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

Financial Statements and Supplemental Schedules

June 30, 2011

(With Independent Auditors’ Report Thereon)

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

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Independent Auditors’ Report

The Auditor
State of Hawaii:

We have audited the accompanying statement of net assets of the Department of Transportation, Airports Division, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Airports Division’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airports Division’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of the Airports Division are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Airports Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Airports Division, State of Hawaii as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2012 on our consideration of the Airports Division’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.
The management’s discussion and analysis on pages 3 through 19 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

February 6, 2012

KPMG LLP
The following Management’s Discussion and Analysis of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal year ended June 30, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. It has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation’s longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 59.9% and 60.4% of total passenger traffic in the airports system during fiscal years 2011 and 2010, respectively. The other four principal airports accommodated 38.9% and 38.4% of the total passenger traffic for fiscal years 2011 and 2010, respectively. The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly, Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.2% of the total passenger traffic for both fiscal years 2011 and 2010, respectively.

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

Using the Financial Statements

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

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

Airports Division Activities and Highlights

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

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

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

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

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

<table>
<thead>
<tr>
<th>Airport</th>
<th>2011</th>
<th>2010</th>
<th>Percentage increase (decrease) from 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honolulu International Airport</td>
<td>65,374</td>
<td>75,707</td>
<td>(13.6)</td>
</tr>
<tr>
<td>Kahului Airport</td>
<td>27,109</td>
<td>21,856</td>
<td>24.0</td>
</tr>
<tr>
<td>Kona International Airport at Keahole</td>
<td>11,615</td>
<td>13,155</td>
<td>(11.7)</td>
</tr>
<tr>
<td>Lihue Airport</td>
<td>16,320</td>
<td>12,342</td>
<td>32.2</td>
</tr>
<tr>
<td>Hilo International Airport</td>
<td>7,130</td>
<td>8,115</td>
<td>(12.1)</td>
</tr>
<tr>
<td>Other airports</td>
<td>5,778</td>
<td>3,879</td>
<td>49.0</td>
</tr>
<tr>
<td><strong>Total signatory airlines</strong></td>
<td>133,326</td>
<td>135,054</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Nonsignatory airlines</td>
<td>512</td>
<td>775</td>
<td>(33.9)</td>
</tr>
<tr>
<td><strong>Total revenue passenger landings</strong></td>
<td>133,838</td>
<td>135,829</td>
<td>(1.5)%</td>
</tr>
</tbody>
</table>

Deplaning international passengers:

<table>
<thead>
<tr>
<th>Airport</th>
<th>2011</th>
<th>2010</th>
<th>Percentage increase (decrease) from 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honolulu International Airport</td>
<td>1,832,257</td>
<td>1,686,623</td>
<td>8.6%</td>
</tr>
<tr>
<td>Kona International Airport at Keahole</td>
<td>5,612</td>
<td>91,387</td>
<td>(93.9)</td>
</tr>
<tr>
<td><strong>Total signatory airlines</strong></td>
<td>1,837,869</td>
<td>1,778,010</td>
<td>3.4</td>
</tr>
<tr>
<td>Nonsignatory airlines</td>
<td>56,961</td>
<td>104,761</td>
<td>(45.6)</td>
</tr>
<tr>
<td><strong>Total deplaning international passengers</strong></td>
<td>1,894,830</td>
<td>1,882,771</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Financial Operations Highlights

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

Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect a $3.00 PFC at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport through February 1, 2007. During this period, the Airports Division was able to collect the maximum approved PFC revenue, including interest earned amounting to $42,632,466. The PFC collections are currently utilized to fund flight information display and public address system improvements, air conditioning system improvements, South Ramp environmental compliance measures, runway safety area improvements, perimeter road improvements and fencing, and general aviation lighting projects.
Effective February 1, 2007, the FAA approved the Airports Division’s PFC Application No. 2 to impose a $3.00 PFC at the airports mentioned above with the addition of Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 1, 2007 and July 1, 2011 (amended from November 30, 2008 to July 1, 2011) from the five principal airports was amended from $104,458,000 to $62,500,000 as of June 30, 2009. The maximum amount of $62,500,000 was further amended to $49,560,000 as of November 30, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and fire fighting facilities improvements, elevator improvements, loading bridge replacements, air conditioning system improvements, and PFC administration costs.

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

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

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

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

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

On July 7, 2010, State Legislature Senate Bill 2461 became law as Act 206, Session Laws of Hawaii 2010, authorizing the Airports Division to increase the CFC surcharge to $4.50 per day effective September 1, 2010.
Since September 1, 2009 through June 30, 2011, the total CFC revenues, including interest earned and expenditures were $64.2 million and $12.8 million, respectively. However, on July 1, 2011, the collection of this fee was suspended by the State Legislature for one year.

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

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

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

In summary, the Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenues from a diverse mix of sources. Even though passenger traffic has improved slightly, the Airports Division continues to monitor signatory airline requirements and adjust rates and charges accordingly to assure financial stability and bond certificate requirements are met. In addition, the continued implementation of cost saving measures by management relating to personnel, security, and utility costs has improved the Airports Division’s financial position. However, such cost saving measures are being monitored to prevent compromising the Airports Division’s main objective, which is to adequately serve the traveling public and airport tenants.
A summary of operations and changes in net assets for the years ended June 30, 2011 and 2010 is as follows:

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

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

Operating expenses excluding depreciation increased by 1.2% from $212.9 million in fiscal year 2010 to $215.4 million in fiscal year 2011. The most recognized increase related to utilities and special maintenance amounting to $8.3 million. Salaries and wages increased by $1.7 million as a result of the State's furlough program ending and filling previously frozen and vacated positions. Security cost decreased by $2.7 million due to decreased guard services through further reevaluation of security requirements. These reductions were made in accordance with the Transportation Security Administration requirements and did not compromise airport security. Although the cost of fuel increased this past year, installation of energy-efficient air conditioning units, lighting equipment, and shutdown of certain terminals when not in use supported the stabilization utility costs. Bad debt expense decreased by $2.1 million mostly due to the settlement and payment of disputed joint-use baggage fees made whole by Hawaiian Airlines.
The net results of the above resulted in operating income before depreciation of $96.6 million in fiscal year 2011. Operating income before depreciation for fiscal year 2011 increased by 32.1%, or $23.1 million, from fiscal year 2010. Depreciation expense increased by 2.0% from $92.9 million in fiscal year 2010 to $94.7 million in fiscal year 2011 due to an increase in capital assets. The operating income before nonoperating revenues, net and capital contributions of $1.8 million in fiscal year 2011 represents a 99.3% change from the operating loss before nonoperating revenues, net and capital contributions of $21.0 million in fiscal year 2010.

- Nonoperating revenues, net increased by 16.5%, or $8.7 million, in fiscal year 2011 primarily due the change in fair value relating to Airports Division investments held by State Treasury and rental car CFC and PFC increases of $33.9 million and $2.9 million, respectively, offset by increased interest expense of $13.9 million relating to revenue bonds issued in fiscal year 2010.

- Income before capital contributions for fiscal year 2011 of $59.2 million as compared to $32.0 million for fiscal year 2010 was a result of an increase in nonoperating revenues, net.

- Capital contributions decreased by 34.5%, or $15.1 million, in fiscal year 2011, mainly due to the decrease of federal capital grants received in fiscal year 2011.
Financial Position Summary

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted assets</td>
<td>$ 535,972,293</td>
<td>481,448,998</td>
</tr>
<tr>
<td>Restricted assets</td>
<td>67,736,492</td>
<td>146,313,198</td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>1,712,801,627</td>
<td>1,693,932,983</td>
</tr>
<tr>
<td>Restricted assets</td>
<td>576,456,552</td>
<td>507,687,903</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>4,334,194</td>
<td>5,006,055</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>2,897,301,158</strong></td>
<td><strong>2,834,389,137</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payable from unrestricted assets</td>
<td>43,819,049</td>
<td>55,097,084</td>
</tr>
<tr>
<td>Payable from restricted assets</td>
<td>68,105,008</td>
<td>63,687,384</td>
</tr>
<tr>
<td>Long-term liabilities, net of current portion</td>
<td>45,184,736</td>
<td>36,276,716</td>
</tr>
<tr>
<td>Payable from unrestricted assets</td>
<td>1,005,267,886</td>
<td>1,032,295,048</td>
</tr>
<tr>
<td>Payable from restricted assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>1,162,376,679</strong></td>
<td><strong>1,187,356,232</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets – net of related debt</td>
<td>968,350,047</td>
<td>952,768,400</td>
</tr>
<tr>
<td>Restricted</td>
<td>315,271,730</td>
<td>333,247,989</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>451,302,702</td>
<td>361,016,516</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$ 1,734,924,479</strong></td>
<td><strong>1,647,032,905</strong></td>
</tr>
</tbody>
</table>

The largest portion of the Airports Division’s net assets (55.8% and 57.8% at June 30, 2011 and 2010, respectively) represents its investments in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division’s investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division’s net assets (18.2% and 20.2% at June 30, 2011 and 2010, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds (the Certificate), as well as PFCs that can only be used for specific projects.
The largest portion of the Airports Division’s unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $494.7 million and $445.8 million at June 30, 2011 and 2010, respectively. The $494.7 million cash balance at June 30, 2011 provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division’s ongoing operations and to fund the CIP projects.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division’s financial position. Assets exceeded liabilities by $1,734.9 million at June 30, 2011, representing an increase of $87.9 million from June 30, 2010.

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

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

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

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

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

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona, and
Lihue. The program is currently estimated to cost $1.4 billion through 2016 and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

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

Revenues

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

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

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

Management’s Discussion and Analysis

June 30, 2011

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2011 Amount</th>
<th>Percentage of total</th>
<th>2010 Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>$72,325,119</td>
<td>20.4%</td>
<td>$70,603,092</td>
<td>20.0%</td>
</tr>
<tr>
<td>Other personnel services</td>
<td>50,532,511</td>
<td>14.2%</td>
<td>50,712,517</td>
<td>14.3%</td>
</tr>
<tr>
<td>Utilities</td>
<td>39,981,453</td>
<td>11.3%</td>
<td>39,482,301</td>
<td>11.1%</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>14,721,969</td>
<td>4.1%</td>
<td>15,263,124</td>
<td>4.4%</td>
</tr>
<tr>
<td>State of Hawaii surcharge on gross receipts</td>
<td>12,018,283</td>
<td>3.4%</td>
<td>12,182,764</td>
<td>3.5%</td>
</tr>
<tr>
<td>Special maintenance</td>
<td>10,306,916</td>
<td>2.9%</td>
<td>6,872,876</td>
<td>2.0%</td>
</tr>
<tr>
<td>Department of Transportation general administration expenses</td>
<td>4,835,990</td>
<td>1.4%</td>
<td>4,632,577</td>
<td>1.3%</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>4,143,224</td>
<td>1.2%</td>
<td>3,635,913</td>
<td>1.0%</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,209,770</td>
<td>0.9%</td>
<td>3,179,672</td>
<td>0.9%</td>
</tr>
<tr>
<td>Disbursements out of major maintenance, renewal, and replacement account</td>
<td>—</td>
<td>—</td>
<td>(1,256,988)</td>
<td>100.0%</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>—</td>
<td>—</td>
<td>(2,066,244)</td>
<td>100.0%</td>
</tr>
<tr>
<td>Other</td>
<td>3,302,158</td>
<td>0.9%</td>
<td>254,686</td>
<td>8.4%</td>
</tr>
<tr>
<td>Total operating expenses before depreciation</td>
<td>215,377,393</td>
<td>60.6%</td>
<td>211,342,887</td>
<td>60.5%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>94,738,701</td>
<td>26.7%</td>
<td>91,064,866</td>
<td>26.6%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>310,116,094</td>
<td>87.3%</td>
<td>302,407,753</td>
<td>87.1%</td>
</tr>
<tr>
<td>Nonoperating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airports system</td>
<td>41,715,701</td>
<td>11.8%</td>
<td>40,514,335</td>
<td>11.5%</td>
</tr>
<tr>
<td>Special facility</td>
<td>2,018,421</td>
<td>0.6%</td>
<td>2,008,585</td>
<td>0.6%</td>
</tr>
<tr>
<td>Loss on disposal of capital assets</td>
<td>517,884</td>
<td>0.1%</td>
<td>529,199</td>
<td>0.1%</td>
</tr>
<tr>
<td>Other</td>
<td>566,054</td>
<td>0.2%</td>
<td>566,647</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total nonoperating expenses</td>
<td>44,818,060</td>
<td>12.7%</td>
<td>44,619,623</td>
<td>12.6%</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$354,934,154</td>
<td>100.0%</td>
<td>$18,419,360</td>
<td>5.5%</td>
</tr>
</tbody>
</table>
### DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Management’s Discussion and Analysis

June 30, 2011

<table>
<thead>
<tr>
<th>Operating expenses:</th>
<th>2010 Amount</th>
<th>2010 Percentage of total</th>
<th>Increase (decrease) from 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$70,603,092</td>
<td>21.0%</td>
<td>$(4,792,418) (6.4)%</td>
</tr>
<tr>
<td>Other personnel services</td>
<td>53,253,463</td>
<td>15.8</td>
<td>$(3,239,852) (5.7)%</td>
</tr>
<tr>
<td>Utilities</td>
<td>34,872,299</td>
<td>10.4</td>
<td>672,116 (2.0)</td>
</tr>
<tr>
<td>Special maintenance</td>
<td>7,107,701</td>
<td>2.1</td>
<td>(14,400,539) (67.0)%</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>15,474,139</td>
<td>4.6</td>
<td>(1,828,732) (10.6)%</td>
</tr>
<tr>
<td>State of Hawaii surcharge on gross receipts</td>
<td>12,094,751</td>
<td>3.6</td>
<td>1,351,217 (12.6)%</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>4,693,534</td>
<td>1.4</td>
<td>(924,082) (16.4)%</td>
</tr>
<tr>
<td>Department of Transportation general admin</td>
<td>5,194,883</td>
<td>1.5</td>
<td>355,735 (7.4)</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,253,248</td>
<td>1.0</td>
<td>(867,940) (21.1)%</td>
</tr>
<tr>
<td>Disbursements out of major maintenance</td>
<td>1,256,988</td>
<td>0.4</td>
<td>(655,773) (34.3)%</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>2,066,244</td>
<td>0.6</td>
<td>2,018,801 4,255.2</td>
</tr>
<tr>
<td>Other</td>
<td>3,047,472</td>
<td>0.9</td>
<td>(303,296) (9.1)</td>
</tr>
</tbody>
</table>

Total operating expenses before depreciation: 212,917,814 (63.3% (22,614,763) (9.6%

Depreciation: 92,860,543 (27.6% 4,260,689 (4.8%)

Total operating expenses: 305,778,357 (90.9% (18,354,074) (5.7%)

Nonoperating expenses:

Interest expense:

Revenue bonds:
- Airports system: 27,800,066 (8.3% 3,732,590 15.5%
- Special facility: 2,159,279 (0.7% (90,519) (4.0%)
- General obligation bonds: 0 (0% (905) (100.0%)
- Loss on amounts held in State Treasury: 0 (0% (26,576,132) (100.0%)
- Loss on disposal of capital assets: 388,685 (0.1% (4,451,727) (92.0%)
- Other: 388,407 (0.1% (17,583) (4.3%)

Total nonoperating expenses: 30,736,437 (9.2% (27,404,276) (47.1%)

Total expenses: $336,514,794 (100.0% $45,758,350 (12.0%)
Capital Acquisitions and Construction Activities

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

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

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

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

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

Airports System Revenue Bonds

As of June 30, 2011, $992,780,000 of airports system revenue bonds were outstanding as compared to $1,016,395,000 as of June 30, 2010. On April 7, 2010, the Airports Division issued $645 million in airports system revenue bonds of which $397 million is for Airport Modernization Projects. $191 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements, and issuance costs. Prior to this issuance, the last series of “new money” bonds used to fund capital improvement projects were issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. At June 30, 2011, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $706,677,844.

Special Obligation Bonds

The State Legislature has authorized $200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2011, there were outstanding bond obligations of $31,840,000. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

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

Credit Rating and Bond Insurance

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

- Standard & Poor’s Corporation: A-
- Moody’s Investors Service: A2
- Fitch IBCA, Inc.: A
The Airports Division and current signatory airline carriers have agreed to an amended lease extension agreement effective January 1, 2008. The agreement is intended for the airline carriers to support the increase in operational expenses and financing of modernization projects through landing and terminal rate increases. In order to finance the modernization projects, the Airports Division issued bonds in April 2010 and is planning for another bond issue in fiscal year 2013. In addition, the Airports Division has refunded and restructured its Series 2001 Revenue Bonds, which decreased annual debt service requirements by an average of $19.5 million, which allows for additional future debt capacity. Effective July 1, 2011, the Airports Division will be calculating the signatory airline contribution requirement based on the Amended Signatory Airline Lease Agreement replacing negotiated requirements.

Request for Information

This financial report is designed to provide a general overview of the Airports Division’s finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Ford Fuchigami, Deputy Director, State of Hawaii, Department of Transportation, Airports Division, 400 Rodgers Boulevard, Suite 700, Honolulu, Hawaii 96819-1880, or by e-mail to airadministrator@hawaii.gov.
## DEPARTMENT OF TRANSPORTATION
### AIRPORTS DIVISION
#### STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

### Statement of Net Assets
#### June 30, 2011

### Assets

**Current assets:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents – unrestricted (note 3)</td>
<td>$494,704,677</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
</tr>
<tr>
<td>Accounts, net of allowance of $927,247 for uncollectible accounts</td>
<td>24,281,975</td>
</tr>
<tr>
<td>Promissory note receivable, net of allowance of $130,589 for uncollectible</td>
<td>6,768</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
</tr>
<tr>
<td>Claims – federal grants</td>
<td>3,819,381</td>
</tr>
<tr>
<td>Aviation fuel tax</td>
<td>11,227,195</td>
</tr>
<tr>
<td>Due from State of Hawaii</td>
<td>404,463</td>
</tr>
<tr>
<td>Total receivables</td>
<td>41,041,848</td>
</tr>
<tr>
<td>Inventory of materials and supplies, at cost</td>
<td>225,768</td>
</tr>
<tr>
<td>Total unrestricted current assets</td>
<td>535,972,293</td>
</tr>
</tbody>
</table>

**Restricted assets:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents (note 3):</td>
<td></td>
</tr>
<tr>
<td>Revenue bond debt service (note 6)</td>
<td>51,430,711</td>
</tr>
<tr>
<td>Debt extinguishment (note 6)</td>
<td>12,223,861</td>
</tr>
<tr>
<td>Security deposits</td>
<td>4,081,920</td>
</tr>
<tr>
<td>Total restricted current assets</td>
<td>67,736,492</td>
</tr>
<tr>
<td>Total current assets</td>
<td>603,708,785</td>
</tr>
</tbody>
</table>

**Noncurrent assets:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Bond issue costs, net of accumulated amortization of $4,951,634 (note 6)</td>
<td>4,334,194</td>
</tr>
<tr>
<td>Capital assets, net of accumulated depreciation of $1,665,735,422 for 2011</td>
<td>1,712,801,627</td>
</tr>
<tr>
<td>(notes 4 and 6)</td>
<td></td>
</tr>
<tr>
<td>Total unrestricted noncurrent assets</td>
<td>1,717,135,821</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restricted assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (note 3):</td>
<td></td>
</tr>
<tr>
<td>Major maintenance, renewal, and replacement account (note 6)</td>
<td>58,397,113</td>
</tr>
<tr>
<td>Debt extinguishment (note 6)</td>
<td>4,657,011</td>
</tr>
<tr>
<td>Passenger facility charges (note 8)</td>
<td>66,600,949</td>
</tr>
<tr>
<td>Rental car customer facility charges (note 9)</td>
<td>46,064,024</td>
</tr>
<tr>
<td>Customer advances</td>
<td>952,601</td>
</tr>
<tr>
<td>Revenue bond construction (note 6)</td>
<td>262,236,803</td>
</tr>
<tr>
<td>Total cash and cash equivalents – restricted</td>
<td>438,908,501</td>
</tr>
<tr>
<td>Investments – revenue bond debt service reserve (notes 3 and 6)</td>
<td>96,893,008</td>
</tr>
<tr>
<td>Passenger facility charges receivable (note 8)</td>
<td>3,278,937</td>
</tr>
<tr>
<td>Rental car customer facility charges receivable (note 9)</td>
<td>5,324,348</td>
</tr>
<tr>
<td>Net investments in direct financing leases (note 7)</td>
<td>32,051,758</td>
</tr>
<tr>
<td>Total restricted noncurrent assets</td>
<td>576,456,552</td>
</tr>
<tr>
<td>Total noncurrent assets</td>
<td>2,293,592,373</td>
</tr>
<tr>
<td>Total assets</td>
<td>$2,897,301,158</td>
</tr>
</tbody>
</table>
## Liabilities

### Current liabilities:

#### Payable from unrestricted assets:
- Vouchers payable $10,582,214
- Contracts payable, including retainage of $2,196,689 $11,688,227
- Current portion of workers’ compensation (notes 5 and 14) $1,010,111
- Current portion of compensated absences (note 5) $2,941,951
- Current portion of postemployment liability (notes 5 and 11) $3,474,000
- Deferred income (note 7) $4,078,177
- Accrued wages $5,381,750
- Pollution remediation liability (note 15) $2,052,735
- Prepaid airport use charge fund (notes 7 and 15) $2,500,000
- Other $109,884

Total payable from unrestricted assets $43,819,049

#### Payable from restricted assets:
- Contracts payable, including retainage of $2,352,044 $11,545,619
- Current portion of airports system revenue bonds (notes 5 and 6) $25,370,000
- Current portion of special facility revenue bonds (notes 5 and 7) $835,000
- Accrued interest $26,272,469
- Security deposits $4,081,920

Total payable from restricted assets $68,105,008

Total current liabilities $111,924,057

### Long-term liabilities – net of current portion:

#### Payable from unrestricted assets:
- Prepaid airport use charge fund (notes 7 and 15) $8,849,329
- Compensated absences (note 5) $6,382,109
- Workers’ compensation (notes 5 and 14) $2,989,889
- Postemployment liability (notes 5 and 11) $26,963,409

Total payable from unrestricted assets $45,184,736

#### Payable from restricted assets:
- Airports system revenue bonds (notes 5 and 6) $973,310,285
- Special facility revenue bonds (notes 5 and 7) $31,005,000
- Customer advance (note 13) $952,601

Total payable from restricted assets $1,005,267,886

Total long-term liabilities – net of current portion $1,050,452,622

Total liabilities $1,162,376,679

## Net Assets

Invested in capital assets – net of related debt $968,350,047

Restricted:
- Debt service payment $25,370,000
- Debt service reserve account $96,893,008
- Debt extinguishment $16,880,872
- Major maintenance, renewal, and replacement account $58,397,113
- Passenger facility charges $66,461,869
- Rental car customer facility charges $51,268,868

Total restricted $315,271,730

Unrestricted $451,302,702

Commitments and contingencies (notes 6, 7, 10, 11, 12, 13, 14, and 15)

Total net assets $1,734,924,479

See accompanying notes to financial statements.
**Statement of Revenues, Expenses, and Changes in Net Assets**  
Year ended June 30, 2011

### Operating Revenues (notes 6, 7, and 12):

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concession fees</td>
<td>$132,166,157</td>
</tr>
<tr>
<td>Airport landing fees, net</td>
<td>60,096,929</td>
</tr>
<tr>
<td>Aeronautical rentals:</td>
<td></td>
</tr>
<tr>
<td>Nonexclusive joint-use premise charges</td>
<td>49,935,035</td>
</tr>
<tr>
<td>Exclusive-use premise charges</td>
<td>42,528,929</td>
</tr>
<tr>
<td>Nonaeronautical rentals</td>
<td>13,349,655</td>
</tr>
<tr>
<td>Aviation fuel tax</td>
<td>4,140,882</td>
</tr>
<tr>
<td>Airports system support charges</td>
<td>711,319</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>9,023,480</td>
</tr>
</tbody>
</table>

**Net Operating Revenues**  
311,952,386

### Operating Expenses (notes 4, 10, 11, 12, 14, and 15):

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>94,738,701</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>72,325,119</td>
</tr>
<tr>
<td>Other personnel services</td>
<td>50,532,511</td>
</tr>
<tr>
<td>Utilities</td>
<td>39,981,453</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>14,721,969</td>
</tr>
<tr>
<td>State of Hawaii surcharge on gross receipts</td>
<td>12,018,283</td>
</tr>
<tr>
<td>Special maintenance</td>
<td>10,306,916</td>
</tr>
<tr>
<td>Department of Transportation general admin. expenses</td>
<td>4,835,990</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>4,143,224</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,209,770</td>
</tr>
<tr>
<td>Rent</td>
<td>1,219,600</td>
</tr>
<tr>
<td>Claims and benefits</td>
<td>895,504</td>
</tr>
<tr>
<td>Communication</td>
<td>353,645</td>
</tr>
<tr>
<td>Travel</td>
<td>340,123</td>
</tr>
<tr>
<td>Dues and subscriptions</td>
<td>146,561</td>
</tr>
<tr>
<td>Printing and advertising</td>
<td>21,392</td>
</tr>
<tr>
<td>Freight and delivery</td>
<td>16,963</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>308,370</td>
</tr>
</tbody>
</table>

**Total Operating Expenses**  
310,116,094

**Operating Income, carried forward**  
1,836,292
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2011

Operating income, brought forward $ 1,836,292

Nonoperating revenues (expenses):
  Interest income:
    Certificates of deposit, repurchase agreements, and U.S. government securities (note 3) 5,975,568
    Investments in direct financing leases (note 7) 2,018,421
  Interest expense:
    Revenue bonds:
      Airports system (note 6) (41,715,701)
      Special facility (note 7) (2,018,421)
    Federal operating grants 5,033,709
    Loss on disposal of capital assets (note 4) (517,884)
    Passenger facility charges (note 8) 31,374,492
    Rental car customer facility charges (note 9) 44,724,718
    Amortization of deferred bond issue costs (566,054)
    Gain on amounts held in State Treasury 13,085,548

  Total nonoperating revenues, net 57,394,396

  Income before capital contributions 59,230,688

Capital contributions:
  Federal capital grants 16,873,585
  Federal stimulus grants 11,787,177
  Other capital contributions (note 4) 124

  Total capital contributions 28,660,886

  Increase in net assets 87,891,574

  Total net assets – beginning of year 1,647,032,905

  Total net assets – end of year $ 1,734,924,479

See accompanying notes to financial statements.
DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAI'I  
(An Enterprise Fund of the State of Hawaii)  

Statement of Cash Flows  
Year ended June 30, 2011

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received from providing services</td>
<td>$300,871,501</td>
</tr>
<tr>
<td>Cash paid to suppliers</td>
<td>(144,263,201)</td>
</tr>
<tr>
<td>Cash paid to employees</td>
<td>(63,070,529)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>93,537,771</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from noncapital financing activity:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from federal operating grants</td>
<td>6,047,311</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from capital and related financing activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition and construction of capital assets</td>
<td>(62,874,502)</td>
</tr>
<tr>
<td>Proceeds from federal and other capital grants and contributions</td>
<td>30,782,577</td>
</tr>
<tr>
<td>Interest paid on airports system revenue bonds</td>
<td>(44,292,751)</td>
</tr>
<tr>
<td>Principal paid on airports system revenue bonds</td>
<td>(23,615,000)</td>
</tr>
<tr>
<td>Payments from passenger facility charges program</td>
<td>(44,889,875)</td>
</tr>
<tr>
<td>Proceeds from passenger facility charges program</td>
<td>31,766,020</td>
</tr>
<tr>
<td>Payments from rental car customer facility charges program</td>
<td>(10,704,913)</td>
</tr>
<tr>
<td>Proceeds from rental car customer facility charges</td>
<td>40,634,257</td>
</tr>
<tr>
<td><strong>Net cash used in capital and related financing activities</strong></td>
<td><strong>(83,194,187)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale and maturities of investments</td>
<td>193,786,016</td>
</tr>
<tr>
<td>Interest received on investments</td>
<td>7,659,909</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(193,786,016)</td>
</tr>
<tr>
<td>Gain on amounts held in State Treasury</td>
<td>13,085,548</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td><strong>20,745,457</strong></td>
</tr>
</tbody>
</table>

| Net increase in cash and cash equivalents | 37,136,352 |

| Cash and cash equivalents – beginning of year | 964,213,318 |

| Cash and cash equivalents – end of year | $1,001,349,670 |
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income $1,836,292

Adjustments to reconcile operating income to net cash provided by operating activities:

- Depreciation $94,738,701
- Bad debt expense $(2,408,716)
- Overpayment of airport use charge to be transferred to the PAUCF $5,047,486

Changes in operating assets and liabilities:

- Accounts receivable $(7,376,260)
- Aviation fuel tax receivable $(95,497)
- Due from State of Hawaii $(419,013)
- Inventory of materials and supplies $1,602
- Vouchers payable $1,677,574
- Contracts payable $(2,932,944)
- Deferred income $(2,249,435)
- Accrued wages $1,544,987
- Postemployment liability $7,709,603
- Pollution remediation liability $461,854
- Prepaid airport use charge fund $(4,054,510)
- Security deposits $(17,135)
- Other current liabilities $73,182

Net cash provided by operating activities $93,537,771

SUPPLEMENTAL INFORMATION:

Noncash investing, capital, and financing activities:

The Airports Division’s noncash capital and financing activities related to bonds payable included the following:

- Principal payments on special facility revenue bonds $1,685,000
- Interest payments on special facility revenue bonds $2,030,594
- Amortization of revenue bond issue costs $572,861
- Amortization of revenue bond premium $(3,373,378)
- Amortization of deferred loss on refunding revenue bonds $2,551,216

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

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

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

See accompanying notes to financial statements.
(1) Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Financial Statement Presentation

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

(c) Operating Revenues and Expenses

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

(d) Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $4.50 per passenger. The net receipts from PFCs are restricted to be used
for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the statement of revenues, expenses, and changes in net assets.

(e) **Rental Car Customer Facility Charge**

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

(f) **Capital Contributions**

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

(g) **Cash and Cash Equivalents**

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

(h) **Receivables**

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

An aging of the accounts receivable at June 30, 2011 was as follows: current – $23,212,601; 30 days – $263,837; 60 days – $153,706; and over 90 days – $1,579,078.

(i) **Investments**

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

(j) **Restricted Assets**

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

(k) Capital Assets

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

<table>
<thead>
<tr>
<th>Class of assets</th>
<th>Estimated useful lives</th>
<th>Capitalization threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements</td>
<td>10 to 20 years</td>
<td>$100,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>45 years</td>
<td>$100,000</td>
</tr>
<tr>
<td>Building improvements</td>
<td>20 years</td>
<td>$100,000</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>10 years</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

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

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

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

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

(m) Accrued Vacation and Compensatory Pay

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

(n) **Employees’ Retirement System**

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

(o) **Risk Management**

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

(p) **Use of Estimates**

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

(3) **Cash and Cash Equivalents and Investments**

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty cash</td>
<td>$ 17,805</td>
</tr>
<tr>
<td>Amounts held in State Treasury</td>
<td>1,001,331,865</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>81,060,558</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>15,832,450</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,098,242,678</strong></td>
</tr>
</tbody>
</table>
Such amounts are reflected in the statement of net assets at June 30, 2011 as follows:

<table>
<thead>
<tr>
<th>Cash and cash equivalents:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$ 494,704,677</td>
</tr>
<tr>
<td>Restricted</td>
<td>506,644,993</td>
</tr>
<tr>
<td>Total cash and cash</td>
<td>1,001,349,670</td>
</tr>
<tr>
<td>equivalents</td>
<td></td>
</tr>
<tr>
<td>Investments – restricted</td>
<td>96,893,008</td>
</tr>
<tr>
<td>Total cash and cash</td>
<td>$ 1,098,242,678</td>
</tr>
<tr>
<td>equivalents and investments</td>
<td></td>
</tr>
</tbody>
</table>

(a) Amounts Held in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2011, the amount reported as amounts held in State Treasury reflects the Airports Division’s relative position in the State’s investment pool and amounted to $1,001,331,865. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by $13,085,548 during the year ended June 30, 2011.

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

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

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

<table>
<thead>
<tr>
<th>Maturity (in years)</th>
<th>Fair value</th>
<th>Less than 1</th>
<th>1–5</th>
<th>&gt;5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments – primary government:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loan auction rate securities</td>
<td>$337,948</td>
<td>—</td>
<td>—</td>
<td>337,948</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>7,504</td>
<td>3,937</td>
<td>3,567</td>
<td>—</td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>294,145</td>
<td>207,364</td>
<td>73,431</td>
<td>13,350</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>269,557</td>
<td>234,408</td>
<td>35,149</td>
<td>—</td>
</tr>
<tr>
<td>$909,154</td>
<td>445,709</td>
<td>112,147</td>
<td>351,298</td>
<td></td>
</tr>
</tbody>
</table>

| Investments – fiduciary funds: | | | | |
| Student loan auction rate securities | $46,804 | — | — | 46,804 |
| Certificates of deposit | 731 | 731 | — | — |
| U.S. government securities | 23,401 | — | — | 23,401 |
| Repurchase agreements | 2,194 | 2,194 | — | — |
| $73,130 | 2,925 | — | 70,205 |

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

(b) Investments

At June 30, 2011, the Airports Division’s investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State’s fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.
Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

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

<table>
<thead>
<tr>
<th>Capital assets not being depreciated:</th>
<th>Balance, June 30, 2010</th>
<th>Increases</th>
<th>Decreases</th>
<th>Transfers</th>
<th>Balance, June 30, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$308,438,655</td>
<td>—</td>
<td>(8,190,530)</td>
<td>—</td>
<td>$300,248,125</td>
</tr>
<tr>
<td>Land improvements</td>
<td>26,481,609</td>
<td>200,000</td>
<td>—</td>
<td>—</td>
<td>26,681,609</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>229,546,967</td>
<td>122,162,073</td>
<td>(5,019)</td>
<td>(50,683,191)</td>
<td>301,020,830</td>
</tr>
<tr>
<td><strong>Total capital assets not being depreciated</strong></td>
<td><strong>564,467,231</strong></td>
<td><strong>122,362,073</strong></td>
<td><strong>(8,195,549)</strong></td>
<td><strong>(50,683,191)</strong></td>
<td><strong>627,950,564</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital assets being depreciated:</th>
<th>Balance, June 30, 2010</th>
<th>Increases</th>
<th>Decreases</th>
<th>Transfers</th>
<th>Balance, June 30, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements</td>
<td>881,502,325</td>
<td>—</td>
<td>(1,065,193)</td>
<td>15,031,128</td>
<td>895,468,260</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>1,608,378,584</td>
<td>—</td>
<td>(1,348,802)</td>
<td>21,756,582</td>
<td>1,628,786,364</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>216,834,267</td>
<td>158,703</td>
<td>(4,356,593)</td>
<td>13,695,484</td>
<td>226,331,861</td>
</tr>
<tr>
<td><strong>Total capital assets being depreciated</strong></td>
<td><strong>2,706,715,176</strong></td>
<td><strong>158,703</strong></td>
<td><strong>(6,770,588)</strong></td>
<td><strong>50,483,194</strong></td>
<td><strong>2,750,586,485</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements</td>
<td>(628,500,282)</td>
<td>(30,083,415)</td>
<td>—</td>
<td>—</td>
<td>(658,583,697)</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>(796,343,117)</td>
<td>(54,562,813)</td>
<td>—</td>
<td>—</td>
<td>(850,905,930)</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>(152,406,025)</td>
<td>(10,092,473)</td>
<td>6,258,392</td>
<td>(5,689)</td>
<td>(156,245,795)</td>
</tr>
<tr>
<td><strong>Total depreciation</strong></td>
<td>(1,577,249,424)</td>
<td>(94,738,701)</td>
<td>6,258,392</td>
<td>(5,689)</td>
<td>(1,665,735,422)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital assets being depreciated, net</th>
<th>Balance, June 30, 2011</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital assets</strong></td>
<td>$1,693,932,983</td>
<td></td>
<td></td>
<td></td>
<td>$1,712,801,627</td>
</tr>
</tbody>
</table>

(Continued)
(5) Long-Term Liabilities

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

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

(6) Airports System Revenue Bonds

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

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

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

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

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

1. Interest account
2. Serial bond principal account
3. Sinking fund account
4. Debt service reserve account
c. To fund the major maintenance, renewal, and replacement account

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

e. To provide for betterments and improvements to the airports

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

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

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

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal, and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2011, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

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

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt service reserve account</td>
<td>$ 96,893,008</td>
</tr>
<tr>
<td>RHB Debt extinguishment</td>
<td>16,880,872</td>
</tr>
<tr>
<td>Major maintenance, renewal, and replacement account</td>
<td>58,397,113</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>172,170,993</td>
</tr>
</tbody>
</table>

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

The revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.
The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2011:

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

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

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

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2011 of $25,370,000 and $26,060,714, respectively.
The following is a summary of interest costs incurred for the year ended June 30, 2011 and the allocation thereof:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expensed as incurred</td>
<td>$ 41,715,701</td>
</tr>
<tr>
<td>Capitalized in capital assets</td>
<td>$ 9,583,565</td>
</tr>
<tr>
<td></td>
<td>$ 51,299,266</td>
</tr>
</tbody>
</table>

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

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

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

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,147. This difference, reported in the accompanying financial statements as a deduction from airports system revenue bonds, is being charged to operations over the next 10 years.

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

(7) Leases

(a) Airport-Airline Lease Agreement

Airports Division

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

Under the lease extension agreement, the airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of $100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on appraisal and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units), and (5) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

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

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (the PAUCF). Net excess payments for fiscal years 1996 through 2010 have been transferred to the PAUCF (note 15).
Aviation Fuel Tax

The aviation fuel tax amounted to $4,140,882 for fiscal year 2011. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

Airport landing fees amounted to $63,829,502 for fiscal year 2011. Airport landing fees are shown net of aviation fuel tax credits of $3,732,573 for fiscal year 2011, on the statement of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $60,096,929 for fiscal year 2011. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines are set at 39% of the airport landing fees for overseas flights for fiscal year 2011, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to $49,935,035 for fiscal year 2011.

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

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

International arrivals building charges were established to recover airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger using the international arrivals area. Beginning fiscal year 2000, nonsignatory airline revenue was applied as a credit in calculating the joint-use premise charge and international arrivals building charges.
Exclusive-use premise charges amounted to $42,528,929 for fiscal year 2011, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $25,795,075 for fiscal year 2011.

Airports system support charges amounted to $711,319 for fiscal year 2011, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

(b) Special Facility Leases and Revenue Bonds

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

$25,255,000 Issue

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption on or after November 15, 2007 at the option of the Airports Division, upon the request of Continental Airlines, Inc., at prices ranging from 101% to 100% of principal depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest. The Airports Division redeemed $130,000 in bonds during the year ended June 30, 2005.
The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2011:

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

$16,600,000 Issue

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

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

The bonds bear interest at 7% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2011:

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

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds were subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest. The bonds beared interest at 10.125% per annum.

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

<table>
<thead>
<tr>
<th></th>
<th>Continental</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011: Current portion</td>
<td>$ 835,000</td>
<td>835,000</td>
</tr>
<tr>
<td>Noncurrent portion</td>
<td>9,280,000</td>
<td>21,725,000</td>
</tr>
<tr>
<td></td>
<td>10,115,000</td>
<td>31,840,000</td>
</tr>
</tbody>
</table>

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

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

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash with bond fund trustee</td>
<td>$ 3,203,600</td>
</tr>
<tr>
<td>Receivable from lessees, net of unearned interest</td>
<td>28,636,400</td>
</tr>
<tr>
<td>of $23,811,208</td>
<td>211,758</td>
</tr>
<tr>
<td></td>
<td>$ 32,051,758</td>
</tr>
</tbody>
</table>

(c) Other Operating Leases

The Airports Division also leases certain building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Information regarding the cost and related accumulated depreciation of these facilities is not provided because the accumulation of such data was not considered practical and because the information, when compared with the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.
The future minimum rentals from these operating leases at June 30, 2011 are as follows:

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

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal year 2011 were $32,448,156.

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

Concession fee revenues from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 28% of total concession fee revenues for fiscal year 2011.

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

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for a minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was $37,311,121, and the percentage rent was as follows: (1) for total concession receipts greater than $165 million, but less
Effective June 1, 2006, the lease was extended for a period of one year pursuant to a holdover clause in the lease agreement. During the holdover period, DFS shall have a month-to-month tenancy, with rents and terms the same as those in effect immediately prior to the holdover.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009 and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term).

(8) Passenger Facility Charges

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted assets – passenger facility charges, beginning of year</td>
<td>$83,395,269</td>
</tr>
<tr>
<td>Passenger facility charges during the year</td>
<td>$30,719,684</td>
</tr>
<tr>
<td>Interest earned on passenger facility charges during the year</td>
<td>$654,808</td>
</tr>
<tr>
<td>Capital expenditures during the year</td>
<td>$(44,889,875)</td>
</tr>
<tr>
<td>Restricted assets – passenger facility charges, end of year</td>
<td>$69,879,886</td>
</tr>
</tbody>
</table>
Restricted assets – passenger facility charges are presented on the statement of net assets as of June 30, 2011 as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$66,600,949</td>
</tr>
<tr>
<td>Receivable</td>
<td>$ 3,278,937</td>
</tr>
<tr>
<td><strong>Total restricted assets – passenger facility charges</strong></td>
<td><strong>$69,879,886</strong></td>
</tr>
</tbody>
</table>

(9) **Rental Car Customer Facility Charge**

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

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted assets – rental car customer facility charge, beginning of year</td>
<td>$17,368,567</td>
</tr>
<tr>
<td>Rental car customer facility charges during the year</td>
<td>44,531,775</td>
</tr>
<tr>
<td>Interest earned on rental car customer facility charges during the year</td>
<td>192,943</td>
</tr>
<tr>
<td>Capital expenditures during the year</td>
<td>(10,704,913)</td>
</tr>
<tr>
<td><strong>Restricted assets – rental car customer facility charges, end of year</strong></td>
<td><strong>$51,388,372</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$46,064,024</td>
</tr>
<tr>
<td>Receivable</td>
<td>5,324,348</td>
</tr>
<tr>
<td><strong>Total restricted assets – rental car customer facility charges</strong></td>
<td><strong>$51,388,372</strong></td>
</tr>
</tbody>
</table>

(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, 5.0% the second year, 7.5% the third year, etc.).

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

(a) **Contributory Plan**

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

(b) **Hybrid Plan**

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

(c) **Noncontributory Plan**

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

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

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

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

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

(11) Postretirement Healthcare and Life Insurance Benefits

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at June 30, 2010</td>
<td>$22,727,806</td>
</tr>
<tr>
<td>Additions</td>
<td>11,026,195</td>
</tr>
<tr>
<td>Deletions</td>
<td>(3,316,592)</td>
</tr>
<tr>
<td>Balance at June 30, 2011</td>
<td>30,437,409</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(3,474,000)</td>
</tr>
<tr>
<td></td>
<td>$26,963,409</td>
</tr>
</tbody>
</table>

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

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

(12) **Transactions with Other Government Agencies**

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $12,018,283 in fiscal year 2011.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $4,835,990 in fiscal year 2011. During fiscal year 2011, the Airports Division received assessment refunds from the DOT amounting to $1,130,004. Such refunds reduced operating expenses in the accompanying statement of revenues, expenses, and changes in net assets.
During fiscal year 2011, revenues received from other state agencies totaled $3,165,719, and expenditures to other state agencies totaled $8,157,982.

(13) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2011 was $19,106,081. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee’s job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

(b) Deferred Compensation Plan

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

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

(c) Pledged Future Revenues

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

(d) Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next 5 –
10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statement of net assets at June 30, 2011.

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

(14) Risk Management

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

(a) Torts

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

(b) Property and Liability Insurance

The Airports Division is covered by commercial general liability policies with a $750 million limit per occurrence. These commercial general liability policies have no deductible and cover bodily injuries and property damage for occurrences arising out of the ownership, operation, and maintenance of state airports.

(c) Workers’ Compensation

The State is self-insured for workers’ compensation. Accordingly, the Airports Division is liable for all workers’ compensation claims filed by its employees. Liabilities for workers’ compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2011, the workers’ compensation reserve was $4,000,000, of which $1,010,111 is included in current liabilities (payable from unrestricted net assets) and $2,989,889 is included in long-term liabilities in the accompanying statement of net assets at June 30, 2011. In the opinion of management, the Airports Division has adequately reserved for such claims.

(15) Contingent Liabilities and Other

(a) Litigation

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

(b) Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2011, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

(c) Asserted Claims

Prepaid Airport Use Charge Fund

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

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

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

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

On November 15, 2010, the State reached a settlement with the ACH under which the Airports Division transferred an overpayment of $10,303,174 for fiscal year 2010 to the PAUCF escrow account in four annual installments beginning in fiscal year 2011. A liability for the refund was recorded in the Airports Division’s financial statements as of June 30, 2010, with an offsetting charge to operating revenues. The payable balance of the PAUCF at June 30, 2010 was $10,356,353.
In fiscal year 2011, the PAUCF was decreased by a payment of $2,500,000 for the 2010 overpayment as well as the use of $1,554,510 from the PAUCF to settle a dispute with a signatory airline over baggage joint-use charges. The PAUCF was increased by $5,047,486 due to an overpayment for fiscal year 2011. The payable balance of the PAUCF at June 30, 2011 was $11,349,329.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the DOT was required to pay a $1 million fine. The Airports Division’s allocated share of the fine was $400,000, which was paid in February 2006. In addition, the Department is expected to expend an additional $2,052,735 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(16) Subsequent Events

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

#### Year ended June 30, 2011

<table>
<thead>
<tr>
<th>Airports</th>
<th>Total</th>
<th>Honolulu</th>
<th>Hilo</th>
<th>Kona</th>
<th>Kahului</th>
<th>Lihue</th>
<th>All others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>International at Konaole</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concession fees</td>
<td>$132,166,157</td>
<td>80,927,353</td>
<td>2,584,330</td>
<td>11,765,593</td>
<td>24,277,768</td>
<td>12,388,651</td>
<td>222,462</td>
</tr>
<tr>
<td>Airport landing fees</td>
<td>60,096,929</td>
<td>40,874,076</td>
<td>1,310,544</td>
<td>4,372,023</td>
<td>9,708,694</td>
<td>3,367,489</td>
<td>374,103</td>
</tr>
<tr>
<td>Aeronautical rentals:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive-use premise charges</td>
<td>42,528,929</td>
<td>33,224,149</td>
<td>1,022,656</td>
<td>1,247,768</td>
<td>4,850,805</td>
<td>1,768,153</td>
<td>415,398</td>
</tr>
<tr>
<td>Nonexclusive joint-use premise charges</td>
<td>49,953,035</td>
<td>36,656,131</td>
<td>1,407,625</td>
<td>1,899,519</td>
<td>7,570,200</td>
<td>2,401,560</td>
<td>—</td>
</tr>
<tr>
<td>Nonaeronautical rentals</td>
<td>13,349,655</td>
<td>8,031,865</td>
<td>373,263</td>
<td>1,110,815</td>
<td>2,897,638</td>
<td>855,093</td>
<td>80,981</td>
</tr>
<tr>
<td>Aviation fuel tax</td>
<td>4,140,882</td>
<td>2,816,365</td>
<td>90,301</td>
<td>301,247</td>
<td>675,163</td>
<td>232,031</td>
<td>25,777</td>
</tr>
<tr>
<td>Airports system support charges</td>
<td>711,319</td>
<td>418,872</td>
<td>38,362</td>
<td>56,544</td>
<td>78,859</td>
<td>53,989</td>
<td>64,593</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>8,700,967</td>
<td>2,558,385</td>
<td>118,481</td>
<td>687,220</td>
<td>483,267</td>
<td>509,935</td>
<td>13,230</td>
</tr>
<tr>
<td>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.</td>
<td>311,629,873</td>
<td>208,042,194</td>
<td>6,945,562</td>
<td>21,440,729</td>
<td>50,632,434</td>
<td>21,576,901</td>
<td>1,196,544</td>
</tr>
<tr>
<td>Total operating revenues for statement of revenues, expenses, and changes in net assets</td>
<td>215,377,393</td>
<td>127,409,967</td>
<td>14,076,173</td>
<td>18,694,689</td>
<td>26,665,837</td>
<td>16,015,593</td>
<td>12,584,335</td>
</tr>
</tbody>
</table>

### Schedule 1

#### Operating Revenues and Operating Expenses Other than Depreciation

<table>
<thead>
<tr>
<th>Airports</th>
<th>Total</th>
<th>Honolulu</th>
<th>Hilo</th>
<th>Kona</th>
<th>Kahului</th>
<th>Lihue</th>
<th>All others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>International at Konaole</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses other than depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>$72,325,119</td>
<td>15,170,602</td>
<td>29,112,196</td>
<td>4,540,880</td>
<td>4,657,020</td>
<td>8,119,844</td>
<td>5,448,511</td>
</tr>
<tr>
<td>Other personnel services</td>
<td>50,532,531</td>
<td>1,459,328</td>
<td>29,580,160</td>
<td>3,500,019</td>
<td>4,163,357</td>
<td>5,774,050</td>
<td>4,117,771</td>
</tr>
<tr>
<td>Utilities</td>
<td>39,981,453</td>
<td>3,945</td>
<td>29,274,937</td>
<td>1,229,654</td>
<td>2,294,713</td>
<td>4,396,977</td>
<td>2,117,982</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>14,721,969</td>
<td>3,266,187</td>
<td>8,711,650</td>
<td>341,218</td>
<td>774,606</td>
<td>1,091,334</td>
<td>231,487</td>
</tr>
<tr>
<td>State of Hawaii surcharge on gross receipts (note 1)</td>
<td>12,018,283</td>
<td>12,018,283</td>
<td>2,651,954</td>
<td>1,120,259</td>
<td>2,431,034</td>
<td>922,397</td>
<td>414,857</td>
</tr>
<tr>
<td>Total operating expenses for statement of revenues, expenses, and changes in net assets</td>
<td>311,629,873</td>
<td>208,042,194</td>
<td>6,945,562</td>
<td>21,440,729</td>
<td>50,632,434</td>
<td>21,576,901</td>
<td>1,196,544</td>
</tr>
</tbody>
</table>

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

See accompanying independent auditors’ report.
### Calculations of Net Revenues and Taxes and Debt Service Requirement

#### Year ended June 30, 2011

**Revenues and taxes:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concession fees</td>
<td>$132,166,157</td>
</tr>
<tr>
<td>Airport landing fees</td>
<td>60,096,929</td>
</tr>
<tr>
<td>Aeronautical rentals:</td>
<td></td>
</tr>
<tr>
<td>Nonexclusive joint-use premise charges</td>
<td>49,935,035</td>
</tr>
<tr>
<td>Exclusive-use premise charges</td>
<td>42,528,929</td>
</tr>
<tr>
<td>Nonaeronautical rentals</td>
<td>13,349,655</td>
</tr>
<tr>
<td>Aviation fuel tax</td>
<td>4,140,882</td>
</tr>
<tr>
<td>Airports system support charges</td>
<td>711,319</td>
</tr>
<tr>
<td>Interest income, exclusive of interest on investments in direct financing leases and including interest income of $1,753,318 on capital improvement projects</td>
<td>5,975,568</td>
</tr>
<tr>
<td>Federal operating grants</td>
<td>5,033,709</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>8,700,967</td>
</tr>
<tr>
<td><strong>Total revenues and taxes</strong></td>
<td><strong>322,639,150</strong></td>
</tr>
</tbody>
</table>

**Deductions:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses other than depreciation for net revenues and taxes (schedule 1)</td>
<td>215,377,393</td>
</tr>
<tr>
<td>Annual reserve required on major maintenance, renewal, and replacement account</td>
<td>2,912,601</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td><strong>218,289,994</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net revenues and taxes</strong></td>
<td><strong>104,349,156</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add funded coverage per bond certificate</td>
<td>19,372,857</td>
</tr>
<tr>
<td><strong>Adjusted net revenues and taxes</strong></td>
<td><strong>123,722,013</strong></td>
</tr>
</tbody>
</table>

**Debt service requirement:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airports system revenue bonds:</td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>25,370,000</td>
</tr>
<tr>
<td>Interest (note 1)</td>
<td>35,319,303</td>
</tr>
<tr>
<td><strong>Total debt service requirement</strong></td>
<td><strong>60,689,303</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt service coverage percentage</strong></td>
<td><strong>125%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt service with coverage requirement</td>
<td>75,861,629</td>
</tr>
<tr>
<td>Excess of net revenues and taxes over debt service requirement</td>
<td>$47,860,384</td>
</tr>
</tbody>
</table>

**Notes:**

(1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes, and amounts from the Series 2010 bond proceeds used to pay interest on the Series 2010 bonds until the projects funded by the Series 2010 bonds are in service.

See accompanying independent auditors’ report.
Schedule 3

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

Summary of Debt Service Requirements to Maturity

June 30, 2011

<table>
<thead>
<tr>
<th>Year ending June 30:</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$27,680,000</td>
<td>50,427,803</td>
<td>78,107,803</td>
</tr>
<tr>
<td>2013</td>
<td>46,145,000</td>
<td>49,003,450</td>
<td>95,148,450</td>
</tr>
<tr>
<td>2014</td>
<td>46,725,000</td>
<td>46,471,255</td>
<td>93,196,255</td>
</tr>
<tr>
<td>2015</td>
<td>52,960,000</td>
<td>43,897,328</td>
<td>96,857,328</td>
</tr>
<tr>
<td>2016</td>
<td>55,835,000</td>
<td>41,028,898</td>
<td>96,863,898</td>
</tr>
<tr>
<td>2017</td>
<td>58,880,000</td>
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<tr>
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<td><strong>634,461,180</strong></td>
<td><strong>1,601,871,180</strong></td>
</tr>
</tbody>
</table>

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2011.

See accompanying independent auditors’ report.
### Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2011

<table>
<thead>
<tr>
<th>Year ending June 30:</th>
<th>Refunding series of 2001, 4.00% to 5.75%</th>
<th>Refunding series of 2010A, 2.00% to 5.25%</th>
<th>Refunding series of 2010B, 3.00% to 5.00%</th>
<th>Total</th>
<th>Interest</th>
<th>Total requirements</th>
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<td>52,660,000</td>
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<td>60,260,000</td>
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<td>21,650,000</td>
<td>60,450,000</td>
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<td>166,000,000</td>
<td>967,410,000</td>
<td>634,461,180</td>
<td>1,601,871,180</td>
</tr>
</tbody>
</table>

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2011. See accompanying independent auditors’ report.
<table>
<thead>
<tr>
<th>Airline name</th>
<th>Revenue landing weights</th>
<th>Revenue passenger landings</th>
<th>Domestic nonexclusive joint-use premises</th>
<th>Exclusive joint-use premises</th>
<th>Total nonexclusive joint-use premises</th>
<th>Total charges (exclusive of nonexclusive joint-use premises)</th>
<th>Preferential usage (exclusive of nonexclusive joint-use premises)</th>
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</thead>
<tbody>
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<td>692</td>
<td></td>
<td></td>
<td>749,579</td>
<td>1,095,225</td>
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<td>195,624</td>
<td>22,320</td>
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<td>8,108,582</td>
<td>8,108,582</td>
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</tr>
</tbody>
</table>

See accompanying independent auditors’ report.
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Summary of Billed Airport Landing Fees
Year ended June 30, 2011

<table>
<thead>
<tr>
<th>Signatory Airlines</th>
<th>Nonsignatory Airlines</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross airport landing fees billed</td>
<td>$62,302,225</td>
<td>3,428,435</td>
</tr>
<tr>
<td>Less aviation fuel tax credit</td>
<td>(3,500,413)</td>
<td>(232,164)</td>
</tr>
<tr>
<td>Net airport landing fees billed</td>
<td>$58,801,812</td>
<td>3,196,271</td>
</tr>
</tbody>
</table>

See accompanying independent auditors’ report.
## DEPARTMENT OF TRANSPORTATION
**AIRPORTS DIVISION**
**STATE OF HAWAII**
(An Enterprise Fund of the State of Hawaii)

### Approved Maximum Revenue Landing Weights and Airport Landing Fees - Signatory Airlines

Year ended June 30, 2011

<table>
<thead>
<tr>
<th>Approved maximum revenue landing weights</th>
<th>Honolulu International Airport and Hilo International Airport</th>
<th>All other airports</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Airport</strong></td>
<td><strong>Landing fees</strong></td>
<td><strong>Adjusted landing fees</strong></td>
<td><strong>Airport</strong></td>
</tr>
<tr>
<td>Air Canada</td>
<td>103,680</td>
<td>92,640</td>
<td>403,315</td>
</tr>
<tr>
<td>Air New Zealand, Ltd.</td>
<td>37,760</td>
<td>146,886</td>
<td>146,886</td>
</tr>
<tr>
<td>Air Pacific, Ltd.</td>
<td>21,984</td>
<td>85,518</td>
<td>85,518</td>
</tr>
<tr>
<td>Alaska Airlines, Inc.</td>
<td>216,528</td>
<td>710,352</td>
<td>818,954</td>
</tr>
<tr>
<td>All Nippon Airways</td>
<td>281,584</td>
<td>861,962</td>
<td>861,962</td>
</tr>
<tr>
<td>American Airlines, Inc.</td>
<td>631,212</td>
<td>1,050,952</td>
<td>2,455,415</td>
</tr>
<tr>
<td>China Airlines, Ltd.</td>
<td>161,409</td>
<td>628,657</td>
<td>628,657</td>
</tr>
<tr>
<td>Continental Airlines, Inc.</td>
<td>534,117</td>
<td>2,091,943</td>
<td>2,091,943</td>
</tr>
<tr>
<td>Continental Micronesia, Inc.</td>
<td>79,334</td>
<td>308,608</td>
<td>308,608</td>
</tr>
<tr>
<td>Delta Airlines, Inc.</td>
<td>1,433,663</td>
<td>5,576,950</td>
<td>5,576,950</td>
</tr>
<tr>
<td>Evergreen International Airlines, Inc.</td>
<td>119,230</td>
<td>541,605</td>
<td>541,605</td>
</tr>
<tr>
<td>Federal Express Corporation</td>
<td>650,648</td>
<td>749,310</td>
<td>2,996,113</td>
</tr>
<tr>
<td>Hawaiian Airlines, Inc.</td>
<td>4,876,481</td>
<td>11,931,985</td>
<td>11,931,985</td>
</tr>
<tr>
<td>JAL Airways Co., Ltd.</td>
<td>440,234</td>
<td>1,626,479</td>
<td>1,626,479</td>
</tr>
<tr>
<td>Japan Airlines International Co., Ltd.</td>
<td>439,667</td>
<td>1,710,305</td>
<td>1,710,305</td>
</tr>
<tr>
<td>Kalitta Air, LLC</td>
<td>147,036</td>
<td>571,970</td>
<td>571,970</td>
</tr>
<tr>
<td>Korean Airlines Company, Ltd.</td>
<td>282,281</td>
<td>1,098,073</td>
<td>1,098,073</td>
</tr>
<tr>
<td>Mesa Airlines, Inc.</td>
<td>377,410</td>
<td>762,622</td>
<td>762,622</td>
</tr>
<tr>
<td>Molukule Flight Service, Inc.</td>
<td>24,242</td>
<td>36,848</td>
<td>36,848</td>
</tr>
<tr>
<td>North American Airlines, Inc.</td>
<td>5,480</td>
<td>13,226</td>
<td>13,226</td>
</tr>
<tr>
<td>Northwest Airlines, Inc.</td>
<td>5,746</td>
<td>8,734</td>
<td>8,734</td>
</tr>
<tr>
<td>Pacific Wings LLC</td>
<td>5,746</td>
<td>31,790</td>
<td>31,790</td>
</tr>
<tr>
<td>Philippine Airlines, Inc.</td>
<td>233,152</td>
<td>906,961</td>
<td>906,961</td>
</tr>
<tr>
<td>Qatar Airways, Ltd.</td>
<td>193,368</td>
<td>752,202</td>
<td>752,202</td>
</tr>
<tr>
<td>United Airlines, Inc.</td>
<td>3,142,753</td>
<td>5,219,768</td>
<td>5,219,768</td>
</tr>
<tr>
<td>United Parcel Service Co.</td>
<td>561,055</td>
<td>728,124</td>
<td>728,124</td>
</tr>
<tr>
<td>US Airways, Inc.</td>
<td>151,375</td>
<td>127,470</td>
<td>127,470</td>
</tr>
<tr>
<td>Total</td>
<td>13,372,682</td>
<td>14,666,773</td>
<td>14,666,773</td>
</tr>
</tbody>
</table>

### Summary of revenue landing weights

<table>
<thead>
<tr>
<th>Overseas</th>
<th>Interisland</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>13,069,821</td>
<td>7,354,565</td>
<td>20,824,386</td>
</tr>
</tbody>
</table>

### Aviation fees

Aviation fuel tax of $4,045,385 was paid by the users for the year ended June 30, 2011. Users can claim a credit for aviation fuel taxes paid to exceed the aviation fuel tax credits allocated.

Aviation fuel tax credits of $3,732,577 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

<table>
<thead>
<tr>
<th>Signatory airlines</th>
<th>Non-signatory airlines</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 3,508,413</td>
<td>$ 3,732,577</td>
</tr>
</tbody>
</table>

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

See accompanying independent auditors' report.
<table>
<thead>
<tr>
<th>Gross airport landing fees</th>
<th>Total</th>
<th>Adjusted</th>
<th>Aviation fuel tax credit</th>
<th>Adjusted airport landing fees</th>
<th>Aviation fuel tax credit</th>
<th>Adjusted airport landing fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>All other airports</td>
<td>1,470</td>
<td>1,470</td>
<td>(235)</td>
<td>1,235</td>
<td>1,099</td>
<td>2,244</td>
</tr>
<tr>
<td>Aloha Air, Inc.</td>
<td>1,470</td>
<td>1,470</td>
<td>(235)</td>
<td>1,235</td>
<td>1,099</td>
<td>2,244</td>
</tr>
<tr>
<td>Aiko Kaua, Inc.</td>
<td></td>
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<tr>
<td>Air Micronesia-bus Asia Pacific</td>
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</tr>
<tr>
<td>Air Venture Hawaii, LLC</td>
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<tr>
<td>Aliko Aviation Inc.</td>
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<tr>
<td>Aris Inc.</td>
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<tr>
<td>Asia Air Inc.</td>
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<tr>
<td>Big Island Air Incorporation</td>
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<tr>
<td>Bradley Pacific Aviation Inc.</td>
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<tr>
<td>Castle &amp; Cooke Homes Hawaii, Inc.</td>
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<tr>
<td>Corporate Air</td>
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<tr>
<td>Fly Kauai, Inc.</td>
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<tr>
<td>George’s Aviation Service, Inc.</td>
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<tr>
<td>Hale O’Lei Corporation</td>
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</tr>
<tr>
<td>Hart &amp; Jack Helicopters, Inc.</td>
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<tr>
<td>Hawaii Air Ambulance, Inc.</td>
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</tr>
<tr>
<td>Hawaii Helicopters, Inc.</td>
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<tr>
<td>Hawaii Island Air, Inc.</td>
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<tr>
<td>Helicopter Consultations of Maui, Inc.</td>
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<tr>
<td>Helicopter Consultants of Maui, Inc.</td>
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<tr>
<td>Honolulu Scoring Club Inc.</td>
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<tr>
<td>Island Helicopters Kauai, Inc.</td>
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<tr>
<td>Jestar Airways PTY Limited</td>
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<tr>
<td>K&amp;S Helicopters, Inc.</td>
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<tr>
<td>Kamaka Air, Inc.</td>
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<tr>
<td>Makani Kai Helicopters Ltd.</td>
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<tr>
<td>Maui Air Inc.</td>
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<tr>
<td>Misell, Inc.</td>
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<tr>
<td>Miscellaneous</td>
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<tr>
<td>Niihau Helicopters Inc.</td>
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<tr>
<td>Oceanic Air International, Inc.</td>
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<tr>
<td>Pacific Air Charters, Incorporated</td>
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<tr>
<td>Pacific Helicopter Tours, Inc.</td>
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<tr>
<td>Paragon Air Inc.</td>
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<tr>
<td>Polyn Air, Inc.</td>
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</tr>
<tr>
<td>Redtail Aviation Inc.</td>
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</tr>
<tr>
<td>Sky-Med Inc.</td>
<td></td>
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</tr>
<tr>
<td>Skyview Scoring, LLC</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Smoky Mountain Helicopters</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Sonyer, Will Helicopters</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sunfire Helicopters Inc.</td>
<td></td>
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<tr>
<td>Trans Executive Airlines of Hawaii, Inc.</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,272,835</td>
<td></td>
<td>2,019,145</td>
<td>184,837</td>
<td>2,203,982</td>
<td>(204,179)</td>
</tr>
<tr>
<td>Summary of revenue landing weights:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas</td>
<td>495,227</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interisland</td>
<td>2,052,174</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,547,401</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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