt Service Requirements to Maturity – General Obligation Bonds

June 30, 2008

| | **Series CI 4.00% to 5.00% due 2011** | **Total principal** | **Interest** | **Total requirements** |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2009 | $ 9,425 | $ 9,425 | $ 1,133 | $ 10,558 |
| 2010 | 9,425 | 9,425 | 686 | 10,111 |
| 2011 | 9,425 | 9,425 | 231 | 9,656 |
| Total | $ 28,275 | $ 28,275 | $ 2,050 | $ 30,325 |

See accompanying independent auditors' report.

**Schedule 6**

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

Reconciliation of Adjusted Airports System Charges

Year ended June 30, 2008

| | | July 1, 2007 to December 31, 2007 | | January 1, 2008 to June 30, 2008 | | Total |
|---|---|---|---|---|---|---|
| Airport landing fees | $ | 19,574,265 | $ | 21,990,844 | $ | 41,565,109 |
| Aeronautical rentals: | | | | | | |
| Exclusive-use premise charges – terminal space | | 7,964,816 | | 12,357,202 | | 20,322,018 |
| Nonexclusive joint-use premise charges | | 12,897,524 | | 24,172,306 | | 37,069,830 |
| Airports system support charges | | 304,235 | | 313,022 | | 617,257 |
| Total | $ | 40,740,840 | $ | 58,833,374 | $ | 99,574,214 |
| Fiscal year 2008 (overpayment) underpayment | $ | (361,294) | $ | 12,617,827 | $ | 12,256,533 |
| Fiscal year 2008 waiver | | 361,294 | | (12,617,827) | | (12,256,533) |
| Fiscal year 2008 net (overpayment) underpayment | $ | — | $ | — | $ | — |

See accompanying independent auditors' report.

Schedule 7

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

Airports System Charges – Fiscal Year 1995 – 97 Lease Extension

Period July 1, 2007 to December 31, 2007

| | Airline activity | | | Airports system charges | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Nonexclusive joint-use premise charges | | | | | | |
| | Approved maximum revenue landing weights (1,000-pound units) | Revenue passenger landings | Deplaning international passengers | Airports landing fees | Airports system support charges | Joint-use charges – overseas terminal | Joint-use charges – blended OST terminal | Joint-use charges – interisland terminal | Joint-use charges – neighbor island terminal | International arrivals building charges | Exclusive-use premise charges – terminal space | Total |
| Signatory airlines: | | | | | | | | | | | | |
| Air Canada | 166,728 | 546 | 26,688 | $ 321,785 | $ — | $ 220,682 | $ — | $ — | $ 636 | $ 124,553 | $ 207,846 | $ 875,502 |
| Air New Zealand, Ltd. | 56,304 | 73 | 12,766 | 108,667 | — | 32,099 | — | — | 12 | 59,579 | 103,875 | 304,232 |
| Air Pacific, Ltd. | 18,176 | 130 | 7,600 | 35,080 | — | 57,957 | — | — | — | 35,469 | — | 128,506 |
| Alaska Air, Inc. | 24,480 | 170 | — | 47,246 | — | 46,811 | — | — | 810 | — | 6,936 | 101,803 |
| All Nippon Airways Co., Ltd. | — | — | — | — | — | — | — | — | — | — | 1,100 | 1,100 |
| Aloha Airlines, Inc. | 2,866,034 | 20,649 | — | 2,219,879 | — | — | 148,866 | 802,120 | 137,829 | — | 1,107,274 | 4,415,968 |
| America West Airlines, Inc. | 73,062 | 369 | — | 141,010 | — | 51,715 | — | — | 3,153 | — | 5,460 | 201,338 |
| American Airlines, Inc. | 562,406 | 2,284 | — | 1,085,444 | — | 608,994 | — | — | 11,441 | — | 388,583 | 2,094,462 |
| ATA Airlines, Inc. | 391,073 | 2,214 | 1,243 | 754,771 | — | 526,071 | — | — | 12,887 | 5,801 | 160,352 | 1,459,882 |
| China Airlines, Ltd. | 103,679 | 194 | 57,374 | 200,100 | — | 86,490 | — | — | — | 267,764 | 84,808 | 639,162 |
| Continental Airlines, Inc. | 257,098 | 735 | — | 496,199 | — | 327,680 | — | — | — | — | 496,442 | 1,320,321 |
| Continental Micronesia, Inc. | 143,446 | 474 | 88,777 | 276,851 | — | 211,320 | — | — | — | 414,322 | — | 902,493 |
| Delta Airlines, Inc. | 405,012 | 1,180 | — | 781,673 | — | 416,399 | — | — | 3,066 | — | 586,151 | 1,787,289 |
| Evergreen International Airlines, Inc. | 56,170 | — | — | 108,408 | — | — | — | — | — | — | — | 108,408 |
| Federal Express Corporation | 370,605 | — | — | 715,267 | — | — | — | — | — | — | 3,906 | 719,173 |
| Hawaii Island Air, Inc. | 416,834 | 4,092 | — | 289,700 | — | — | — | — | 50,999 | — | (45,862) | 294,837 |
| Hawaiian Airlines, Inc. | 3,507,230 | 25,834 | 36,227 | 3,672,525 | — | — | 938,361 | 928,670 | 157,172 | 169,071 | 938,825 | 6,804,624 |
| JALways Co, Ltd. | 692,999 | 1,378 | 412,748 | 1,260,187 | — | 532,313 | — | — | 2,293 | 1,926,295 | — | 3,721,088 |
| Japan Air Lines Company, Ltd. | 14,964 | 27 | 8,644 | 28,881 | — | 12,037 | — | — | — | 40,342 | 853,490 | 934,750 |
| Kalitta Air, LLC | 92,025 | — | — | 177,608 | — | — | — | — | — | — | — | 177,608 |
| Korean Airlines Company, Ltd. | 82,508 | 177 | 40,518 | 159,240 | — | 78,911 | — | — | — | 189,098 | 111,374 | 538,623 |
| Mesa Airlines, Inc. | 476,439 | 5,072 | — | 331,125 | — | — | — | — | 63,212 | — | 198,173 | 592,510 |
| North American Airlines, Inc. | 4,860 | 19 | — | 8,603 | — | 7,133 | — | — | 37 | — | — | 15,773 |
| Northwest Airlines, Inc. | 676,165 | 2,068 | 183,954 | 1,254,373 | — | 758,791 | — | — | 4,561 | 858,513 | 502,875 | 3,379,113 |
| Pacific Wings LLC | 59,220 | — | — | 41,158 | — | — | — | — | — | — | 21,349 | 62,507 |
| Philippine Airlines, Inc. | 35,854 | 78 | 16,269 | 69,198 | — | 34,774 | — | — | — | 75,928 | 57,480 | 237,380 |
| Qantas Airways, Ltd. | 98,304 | 79 | 16,095 | 189,727 | — | 35,220 | — | — | — | 75,115 | 171,915 | 471,977 |
| United Airlines, Inc. | 1,361,331 | 4,493 | 65,630 | 2,576,809 | — | 924,192 | — | — | 30,160 | 306,295 | 1,641,366 | 5,478,822 |
| United Parcel Service Co. | 356,616 | — | — | 574,016 | — | — | — | — | — | — | 2,028 | 576,044 |
| US Airways, Inc. | 74,844 | 378 | — | 144,449 | — | 58,849 | — | — | 3,066 | — | 2,891 | 209,255 |
| Westjet | 19,441 | 133 | — | 37,521 | — | 26,749 | — | — | 910 | — | 461 | 65,641 |
| Nonsignatory airlines | 722,671 | 342 | 59,418 | 1,466,765 | 304,235 | 156,412 | — | — | — | 198,813 | 355,718 | 2,481,943 |
| Total airports system charges billed | 14,186,578 | 73,188 | 1,033,951 | 19,574,265 | 304,235 | 5,211,599 | 1,087,227 | 1,730,790 | 482,244 | 4,746,958 | 7,964,816 | 41,102,134 |
| Adjusted airports system charges based on final reconciliation | | | | 19,574,265 | 304,235 | 5,218,268 | 1,068,449 | 1,742,370 | 492,579 | 4,375,858 | 7,964,816 | 40,740,840 |
| Fiscal year 2008 underpayment (overpayment) | | | | — | — | 6,669 | (18,778) | 11,580 | 10,335 | (371,100) | — | (361,294) |
| Fiscal year 2008 waiver | | | | — | — | (6,669) | 18,778 | (11,580) | (10,335) | 371,100 | — | 361,294 |
| Fiscal year 2008 net underpayment (overpayment) | | | | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |

See accompanying independent auditors' report.

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

Airports System Charges – Fiscal Year 2008 Lease Extension

Period January 1, 2008 to June 30, 2008

| | Airline activity | | | Airports system charges | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Nonexclusive joint-use premise charges | | | | | | | | | |
| | Approved maximum revenue landing weights (1,000-pound units) | Revenue passenger landings | Deplaning international passengers | Airports landing fees | Airports system support charges | Joint-use charges – overseas baggage | Joint-use charges – overseas holdroom | Joint-use charges – interisland baggage | Joint-use charges – interisland holdroom | Joint-use charges – commuter baggage | Joint-use charges – commuter holdroom | International arrivals building charges | Preferential use | Exclusive-use premise charges – terminal space | Total |
| Signatory airlines: | | | | | | | | | | | | | | | |
| Air Canada | 122,138 | 431 | — | $ 277,253 | $ — | $ 83,125 | $ 66,085 | $ — | $ — | $ — | $ — | $ — | $ — | $ 212,464 | $ 638,927 |
| Air New Zealand, Ltd. | 48,928 | 53 | 10,125 | 111,067 | — | 11,172 | 7,800 | — | — | — | — | 46,575 | — | 11,477 | 188,091 |
| Air Pacific, Ltd. | 18,288 | 130 | 8,142 | 41,514 | — | 6,839 | 6,604 | — | — | — | — | 37,453 | — | — | 92,410 |
| Alaska Air, Inc. | 71,856 | 499 | — | 163,113 | — | 130,410 | 90,503 | — | — | — | — | — | — | 19,316 | 403,342 |
| All Nippon Airways Co., Ltd. | — | — | — | — | — | — | — | — | — | — | — | — | — | 1,354 | 1,354 |
| Aloha Airlines, Inc. | 1,557,242 | 10,644 | — | 1,409,292 | — | — | — | — | — | — | — | — | 225,668 | 1,262,625 | 2,897,585 |
| American Airlines, Inc. | 594,948 | 2,347 | — | 1,350,532 | — | 489,523 | 373,442 | — | — | — | — | — | — | 486,978 | 2,700,475 |
| ATA Airlines, Inc. | 175,579 | 985 | 612 | 398,565 | — | 166,799 | 210,586 | — | — | — | — | 2,815 | — | 155,900 | 934,665 |
| China Airlines, Ltd. | 86,802 | 182 | 51,236 | 197,040 | — | 54,761 | 38,229 | — | — | — | — | 235,686 | — | 89,558 | 615,274 |
| Continental Airlines, Inc. | 241,218 | 728 | — | 547,565 | — | 174,039 | 121,499 | — | — | — | — | — | — | 492,575 | 1,335,678 |
| Continental Micronesia, Inc. | 110,814 | 379 | 73,785 | 251,548 | — | 71,510 | 49,922 | — | — | — | — | 339,411 | — | — | 712,391 |
| Delta Airlines, Inc. | 402,083 | 1,285 | — | 912,728 | — | 307,219 | 237,879 | — | — | — | — | — | — | 688,665 | 2,146,491 |
| Evergreen International Airlines, Inc. | 56,970 | — | — | 129,322 | — | — | — | — | — | — | — | — | — | — | 129,322 |
| Federal Express Corporation | 370,483 | — | — | 840,995 | — | — | — | — | — | — | — | — | — | — | 840,995 |
| Hawaii Island Air, Inc. | 397,240 | 3,037 | — | 324,545 | — | — | — | 13,149 | 71,820 | 66,519 | 58,204 | — | — | — | 534,237 |
| Hawaiian Airlines, Inc. | 3,787,545 | 27,642 | 36,959 | 4,485,403 | — | 538,610 | 541,941 | 2,071,743 | — | — | — | 170,011 | 504,583 | 1,411,579 | 9,723,870 |
| JALways Co, Ltd. | 620,611 | 1,241 | 361,063 | 1,328,686 | — | 407,953 | 302,442 | — | — | — | — | 1,660,889 | — | — | 3,699,970 |
| Japan Air Lines Company, Ltd. | 21,168 | 38 | 10,883 | 48,051 | — | 12,727 | 8,885 | — | — | — | — | 50,062 | — | 928,929 | 1,048,654 |
| Kalitta Air, LLC | 73,170 | — | — | 166,096 | — | — | — | — | — | — | — | — | — | — | 166,096 |
| Korean Airlines Company, Ltd. | 83,784 | 182 | 39,340 | 190,190 | — | 44,012 | 30,726 | — | — | — | — | 180,964 | — | 112,036 | 557,928 |
| Mesa Airlines, Inc. | 591,401 | 6,283 | — | 483,175 | — | — | — | 114,119 | 272,163 | 149,108 | 130,469 | — | — | 33,258 | 1,182,292 |
| North American Airlines, Inc. | 848 | 3 | — | 1,925 | — | — | — | — | — | — | — | — | — | — | 1,925 |
| Northwest Airlines, Inc. | 657,615 | 2,004 | 151,646 | 1,433,549 | — | 474,140 | 341,123 | — | — | — | — | 697,572 | — | 526,061 | 3,472,445 |
| Pacific Wings LLC | 54,859 | — | — | 44,820 | — | — | — | — | — | — | 4,602 | — | — | — | 49,422 |
| Philippine Airlines, Inc. | 35,973 | 79 | 18,543 | 81,659 | — | 17,543 | 12,247 | — | — | — | — | 85,298 | — | 129,552 | 326,299 |
| Qantas Airways, Ltd. | 93,812 | 92 | 17,934 | 212,953 | — | 19,549 | 13,647 | — | — | — | — | 82,496 | — | 163,464 | 492,109 |
| United Airlines, Inc. | 1,272,582 | 4,156 | 41,713 | 2,801,170 | — | 1,138,352 | 874,780 | — | — | — | — | 191,880 | — | 1,699,055 | 6,705,237 |
| United Parcel Service Co. | 349,945 | — | — | 657,504 | — | — | — | — | — | — | — | — | — | — | 657,504 |
| US Airways, Inc. | 192,654 | 973 | — | 437,325 | — | 203,442 | 178,723 | — | — | — | — | — | — | 41,914 | 861,404 |
| Westjet | 65,181 | 446 | — | 147,962 | — | 63,423 | 53,719 | — | — | — | — | — | — | 1,198 | 266,302 |
| Nonsignatory airlines | 866,221 | 605 | 55,888 | 1,508,992 | 313,022 | — | 276,693 | — | — | — | — | 187,001 | — | 547,145 | 2,832,853 |
| Total airports system charges billed | 13,021,958 | 64,444 | 877,869 | 20,984,539 | 313,022 | 4,415,148 | 3,837,475 | 2,199,011 | 343,983 | 215,627 | 193,275 | 3,968,113 | 730,251 | 9,015,103 | 46,215,547 |
| Adjusted airports system charges based on final reconciliation | | | | 21,990,844 | 313,022 | 6,338,256 | 5,875,282 | 3,102,951 | 776,273 | 172,800 | 232,695 | 6,663,199 | 1,010,850 | 12,357,202 | 58,833,374 |
| Fiscal year 2008 underpayment (overpayment) | | | | 1,006,305 | — | 1,923,108 | 2,037,807 | 903,940 | 432,290 | (42,827) | 39,420 | 2,695,086 | 280,599 | 3,342,099 | 12,617,827 |
| Fiscal year 2008 waiver | | | | (1,006,305) | — | (1,923,108) | (2,037,807) | (903,940) | (432,290) | 42,827 | (39,420) | (2,695,086) | (280,599) | (3,342,099) | (12,617,827) |
| Fiscal year 2008 net underpayment (overpayment) | | | | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |

See accompanying independent auditors' report.

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

Summary of Billed Airport Landing Fees

Year ended June 30, 2008

| | Signatory airlines | Nonsignatory airlines | Total |
|---|---|---|---|
| Gross airport landing fees billed | $ 37,583,047 | $ 2,975,757 | $ 40,558,804 |
| Less aviation fuel tax credit | (3,398,838) | (207,247) | (3,606,085) |
| Net airport landing fees billed | $ 34,184,209 | $ 2,768,510 | $ 36,952,719 |

See accompanying independent auditors' report.

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

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

Year ended June 30, 2008

| | Approved maximum revenue landing weights (1,000-pound units) | | | | Honolulu International Airport and Hilo International Airport | | | | | All other airports | | | Total adjusted airport landing fees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Gross airport landing fees | | | | | | | | |
| | Honolulu International Airport | Hilo International Airport | All other airports | Total | Honolulu International Airport | Hilo International Airport | Total | Aviation fuel tax credit | Adjusted airport landing fees | Gross airport landing fees | Aviation fuel tax credit | Adjusted airport landing fees | |
| Air Canada | 233,644 | — | 55,222 | 288,866 | $ 478,640 | $ — | $ 478,640 | $ — | $ 478,640 | $ 120,399 | $ — | $ 120,399 | $ 599,039 |
| Air New Zealand, Ltd. | 104,602 | — | 630 | 105,232 | 218,517 | — | 218,517 | — | 218,517 | 1,216 | — | 1,216 | 219,733 |
| Air Pacific, Ltd. | 36,464 | — | — | 36,464 | 76,593 | — | 76,593 | — | 76,593 | — | — | — | 76,593 |
| Alaska Airlines, Inc. | 60,768 | — | 35,568 | 96,336 | 132,803 | — | 132,803 | (63,866) | 68,937 | 77,557 | — | 77,557 | 146,494 |
| Aloha Airlines, Inc. | 2,050,102 | 402,206 | 1,970,967 | 4,423,275 | 1,612,153 | 297,793 | 1,909,946 | (339,096) | 1,570,850 | 1,719,226 | — | 1,719,226 | 3,290,076 |
| America West Airline, Inc. | 22,968 | — | 50,094 | 73,062 | 44,328 | — | 44,328 | — | 44,328 | 96,681 | — | 96,681 | 141,009 |
| American Airlines, Inc. | 730,782 | — | 426,572 | 1,157,354 | 1,540,073 | — | 1,540,073 | (232,320) | 1,307,753 | 895,903 | — | 895,903 | 2,203,656 |
| ATA Airlines, Inc. | 302,203 | 29,114 | 235,336 | 566,653 | 613,317 | 59,174 | 672,491 | (262,489) | 410,002 | 480,845 | — | 480,845 | 890,847 |
| China Airlines, Inc. | 190,480 | — | — | 190,480 | 397,140 | — | 397,140 | — | 397,140 | — | — | — | 397,140 |
| Continental Airlines, Inc. | 498,316 | — | — | 498,316 | 1,043,764 | — | 1,043,764 | — | 1,043,764 | — | — | — | 1,043,764 |
| Continental Micronesia, Inc. | 254,260 | — | — | 254,260 | 528,399 | — | 528,399 | — | 528,399 | — | — | — | 528,399 |
| Delta Airlines, Inc. | 618,972 | — | 188,123 | 807,095 | 1,295,596 | — | 1,295,596 | (75,844) | 1,219,752 | 398,806 | — | 398,806 | 1,618,558 |
| Evergreen International Airlines, Inc. | 113,140 | — | — | 113,140 | 237,730 | — | 237,730 | — | 237,730 | — | — | — | 237,730 |
| Federal Express Corporation | 645,433 | 95,655 | — | 741,088 | 1,355,170 | 201,092 | 1,556,262 | (206,348) | 1,349,914 | — | — | — | 1,349,914 |
| Hawaii Island Air, Inc. | 285,641 | 40,002 | 488,431 | 814,074 | 216,181 | 29,605 | 245,786 | (45,304) | 200,482 | 368,460 | — | 368,460 | 568,942 |
| Hawaiian Airlines, Inc. | 4,121,310 | 465,520 | 2,707,945 | 7,294,775 | 5,277,873 | 353,517 | 5,631,390 | (1,352,903) | 4,278,487 | 2,526,538 | — | 2,526,538 | 6,805,025 |
| JALways Co., Ltd. | 1,195,890 | — | 117,720 | 1,313,610 | 2,342,931 | — | 2,342,931 | — | 2,342,931 | 245,943 | (5,391) | 240,552 | 2,583,483 |
| Japan Air Lines Company, Ltd. | 36,132 | — | — | 36,132 | 76,932 | — | 76,932 | — | 76,932 | — | — | — | 76,932 |
| Kalitta Air, LLC | 165,195 | — | — | 165,195 | 343,705 | — | 343,705 | — | 343,705 | — | — | — | 343,705 |
| Korean Airlines Company, Ltd. | 166,292 | — | — | 166,292 | 349,430 | — | 349,430 | — | 349,430 | — | — | — | 349,430 |
| Mesa Airlines, Inc. | 534,155 | 121,636 | 412,049 | 1,067,840 | 407,362 | 92,943 | 500,305 | — | 500,305 | 313,995 | — | 313,995 | 814,300 |
| North American Airlines, Inc. | 5,079 | — | 629 | 5,708 | 10,091 | — | 10,091 | — | 10,091 | 437 | — | 437 | 10,528 |
| Northwest Airlines, Inc. | 1,170,260 | — | 163,520 | 1,333,780 | 2,454,468 | — | 2,454,468 | (60,083) | 2,394,385 | 233,455 | — | 233,455 | 2,627,840 |
| Pacific Wings LLC | 23,273 | 978 | 89,828 | 114,079 | 17,367 | 679 | 18,046 | (6,043) | 12,003 | 67,931 | — | 67,931 | 79,934 |
| Philippine Airlines, Inc. | 71,827 | — | — | 71,827 | 150,857 | — | 150,857 | — | 150,857 | — | — | — | 150,857 |
| Qantas Airways, Ltd. | 192,116 | — | — | 192,116 | 402,680 | — | 402,680 | — | 402,680 | — | — | — | 402,680 |
| United Airlines, Inc. | 1,360,457 | — | 1,273,456 | 2,633,913 | 2,841,252 | — | 2,841,252 | (512,500) | 2,328,752 | 2,536,723 | (115,035) | 2,421,688 | 4,750,440 |
| United Parcel Service Co. | 520,754 | — | 185,807 | 706,561 | 1,091,193 | — | 1,091,193 | (36,450) | 1,054,743 | 140,328 | — | 140,328 | 1,195,071 |
| US Airways, Inc. | 83,358 | — | 184,140 | 267,498 | 180,336 | — | 180,336 | (8,219) | 172,117 | 401,437 | (64,112) | 337,325 | 509,442 |
| Westjet | 39,872 | — | 44,751 | 84,623 | 87,530 | — | 87,530 | — | 87,530 | 97,953 | (12,835) | 85,118 | 172,648 |
| Total | 15,833,745 | 1,155,111 | 8,630,788 | 25,619,644 | $ 25,824,411 | $ 1,034,803 | $ 26,859,214 | $ (3,201,465) | $ 23,657,749 | $ 10,723,833 | $ (197,373) | $ 10,526,460 | $ 34,184,209 |

| Summary of revenue landing weights: | |
|---|---|
| Overseas | 13,653,972 |
| Interisland | 11,965,672 |
| | 25,619,644 |

Aviation fuel tax of $4,452,232 was paid by the users for the year ended June 30, 2008. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,606,085 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

| | |
|---|---|
| Signatory airlines | $ 3,398,838 |
| Nonsignatory airlines | 207,247 |
| | $ 3,606,085 |

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2008.

See accompanying independent auditors’ report.

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

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

Year ended June 30, 2008

| | Approved maximum revenue landing weights (1,000-pound units) | | | | Honolulu International Airport and Hilo International Airport | | | | | All other airports | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Gross airport landing fees | | | | | | | | |
| | Honolulu International Airport | Hilo International Airport | All other airports | Total | Honolulu International Airport | Hilo International Airport | Total | Aviation fuel tax credit | Adjusted airport landing fees | Gross airport landing fees | Aviation fuel tax credit | Adjusted airport landing fees | Total adjusted airport landing fees |
| Above It All, Inc. | — | 2,650 | 3,468 | 6,118 | $ — | $ 2,528 | $ 2,528 | $ (87) | $ 2,441 | $ 3,309 | $ (1,124) | $ 2,185 | $ 4,626 |
| Aero Micronesia dba Asia Pacific | 38,212 | 164 | 1,148 | 39,524 | 111,214 | 156 | 111,370 | — | 111,370 | 1,095 | — | 1,095 | 112,465 |
| Aeko Kula, Inc. | 37,771 | 52,965 | 53,393 | 144,129 | 36,034 | 50,529 | 86,563 | | 86,563 | 50,938 | | 50,938 | 137,501 |
| Air France | 104 | — | — | 104 | 309 | — | 309 | — | 309 | — | — | — | 309 |
| Air Japan Co. Ltd. | 119,040 | — | — | 119,040 | 354,739 | — | 354,739 | — | 354,739 | — | — | — | 354,739 |
| Air New Zealand | 105 | — | — | 105 | 313 | — | 313 | — | 313 | — | — | — | 313 |
| Air Transport International LLC | 49,140 | — | — | 49,140 | 146,437 | — | 146,437 | — | 146,437 | — | — | — | 146,437 |
| Air Ventures Hawaii, LLC | — | — | 2,416 | 2,416 | — | — | — | — | — | 2,305 | (367) | 1,938 | 1,938 |
| Airmed Hawaii, LLC | 15,581 | 28 | 394 | 16,003 | 14,912 | 26 | 14,938 | (4,350) | 10,588 | 376 | — | 376 | 10,964 |
| Alika Aviation Inc. | — | — | 10,606 | 10,606 | — | — | — | — | — | 10,118 | — | 10,118 | 10,118 |
| Aloha Airlines Inc. | 256 | — | — | 256 | 763 | — | 763 | — | 763 | — | — | — | 763 |
| Alpine Aviation, Inc. | 25,634 | 110 | 13,490 | 39,234 | 24,454 | 105 | 24,559 | (4,062) | 20,497 | 12,870 | — | 12,870 | 33,367 |
| Aris Inc. | — | — | 17,196 | 17,196 | — | — | — | — | — | 16,405 | (6,866) | 9,539 | 9,539 |
| Atlas Air Inc. | 102,492 | — | — | 102,492 | 305,426 | — | 305,426 | — | 305,426 | — | — | — | 305,426 |
| Big Island Air Incorporation | 16 | 8 | 10,163 | 10,187 | 15 | 7 | 22 | — | 22 | 9,696 | — | 9,696 | 9,718 |
| Bradley Pacific Aviation Inc. | 31,893 | 952 | 59,702 | 92,547 | 83,386 | 1,528 | 84,914 | — | 84,914 | 145,217 | — | 145,217 | 230,131 |
| Call Air Inc. | 154 | 7 | 490 | 651 | 147 | 7 | 154 | (101) | 53 | 467 | (41) | 426 | 479 |
| Corporate Air | 38,334 | 9,644 | 19,470 | 67,448 | 36,571 | 9,201 | 45,772 | — | 45,772 | 18,574 | — | 18,574 | 64,346 |
| Dipiazza, Charles | — | — | 13,041 | 13,041 | — | — | — | — | — | 11,164 | (1,806) | 9,358 | 9,358 |
| Fly Kauai, Inc. | — | — | 1,074 | 1,074 | — | — | — | — | — | 1,024 | — | 1,024 | 1,024 |
| Gemini Air Cargo, Inc. | 3,224 | — | — | 3,224 | 9,608 | — | 9,608 | — | 9,608 | — | — | — | 9,608 |
| George’s Aviation Service, Inc. | 441 | 357 | 1,372 | 2,170 | 394 | 307 | 701 | (463) | 238 | 1,195 | (399) | 796 | 1,034 |
| Gould, Steve | — | — | 14,895 | 14,895 | — | — | — | — | — | 14,210 | — | 14,210 | 14,210 |
| Hale O’Lele Corporation | — | — | 2,070 | 2,070 | — | — | — | — | — | 1,974 | | 1,974 | 1,974 |
| Harter, Jack Helicopters, Inc. | — | — | 10,970 | 10,970 | — | — | — | — | — | 10,466 | (1,798) | 8,668 | 8,668 |
| Hawaii Air Ambulance, Inc. | 15,658 | — | — | 15,658 | 14,937 | — | 14,937 | (610) | 14,327 | — | — | — | 14,327 |
| Hawaii Helicopters, Inc. | — | — | 6,835 | 6,835 | — | — | — | (1,388) | (1,388) | 6,520 | — | 6,520 | 5,132 |
| Hawaiian Airlines Inc. | — | — | 134 | 134 | — | — | — | — | — | 399 | — | 399 | 399 |
| Heli USA Airways | 3,690 | — | — | 3,690 | 3,520 | — | 3,520 | — | 3,520 | — | — | — | 3,520 |
| Helicopter Consultations of MA | 4 | 56,608 | 62,607 | 119,219 | 3 | 54,004 | 54,007 | (18,536) | 35,471 | 59,727 | — | 59,727 | 95,198 |
| Honolulu Soaring Club Inc. | — | — | 2,587 | 2,587 | — | — | — | — | — | 2,468 | (1,884) | 584 | 584 |
| Island Helicopters Kauai | — | — | 13,700 | 13,700 | — | — | — | — | — | 13,069 | (2,093) | 10,976 | 10,976 |
| Jetstar Airways PTY Limited | 101,986 | — | — | 101,986 | 303,917 | — | 303,917 | — | 303,917 | — | — | — | 303,917 |
| K&S Helicopters, Inc. | 2,973 | 6,456 | — | 9,429 | 2,836 | 6,159 | 8,995 | (4,306) | 4,689 | — | — | — | 4,689 |
| Kamaka Air, Inc. | 7,762 | — | 18,843 | 26,605 | 7,405 | — | 7,405 | — | 7,405 | 17,976 | — | 17,976 | 25,381 |
| Korean Airlines | 59 | — | — | 59 | 176 | — | 176 | — | 176 | — | — | — | 176 |
| Makani Kai Helicopters Ltd. | 5,514 | — | — | 5,514 | 5,261 | — | 5,261 | (1,667) | 3,594 | — | — | — | 3,594 |
| Marjet, Inc. | 213 | 29 | 466 | 708 | 204 | 28 | 232 | — | 232 | 444 | — | 444 | 676 |
| Maui Island Air Inc. | 154 | 7 | 4,242 | 4,403 | 147 | 7 | 154 | — | 154 | 4,047 | — | 4,047 | 4,201 |
| Miscellaneous use charge-overseas | 50,969 | 576 | 165 | 51,710 | 151,681 | 1,709 | 153,390 | (47) | 153,343 | 1,608 | (66) | 1,542 | 154,885 |
| Mokulele Flight Service, Inc. | 25,295 | 42 | 64,697 | 90,034 | 24,132 | 40 | 24,172 | (4) | 24,168 | 61,721 | (9) | 61,712 | 85,880 |
| Niihau Helicopters Inc. | — | — | 1,410 | 1,410 | — | — | — | — | — | 1,345 | — | 1,345 | 1,345 |
| Omni Air International, Inc. | 82,323 | — | — | 82,323 | 245,323 | — | 245,323 | (46,018) | 199,305 | — | — | — | 199,305 |
| Pacific Air Charters, Incorporated | 597 | 14 | 1,063 | 1,674 | 569 | 13 | 582 | (34) | 548 | 1,014 | — | 1,014 | 1,562 |
| Pacific Helicopter Tours, Inc. | 1,374 | 12 | 1,920 | 3,306 | 1,311 | 12 | 1,323 | (711) | 612 | 1,831 | (1,163) | 668 | 1,280 |
| Paragon Air Inc. | 17 | — | 1,012 | 1,029 | 16 | — | 16 | — | 16 | 966 | — | 966 | 982 |
| Pofolk Aviation Hawaii, Inc. | — | — | 3,247 | 3,247 | — | — | — | — | — | 3,098 | (137) | 2,961 | 2,961 |
| Rainbow Pacific Helicopters | 10 | — | — | 10 | 10 | — | 10 | — | 10 | — | — | — | 10 |
| Ryan International Airlines | 396 | — | — | 396 | 1,180 | — | 1,180 | — | 1,180 | — | — | — | 1,180 |
| Safari Aviation Inc. | — | 7,198 | 16,600 | 23,798 | — | 6,867 | 6,867 | — | 6,867 | 15,836 | — | 15,836 | 22,703 |
| Sky-Med Inc. | — | — | 17,683 | 17,683 | — | — | — | — | — | 16,869 | — | 16,869 | 16,869 |
| Smoky Mountain Helicopters | — | — | 7,719 | 7,719 | — | — | — | — | — | 7,364 | — | 7,364 | 7,364 |
| Squyres, Will Helicopter, Inc. | — | — | 15,214 | 15,214 | — | — | — | — | — | 14,514 | — | 14,514 | 14,514 |
| Sunshine Helicopters Inc. | — | 7,682 | 23,419 | 31,101 | — | 6,863 | 6,863 | (822) | 6,041 | 22,807 | (6,290) | 16,517 | 22,558 |
| Trans Executive Airlines of Hawaii, Inc. dba Trans Air | 20,723 | 4,664 | 29,733 | 55,120 | 19,770 | 4,449 | 24,219 | (9,610) | 14,609 | 28,365 | — | 28,365 | 42,974 |
| Universal Enterprises, Inc. | 55,596 | 1,101 | 69,423 | 126,120 | 148,303 | 2,190 | 150,493 | (90,388) | 60,105 | 178,461 | — | 178,461 | 238,566 |
| Wings Over Kauai, LLC | — | — | 1,831 | 1,831 | — | — | — | — | — | 1,747 | — | 1,747 | 1,747 |
| Total | 837,710 | 151,274 | 599,908 | 1,588,892 | $ 2,055,423 | $ 146,735 | $ 2,202,158 | $ (183,204) | $ 2,018,954 | $ 773,599 | $ (24,043) | $ 749,556 | $ 2,768,510 |

| Summary of revenue landing weights: | |
|---|---|
| Overseas | 720,610 |
| Interisland | 868,282 |
| | 1,588,892 |

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2008.

See accompanying independent auditors’ report.