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

Financial Statements for the Years Ended
June 30, 2006 and 2005, Supplemental
Schedules for the Year Ended June 30, 2006,
and Independent Auditors' Report

Submitted by
The Auditor
State of Hawaii

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

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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the statements of net assets of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (Airports Division) as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the Airports Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airports Division at June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis information on pages 3 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the Airports Division. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information listed as "supplementary information—schedules as of and for the year ended June 30, 2006" in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Airports Division. These schedules are also the responsibility of the management of the Airports Division. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2006 on our consideration of the Airports Division's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

November 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

The following Management's Discussion and Analysis (MD&A) of the Airports Division, Department of Transportation, State of Hawaii (Airports Division) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Airports Division for the fiscal year ended June 30, 2006, with selected comparative information for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for inter-island flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for inter-island flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 60.5% and 61.1% of total passenger traffic in the airports system during fiscal years 2006 and 2005, respectively. The other four principal airports accommodated 38.1% and 37.7% of the total passenger traffic for fiscal years 2006 and 2005, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the United States military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana Airports on the Island of Maui, Waimea-Kohala and Upolu Airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa Airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen Airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.4% and 1.2% of the total passenger traffic for fiscal years 2006 and 2005, respectively.

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

USING THE FINANCIAL STATEMENTS

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

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

AIRPORTS DIVISION ACTIVITIES AND HIGHLIGHTS

The Airports Division ended fiscal year 2006 with increases in total passenger activity and total revenue passenger landings of 1.3% and 6.4%, respectively, when compared to fiscal year 2005. However, aircraft operations, revenue landed weights, and deplaning international passengers slightly decreased by (1.2)%, (0.5)%, and (2.9)%, respectively, as compared to fiscal year 2005. It should be noted that the increase in revenue passenger landings, or the number of times aircraft with passengers utilize gates, is mainly due to Hawaii Island Air, Inc.'s relocation of its operations from the Kahului Airport commuter terminal to the main terminal requiring payment of non-exclusive joint use charges beginning May 2005.

In terms of comparing growth from year to year, activity statistics over the last six years reflect fiscal year ended June 30, 2005 as the best performance year since the events of September 11, 2001, with fiscal year ended June 30, 2006 coming in at a close second. In general, passenger and airline activities at Hawaii's airports appear to have stabilized, except for Kona International Airport at Keahole, which reflected gains of 5.7% and 8.6% in passenger activity and revenue landed weights, respectively, as compared to fiscal year 2005.

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

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

Activity for the airports system for the fiscal years ended June 30, 2006 and 2005 is as follows:

	2006	2005	% Increase (Decrease) from 2005
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	19,954,172	19,900,298	0.3 %
Kahului Airport	5,782,115	5,692,585	1.6 %
Lihue Airport	2,565,543	2,528,997	1.4 %
Kona International Airport at Keahole	2,929,149	2,771,635	5.7 %
Hilo International Airport	1,313,716	1,283,188	2.4 %
All others	464,408	412,802	12.5 %
Total passengers	33,009,103	32,589,505	1.3 %
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	316,243	334,797	(5.5)%
Kahului Airport	164,717	168,184	(2.1)%
Lihue Airport	104,802	105,408	(0.6)%
Kona International Airport at Keahole	145,215	151,599	(4.2)%
Hilo International Airport	95,620	117,550	(18.7)%
All others	286,184	249,106	14.9 %
Total aircraft operations	1,112,781	1,126,644	(1.2)%
Revenue landed weights (1,000 pound units):			
Honolulu International Airport	16,086,180	16,678,878	(3.6)%
Kahului Airport	4,211,329	4,086,945	3.0 %
Lihue Airport	1,725,383	1,618,774	6.6 %
Kona International Airport at Keahole	2,317,181	2,133,963	8.6 %
Hilo International Airport	972,928	910,313	6.9 %
All others	339,629	322,746	5.2 %
Total signatory airlines	25,652,630	25,751,619	(0.4)%
Nonsignatory airlines	1,513,348	1,559,357	(3.0)%
Total revenue landed weights	27,165,978	27,310,976	(0.5)%

	2006	2005	% Increase (Decrease) from 2005
Revenue passenger landings:			
Honolulu International Airport	66,363	67,050	(1.0)%
Kahului Airport	29,390	23,292	26.2 %
Lihue Airport	14,681	13,524	8.6 %
Kona International Airport at Keahole	15,408	14,652	5.2 %
Hilo International Airport	8,145	7,488	8.8 %
Total signatory airlines	133,987	126,006	6.3 %
Nonsignatory airlines	1,504	1,348	11.6 %
Total revenue passenger landings	135,491	127,354	6.4 %
Deplaning international passengers:			
Honolulu International Airport	1,918,832	1,990,542	(3.6)%
Kona International Airport at Keahole	82,522	80,937	2.0 %
Total signatory airlines	2,001,354	2,071,479	(3.4)%
Nonsignatory airlines	109,649	101,965	7.5 %
Total deplaning international passengers	2,111,003	2,173,444	(2.9)%

FINANCIAL OPERATIONS HIGHLIGHTS

The financial results for fiscal year 2006 improved as compared to fiscal year 2005. Income before capital contributions for fiscal year ended 2006 was $1.3 million as compared to a loss of $8.2 million for fiscal year ended 2005. Total non-operating revenues increased by $24.7 million due to increases in interest income, federal operating grants, and passenger facility charges. Interest income increased by $11 million due to the rise of interest rates comparing fiscal year 2006 and 2005. In addition, federal operating grant and passenger facility charge revenues increased by $6.2 million and $6.9 million, respectively.

Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect passenger facility charges (PFC) at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport. The PFC revenue is to be utilized for seven FAA approved projects, which must be implemented by September 30, 2006. The terms of the PFC approval do not permit the use of PFC revenues to pay debt service on any new or outstanding bonds issued to finance other-than-approved PFC projects. The maximum approved PFC revenue including interest earned to be collected between October 1, 2004 and February 1, 2007 at all four principal airports is $42,632,466. The PFC revenues (including interest) generated between October 1, 2004 and June 30, 2006 was $37.8 million.

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

Total non-operating expenses decreased by 8.7% or $3.9 million mainly due to the decrease in airport revenue bond interest expense.

During fiscal year 2005 and prior, the Airports Division acquired seven buildings upon the expiration of land lease agreements. During the prior fiscal years, no amounts were recorded for the acquisitions, as appraisals at the dates of acquisition were not available. During fiscal year 2006, appraisals were obtained for these buildings, and the Airports Division recorded these buildings at a value of $26.8 million. During fiscal year 2006, the Airports Division acquired two buildings upon the expiration of the land lease agreements. No amounts have been recorded for these acquisitions as of June 30, 2006 as appraisals at the dates of acquisition are not available.

During fiscal year 2006, an additional $19.6 million was recorded for the Hickam land that was donated by the United States Government in fiscal year 2001, in order to update the previously recorded amount to the appraised value of $20.7 million.

As a result, net assets increased by $74.6 million for fiscal year 2006, as compared to an increase of $24.9 million for fiscal year 2005.

In summary, Airports Division continues to generate a positive cash flow and operational income before depreciation. Although passenger traffic to Hawaii has stabilized along with operational revenue, operational expenses have increased in order to maintain airport services and facilities. However, the steady income stream from passenger facility charges, interest income, funding from federal discretionary grants along with the decrease in airport system revenue bond interest has supported the sizeable increase in operational expenses. Therefore, the future financial outlook for the Airports Division continues to remain optimistic and healthy provided worldwide economic conditions and events remain stable.

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

	2006	**2005**
Operating revenues	$ 228,998,181	$ 223,802,443
Operating expenses, excluding depreciation	(175,884,514)	(149,762,637)
Operating income before depreciation	53,113,667	74,039,806
Depreciation	(75,596,942)	(77,491,244)
Operating loss	(22,483,275)	(3,451,438)
Nonoperating revenues (expenses)—net	23,762,438	(4,782,578)
Income (loss) before capital contributions and transfers	1,279,163	(8,234,016)
Capital contributions and transfers:		
Federal capital grants	26,904,130	33,139,276
Other capital contribution	46,368,857	-
Total capital contributions and transfers	73,272,987	33,139,276
Increase in net assets	$ 74,552,150	$ 24,905,260

- Operating revenues increased by 2.3% from $223.8 million in fiscal year 2005 to $229.0 million in fiscal year 2006. The primary reasons for the increase were from rent-a-car, parking, and retail concessions.

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

Hawaii surcharge on gross receipts of $4.5 million due to fiscal year 2005 credits taken as a result of the airport revenue bond redemption of $69.3 million.

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

- Non-operating revenues—net increased by 596.9% or $28.5 million in fiscal year 2006, primarily due to increases in interest income, federal operating grants, and passenger facility charges. In addition, Airport System Revenue Bond interest expense decreased by $3.4 million as a result of redeeming Refunding Series 2003 bonds in January 2005.

- Income before capital contributions and transfers for fiscal year 2006 of $1.3 million as compared to a loss of $8.2 million for fiscal year 2005 were a result of increases in non-operating revenues—net.

- Capital contributions increased by 121.1% or $40.1 million mainly due to the recording of fair market values for the Hickam land donated by the United States Government and seven buildings due to expired lease agreements at the Honolulu International Airport.

FINANCIAL POSITION SUMMARY

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

	2006	2005
ASSETS:		
Current assets:		
Unrestricted assets	$ 565,417,323	$ 566,198,806
Restricted assets	278,276,513	256,016,772
Noncurrent assets:		
Other assets	6,916,798	4,247,183
Restricted assets	38,148,850	39,125,241
Capital assets	1,457,377,510	1,426,270,724
Total	$ 2,346,136,994	$ 2,291,858,726
LIABILITIES:		
Current liabilities:		
Payable from unrestricted assets	$ 37,691,638	$ 32,854,186
Payable from restricted assets	57,652,223	51,259,451
Long-term liabilities	685,723,421	717,227,527
Total	$ 781,067,282	$ 801,341,164
NET ASSETS:		
Invested in capital assets—net of related debt	$ 834,485,669	$ 783,919,511
Restricted	206,580,392	178,194,876
Unrestricted	524,003,651	528,403,175
Total	$ 1,565,069,712	$ 1,490,517,562

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

The restricted portion of the Airports Division's net assets (13.2% at June 30, 2006 and 12% at June 30, 2005) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (Certificate), as well as passenger facility charges that can only be used for specific projects.

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

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

AIRLINE SIGNATORY RATES AND CHARGES

Lease Agreement with Signatory Airlines

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

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

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

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

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

The following summarizes the rates in effect at June 30, 2006 and 2005.

	2006	2005
Airport landing fees (per 1,000 pound units of landed weights):		
Signatory airlines:		
Overseas flights	$ 1.930	$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges (per revenue passenger landing):		
Signatory airlines:		
Overseas terminal	467.773	520.372
Blended overseas	381.808	400.140
Inter-island terminal	92.317	77.281
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges (per deplaning international passenger):		
Signatory airlines	4.029	4.029
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges (per revenue passenger landing)—Signatory airlines	17.609	15.378
Airports system support charges (per 1,000 pound units of landed weights)—Nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

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

REVENUES

A summary of revenues for the years ended June 30, 2006 and 2005 and the amount and percentage of change in relation to prior year amounts are as follows:

	2006		Increase (Decrease) from 2005	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Concession fees:				
Duty Free	$ 39,168,256	13.4 %	$ (3,808,945)	(8.9)%
Other concessions	81,240,246	27.7 %	7,338,280	9.9 %
Airport landing fees	36,084,719	12.3 %	621,576	1.8 %
Aeronautical rentals:				
Exclusive-use premise charge	28,596,553	9.7 %	934,778	3.4 %
Nonexclusive joint-use premise charge	25,795,048	8.8 %	(669,999)	(2.5)%
Nonaeronautical rentals	11,129,569	3.8 %	(1,327,678)	(10.7)%
Aviation fuel tax	2,590,355	0.9 %	(844,089)	(24.6)%
Airports system support charges	631,406	0.2 %	(24,353)	(3.7)%
Miscellaneous	3,762,029	1.3 %	620,901	19.8 %
Bad debt expense	-		2,355,267	(100.0)%
Total operating	228,998,181	78.1 %	5,195,738	2.3 %
NONOPERATING:				
Interest income, investments	31,178,350	10.6 %	11,040,197	54.8 %
Interest income, passenger facility charges	685,269	0.2 %	566,515	477.0 %
Interest income, direct financing leases	2,758,956	0.9 %	(95,254)	(3.3)%
Federal operating grants	7,750,408	2.6 %	6,227,471	408.9 %
Passenger facility charges	21,994,208	7.5 %	6,944,110	46.1 %
Total nonoperating	64,367,191	21.9 %	24,683,039	62.2 %
TOTAL REVENUES	$ 293,365,372	100.0 %	$ 29,878,777	11.3 %

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

EXPENSES

A summary of expenses for the years ended June 30, 2006 and 2005, and the amount and percentage of change in relation to prior year amounts are as follows:

	2006		Increase (Decrease) from 2005	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Salaries and wages	$ 56,808,276	19.5 %	$ 3,577,252	6.7 %
Other personnel services	38,410,030	13.2 %	2,910,779	8.2 %
Utilities	25,785,985	8.8 %	4,906,781	23.5 %
Special maintenance	13,447,139	4.6 %	4,867,380	56.7 %
State of Hawaii surcharge on gross receipts	9,593,145	3.3 %	4,525,403	89.3 %
Repairs and maintenance	8,867,925	3.0 %	(502,646)	(5.4)%
Disbursements out of major maintenance, renewal and replacement account	7,962,632	2.7 %	5,521,663	226.2 %
Department of Transportation general administration expenses	4,999,371	1.7 %	(432,506)	(8.0)%
Materials and supplies	4,599,737	1.6 %	680,537	17.4 %
Insurance	2,568,303	0.9 %	(42,209)	(1.6)%
Claims and benefits—payments made during the year	1,464,232	0.5 %	357,378	32.3 %
Travel	340,827	0.1 %	(678)	(0.2)%
Rent	300,236	0.1 %	19,258	6.9 %
Communication	294,133	0.1 %	(69,907)	(19.2)%
Dues and subscriptions	128,163	0.0 %	(15,940)	(11.1)%
Printing and advertising	13,809	0.0 %	8,481	159.2 %
Freight and delivery	29,412	0.0 %	12,254	71.4 %
Miscellaneous	271,159	0.1 %	(201,403)	(42.6)%
Total operating	175,884,514	60.3 %	26,121,877	17.4 %
DEPRECIATION	75,596,942	25.8 %	(1,894,302)	(2.4)%
NONOPERATING:				
Interest expense:				
Revenue bonds:				
Airports system	36,747,669	12.5 %	(3,449,724)	(8.6)%
Special facility	2,758,956	0.9 %	(95,254)	(3.3)%
General obligation bonds	2,142	0.0 %	(446)	(17.2)%
Loss on redemption of bonds	634,569	0.2 %	508,923	405.0 %
Other expense	461,417	0.2 %	(825,476)	(64.1)%
Total nonoperating	40,604,753	13.9 %	(3,861,977)	(8.7)%
TOTAL EXPENSES	$ 292,086,209	100.0 %	$ 20,365,598	7.5 %

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

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the fiscal years ended June 30, 2006 and 2005. Cash equivalents include highly liquid investments with an original maturity of three months or less.

	2006	2005
Cash flow provided by operating activities	$ 60,569,473	$ 72,696,621
Cash flow provided by noncapital financing activities	7,249,265	1,832,836
Cash flow used in capital and related financing activities	(66,826,674)	(132,642,788)
Cash flow provided by investing activities	30,482,034	28,985,702
Net increase (decrease) in cash and cash equivalents	31,474,098	(29,127,629)
Cash and cash equivalents—beginning of year	715,843,049	744,970,678
Cash and cash equivalents—end of year	$ 747,317,147	$ 715,843,049

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

In fiscal year 2006, there were 18 construction bid openings totaling an estimated $82 million in potential construction contracts. Significant projects include Heliport Improvements and Baggage Claim Improvements, Phase I at Lihue Airport, EDS Integration Improvements, Phase I, and two air conditioning improvements projects (Common Chilled Water Loop and Diamond Head Chiller Plant) at Honolulu International Airport, as well as four Airfield Lights and Sign Replacement projects at Hilo International, Kona International, Kahului, Lanai, Lihue, and Honolulu International Airports.

There were also several ongoing construction projects that were initiated prior to fiscal year 2006 that were under construction during the fiscal year. Major projects include Terminal Improvements, Phase Ib at Kahului Airport, Install Security Fencing at Hilo International Airport, and Install Taxiway Lighting at Molokai Airport. These on-going projects totaled approximately $18.8 million in construction contracts.

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

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

INDEBTEDNESS

Airports System Revenue Bonds and Reimbursable General Obligation Bonds

As of July 1, 2006, $643,130,000 of airports system revenue bonds was outstanding compared to $673,695,000 as of July 1, 2005. The last series of “new money” bonds used to fund capital improvement projects was issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. At June 30, 2006, the balance of authorized but unissued airports system revenue bonds was $22,790,529.

As of June 30, 2006, $47,125 of reimbursable general obligation bonds issued for the airports system was outstanding compared to $56,550 as of June 30, 2005.

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

Special Obligation Bonds

The State Legislature has authorized $200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2006 and 2005, there were outstanding bond obligations of $37,895,000 and $38,860,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

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

CREDIT RATING AND BOND INSURANCE

All airports system revenue bonds issued since 1989 have been issued with bond insurance and are rated AAA by Standard & Poor's Corporation, Aaa by Moody's Investors Service, and AAA by Fitch IBCA, Inc. As of June 2006, the underlying ratings for airports system revenue bonds were as follows:

- Standard & Poor's Corporation: A- (with stable outlook), which is slightly below the rating agency's median for Airports (A).

- Moody's Investors Service: A3 (with stable outlook), which is slightly below the rating agency's median for airports (A2).

- Fitch IBCA, Inc.: A (with stable outlook), which is slightly below the rating agency's median rating for Airports (A+).

REQUEST FOR INFORMATION

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

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

STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents—unrestricted (Note 3)	$ 547,469,895	$ 537,794,926
Receivables:		
Accounts, net of allowance of $3,932,775 and $6,003,729 for uncollectible accounts	8,863,178	14,119,662
Promissory note receivable (Note 8)	2,109,422	6,024,102
Interest	3,937,602	3,241,286
Claims—federal grants	2,008,598	4,507,507
Aviation fuel tax	194,071	244,192
Due from State of Hawaii	579,386	52,240
Total receivables	17,692,257	28,188,989
Inventory of materials and supplies, at cost	255,171	214,891
Total unrestricted current assets	565,417,323	566,198,806
Restricted assets:		
Cash and cash equivalents (Note 3):		
Revenue bond debt service (Note 6)	113,259,115	108,273,960
Revenue bond construction	47,228,937	52,665,556
Passenger facility charges	34,670,581	12,451,715
Security deposits and customer advance	4,688,619	4,656,892
Total cash and cash equivalents—restricted	199,847,252	178,048,123
Passenger facility charges receivable	3,177,748	2,717,136
Investments—revenue bond debt service reserve (Notes 3 and 6)	75,251,513	75,251,513
Total restricted current assets	278,276,513	256,016,772
Total current assets	843,693,836	822,215,578

(Continued)

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

STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

ASSETS (Continued)	2006	2005
NONCURRENT ASSETS:		
Promissory note receivable (Note 8)	$ 3,131,032	$ -
Bond issue costs, net of accumulated amortization of $2,723,425 and $2,262,007 (Note 6)	3,785,766	4,247,183
Restricted assets—net investments in direct financing leases (Note 8)	38,148,850	39,125,241
Capital assets, net of accumulated depreciation of $1,270,649,191 and $1,197,305,695 (Notes 4, 6 and 7)	1,457,377,510	1,426,270,724
Total noncurrent assets	1,502,443,158	1,469,643,148
TOTAL ASSETS	$2,346,136,994	$2,291,858,726

(Concluded)

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

STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

	2006	2005
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Payable from unrestricted assets:		
Vouchers payable	$ 7,340,426	$ 6,433,240
Contracts payable, including retainage of $2,467,550 and $2,241,849	16,423,465	11,003,376
Current portion of general obligation bonds (Notes 5 and 7)	9,425	9,425
Deferred income (Note 8)	2,745,571	3,530,199
Current portion of workers' compensation (Notes 5 and 14)	899,951	883,308
Current portion of compensated absences (Note 5)	2,309,200	2,196,020
Accrued wages	4,210,587	4,564,226
Prepaid airport use charge fund (Notes 8 and 15)	3,727,254	4,208,161
Other	25,759	26,231
Total payable from unrestricted assets	37,691,638	32,854,186
Payable from restricted assets:		
Contracts payable, including retainage of $163,384 and $183,269	2,318,424	575,027
Current portion of airports system revenue bonds (Notes 5 and 6)	30,565,000	25,250,000
Current portion of special facility revenue bonds (Notes 5 and 8)	1,000,000	965,000
Accrued interest	20,032,787	20,765,133
Security deposits	3,736,012	3,704,291
Total payable from restricted assets	57,652,223	51,259,451
Total current liabilities	95,343,861	84,113,637
LONG-TERM LIABILITIES—Net of current portion:		
Customer advance (Note 13)	952,601	952,601
Compensated absences (Note 5)	5,122,517	5,405,890
Workers' compensation (Notes 5 and 14)	3,200,049	3,216,692
General obligation bonds (Notes 5 and 7)	37,700	47,125
Airports system revenue bonds (Notes 5 and 6)	639,515,554	669,710,219
Special facility revenue bonds (Notes 5 and 8)	36,895,000	37,895,000
Total liabilities	781,067,282	801,341,164
COMMITMENTS AND CONTINGENCIES (Notes 8, 13, 14 and 15)		

(Continued)

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

STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

LIABILITIES AND NET ASSETS (Continued)	2006	2005
NET ASSETS:		
Invested in capital assets—net of related debt	$ 834,478,768	$ 783,919,511
Restricted:		
Debt service payment	30,565,000	25,250,000
Debt service reserve account	75,251,513	75,251,513
Major maintenance, renewal and replacement account	62,915,550	62,524,511
Passenger facility charges	37,848,329	15,168,852
Total restricted	206,580,392	178,194,876
Unrestricted	524,010,552	528,403,175
Total net assets	1,565,069,712	1,490,517,562
TOTAL LIABILITIES AND NET ASSETS	$ 2,346,136,994	$ 2,291,858,726

See accompanying notes to financial statements. (Concluded)

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES (Notes 8, 12 and 15):		
Concession fees	$ 120,408,502	$ 116,879,167
Airport landing fees	36,084,719	35,463,143
Aeronautical rentals:		
Exclusive-use premise charges	28,596,553	27,661,775
Nonexclusive joint-use premise charges	25,795,048	26,465,047
Nonaeronautical rentals	11,129,569	12,457,247
Aviation fuel tax	2,590,355	3,434,444
Airports system support charges	631,406	655,759
Miscellaneous	3,762,029	3,141,128
Bad debt expense	-	(2,355,267)
Net operating revenues	228,998,181	223,802,443
OPERATING EXPENSES (Notes 4, 8, 9, 11, 12, 13, 14 and 15):		
Salaries and wages	56,808,276	53,231,024
Other personnel services	38,410,030	35,499,251
Utilities	25,785,985	20,879,204
Special maintenance	13,447,139	8,579,759
State of Hawaii surcharge on gross receipts	9,593,145	5,067,742
Repairs and maintenance	8,867,925	9,370,571
Disbursements out of major maintenance, renewal and replacement account	7,962,632	2,440,969
Department of Transportation general administration expenses	4,999,371	5,431,877
Materials and supplies	4,599,737	3,919,200
Insurance	2,568,303	2,610,512
Claims and benefits	1,464,232	1,106,854
Travel	340,827	341,505
Rent	300,236	280,978
Communication	294,133	364,040
Dues and subscriptions	128,163	144,103
Freight and delivery	29,412	17,158
Printing and advertising	13,809	5,328
Miscellaneous	271,159	472,562
Depreciation	75,596,942	77,491,244
Total operating expenses	251,481,456	227,253,881
OPERATING LOSS (Forward)	(22,483,275)	(3,451,438)

(Continued)

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING LOSS (Forwarded)	$ (22,483,275)	$ (3,451,438)
NONOPERATING REVENUES (EXPENSES):		
Interest income:		
Certificates of deposit, repurchase agreements and U.S. government securities	31,178,350	20,138,153
Investments in direct financing leases (Note 8)	2,758,956	2,854,210
Interest expense:		
Revenue bonds:		
Airports system (Note 6)	(36,747,669)	(40,197,393)
Special facility (Note 8)	(2,758,956)	(2,854,210)
General obligation bonds (Note 7)	(2,142)	(2,588)
Federal operating grants	7,750,408	1,522,937
Loss on disposal of capital assets (Note 4)	(634,569)	(125,646)
Passenger facility charges (Note 9)	22,679,477	15,168,852
Amortization of deferred bond issue costs	(461,417)	(1,286,893)
Total nonoperating revenues (expenses)	23,762,438	(4,782,578)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,279,163	(8,234,016)
CAPITAL CONTRIBUTIONS AND TRANSFERS:		
Federal capital grants	26,904,130	33,139,276
Other capital contribution (Note 4)	46,368,857	-
Total capital contributions and transfers	73,272,987	33,139,276
INCREASE IN NET ASSETS	74,552,150	24,905,260
TOTAL NET ASSETS—Beginning of year	1,490,517,562	1,465,612,302
TOTAL NET ASSETS—End of year	$1,565,069,712	$1,490,517,562

See accompanying notes to financial statements. (Concluded)

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

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	$ 233,854,148	$ 218,124,039
Cash paid to suppliers	(116,110,516)	(93,679,031)
Cash paid to employees	(57,332,108)	(51,748,387)
Other receipts	7,146	-
Net cash provided by operating activities	60,418,670	72,696,621
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—Proceeds from federal operating grants	7,249,265	1,832,836
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(53,259,034)	(53,620,827)
Proceeds from federal and other capital grants and contributions	29,904,182	30,420,880
Interest paid on airports system revenue and general obligation bonds	(40,280,459)	(41,820,132)
Principal paid on general obligation bonds	(9,425)	(9,425)
Principal paid on airports system revenue bonds	(25,250,000)	(10,765,000)
Payments to defease airport system revenue bonds	-	(69,300,000)
Proceeds from passenger facility charges program	22,218,865	12,451,716
Net cash used in capital and related financing activities	(66,675,871)	(132,642,788)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	75,251,513	85,284,176
Interest received on investments	30,482,034	18,953,039
Purchases of investments	(75,251,513)	(75,251,513)
Net cash provided by investing activities	30,482,034	28,985,702
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,474,098	(29,127,629)
CASH AND CASH EQUIVALENTS—Beginning of year	715,843,049	744,970,678
CASH AND CASH EQUIVALENTS—End of year	$ 747,317,147	$ 715,843,049

(Continued)

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

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (22,483,275)	$ (3,451,438)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	75,596,942	77,491,244
Bad debt expense	-	2,355,267
Overpayment of airport use charge to be transferred to the PAUCF	867,093	1,087,495
Insurance proceeds	7,146	-
Changes in operating assets and liabilities:		
Accounts receivable	6,040,132	(5,749,443)
Aviation fuel tax receivable	50,121	(84,520)
Inventory of materials and supplies	(40,280)	(23,549)
Vouchers payable	907,186	2,645,715
Contracts payable	2,625,962	(132,935)
Deferred income	(784,628)	(1,830,480)
Accrued wages	(523,832)	1,482,637
Prepaid airport use charge fund	(1,348,000)	(1,348,000)
Due to State of Hawaii	(527,146)	363,351
Security deposits	31,721	(108,496)
Other	(472)	(227)
Net cash provided by operating activities	$ 60,418,670	$ 72,696,621

SUPPLEMENTAL INFORMATION—NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

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

	2006	2005
Principal payments on special facility revenue bonds	$ 965,000	$ 1,135,000
Interest payments on special facility revenue bonds	2,770,347	2,856,970
Amortization of revenue bond issue costs	461,417	1,286,893
Amortization of revenue bond discount	60,805	60,805
Amortization of revenue bond premium	(1,449,373)	(2,027,562)
Amortization of deferred loss on refunding revenue bonds	1,758,903	3,238,633

(Continued)

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

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

- At June 30, 2006 and 2005, contracts payable included $11,146,510 and $6,599,713, respectively, for the acquisition of capital assets.
- During fiscal years 2006 and 2005, interest of $3,180,028 and $2,590,584, respectively, was capitalized in property, plant and equipment.
- During fiscal years 2006 and 2005, property, plant, and equipment with a net book value of $650,988 and $125,646, respectively, were written off.
- During fiscal year 2006, buildings with a value of $26,766,500 were acquired upon the expiration of land lease agreements.
- During fiscal year 2006, the carrying value of a land parcel was increased by $19,602,357 in order to update the previously recorded amount to the appraised value of $20,690,000.

See accompanying notes to financial statements. (Concluded)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

1. REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Capital Contributions—The Airports Division receives federal grants from the FAA through the Airport Improvement Program. The grant is considered earned as the related allowable expenditures are incurred. Grants for the acquisition and construction of land, property, and certain types of equipment are reported in the Statements of Revenues, Expenses and Changes in Net Assets as capital contributions.

Cash and Cash Equivalents—All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and cash equivalents include amounts held in the State Treasury. The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). The Airports Division's portion of this cash pool at June 30, 2006 and 2005 is described in Note 3. The Hawaii Revised Statutes authorize the State Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally insured savings and checking accounts, certificates of deposit, and repurchase agreements with federally insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with State statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

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

An aging of the accounts receivable at June 30, 2006 was as follows: current—$12,068,049; 30 days—$170,131; 60 days—$64,856, and over 90 days—$492,917.

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.

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

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

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

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

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

Bond Issue Costs, Original Issue Discount or Premium and Deferred Loss on Refundings—Bond issue costs relating to the issuance of airports system revenue bonds are deferred and are amortized over the life of the respective issue on a straight-line basis. Original issue discount or premium and deferred loss on refundings are amortized using the effective interest method over the terms of the respective issues and are added to or offset against the long-term debt in the Statements of Net Assets.

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

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

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

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

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

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

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34*. This Statement established and modifies requirements related to restrictions of net assets resulting from enabling legislation. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2005. Adoption of this Statement did not have an effect on the June 30, 2006 financial statements.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments at June 30, 2006 and 2005 consisted of the following:

	2006	2005
Petty cash	$ 17,805	$ 17,805
Cash in State Treasury	747,299,342	715,825,244
Repurchase agreements	56,952,787	56,952,787
Certificates of deposit	18,298,726	18,298,726
	$822,568,660	$791,094,562

Such amounts are reflected in the Statements of Net Assets at June 30, 2006 and 2005 as follows:

	2006	2005
Cash and cash equivalents:		
Unrestricted	$547,469,895	$537,794,926
Restricted	199,847,252	178,048,123
Total cash and cash equivalents	747,317,147	715,843,049
Investments—restricted	75,251,513	75,251,513
Total cash and cash equivalents and investments	$822,568,660	$791,094,562

Cash and Cash Equivalents

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, 2006 and 2005, the amounts held in the State's investment pool amounted to $747,299,402 and $715,825,244, respectively.

At June 30, 2006 and 2005, information relating to individual bank balances, insurance, and collateral of cash deposits was not available since such information is determined on a statewide basis and not for individual departments or divisions. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments

At June 30, 2006 and 2005, the Airports Division's investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.

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

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

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

4. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2006 and 2005 consist of the following:

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

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

During fiscal year 2005 and prior, the Airports Division acquired seven buildings upon the expiration of land lease agreements. During the prior fiscal years, no amounts were recorded for the acquisitions, as appraisals at the dates of acquisition were not available. During fiscal year 2006, appraisals were obtained for these buildings, and the Airports Division recorded these buildings at a value of $26,766,500. During fiscal year 2006, the Airports Division acquired two buildings upon the expiration of the land lease agreements. No amounts have been recorded for these acquisitions as of June 30, 2006 as appraisals at the dates of acquisition are not available.

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

5. LONG-TERM LIABILITIES

A summary of the long-term liabilities changes during fiscal years 2006 and 2005 follows:

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

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

6. AIRPORTS SYSTEM REVENUE BONDS

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

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

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

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

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

   1. Interest account
   2. Serial bond principal account

3. Sinking fund account
4. Debt service reserve account

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

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

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

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

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

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

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2006 and 2005, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2006 and 2005, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying Statements of Net Assets) consisted of the following:

	2006	**2005**
Debt service reserve account	$ 75,251,513	$ 75,251,513
Major maintenance, renewal and replacement account	62,915,550	62,524,511
	138,167,063	137,776,024
Principal and interest due July 1	50,343,565	45,749,449
	$ 188,510,628	$ 183,525,473

At June 30, 2006, the balance of authorized but unissued airports system revenue bonds was $22,790,529.

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, 2006 and 2005:

Series	Interest Rate	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount 2006	Outstanding Amount 2005
2000A, refunding	5.50 - 6.00	2021	26,415,000	$ 26,415,000	$ 26,415,000
2000B, refunding	5.00 - 8.00	2020	261,465,000	239,820,000	249,275,000
2001, refunding	4.00 - 5.75	2021	423,255,000	407,460,000	423,255,000
			$ 711,135,000	673,695,000	698,945,000
Add unamortized premium				11,671,866	13,121,239
Less unamortized discount				(800,877)	(861,682)
Less deferred loss on refunding				(14,485,435)	(16,244,338)
Less current portion				(30,565,000)	(25,250,000)
Noncurrent portion				$ 639,515,554	$ 669,710,219

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

Years Ending June 30	Principal	Interest	Total
2007	$ 32,250,000	$ 37,867,591	$ 70,117,591
2008	21,140,000	36,075,901	57,215,901
2009	22,310,000	34,906,116	57,216,116
2010	23,615,000	33,605,699	57,220,699
2011	25,240,000	31,966,186	57,206,186
2012-2016	230,800,000	127,329,831	358,129,831
2017-2021	287,775,000	45,908,528	333,683,528
	$ 643,130,000	$ 347,659,852	$ 990,789,852

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2006.

The following is a summary of interest costs incurred for the years ended June 30, 2006 and 2005 and the allocation thereof:

	2006	2005
Expensed as incurred	$ 36,747,669	$ 40,197,393
Capitalized in capital assets	3,179,794	2,590,330
	$ 39,927,463	$ 42,787,723

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

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

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

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

7. GENERAL OBLIGATION BONDS

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

The following is a summary of such general obligation bonds reimbursable by the Airports Division at June 30, 2006 and 2005:

Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Outstanding Amount 2006	Outstanding Amount 2005
CI	4.00 - 5.00	2011	$ 141,392	$ 47,125	$ 56,550
Less current portion				(9,425)	(9,425)
Noncurrent portion				$ 37,700	$ 47,125

Annual debt service requirements for general obligation bonds outstanding at June 30, 2006 are as follows:

Years Ending June 30	Principal	Interest	Total
2007	$ 9,425	$ 2,017	$ 11,442
2008	9,425	1,579	11,004
2009	9,425	1,133	10,558
2010	9,425	686	10,111
2011	9,425	231	9,656
	$ 47,125	$ 5,646	$ 52,771

The following is a summary of interest costs incurred for the years ended June 30, 2006 and 2005 and the allocation thereof:

	2006	2005
Expensed as incurred	$ 2,142	$ 2,588
Capitalized in capital assets	234	254
	$ 2,376	$ 2,842

8. LEASES

Airport-Airline Lease Agreement

Airports Division

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

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

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (PAUCF). During fiscal year 2000, the parties discussed the transfer of the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal years 1996 through 2006 have been transferred to the PAUCF. In fiscal years 2006 and 2005, the signatory airlines were paid $1,348,000 out of the PAUCF.

Aviation Fuel Tax

The aviation fuel tax amounted to $2,590,355 and $3,434,444 for fiscal years 2006 and 2005, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

Airport landing fees amounted to $38,549,953 and $38,693,157 for fiscal years 2006 and 2005, respectively. Airport landing fees are shown net of aviation fuel tax credits of $2,465,234 and $3,230,014 for fiscal years 2006 and 2005, respectively, on the Statements of Revenues, Expenses and Changes in Net Assets, which resulted in net airport landing fees of $36,084,719 and $35,463,143 for fiscal years 2006 and 2005, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The inter-island airport landing fees for signatory airlines are set at 36% of the airport landing fees for overseas flights.

Overseas and inter-island joint-use premise charges were established to recover airports system costs allocable to the overseas and inter-island terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to $25,795,048 and $26,465,047 for fiscal years 2006 and 2005, respectively. For fiscal years 2006 and 2005, the overpayments of $867,093 and $1,087,495, respectively, were transferred into the PAUCF.

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

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

Exclusive-use premise charges amounted to $28,596,553 and $27,661,775 for fiscal years 2006 and 2005, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $15,926,032 and $15,418,791 for fiscal years 2006 and 2005, respectively.

Airports system support charges amounted to $631,406 and $655,759 for fiscal years 2006 and 2005, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system inter-island support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

The following summarizes the rates in effect at June 30, 2006 and 2005:

	2006	2005
Airport landing fees (per 1,000 pound units of landed weights):		
Signatory airlines:		
Overseas flights	$ 1.930	$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges (per revenue passenger landing):		
Signatory airlines:		
Overseas terminal	467.773	520.372
Blended overseas	381.808	400.140
Inter-island terminal	92.317	77.281
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges (per deplaning international passenger):		
Signatory airlines	4.029	4.029
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges (per revenue passenger landing)—Signatory airlines	17.609	15.378
Airports system support charges (per 1,000 pound units of landed weights)—Nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

Special Facility Leases and Revenue Bonds

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

$2,300,000 Issue

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

$25,255,000 Issue

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption at the option of the Airports Division, upon the request of Continental Airlines, Inc., at prices ranging from 101% to 100% of principal depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest. The Airports Division redeemed $130,000 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 semi-annually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2006:

Years Ending June 30	Principal	Interest	Total
2007	$ -	$ 1,222,031	$ 1,222,031
2008	-	1,222,031	1,222,031
2009	-	1,222,031	1,222,031
2010	-	1,222,031	1,222,031
2011	-	1,222,031	1,222,031
2012-2016	-	6,110,156	6,110,156
2017-2021	-	6,110,156	6,110,156
2022-2026	-	6,110,156	6,110,156
2027-2028	21,725,000	1,836,705	23,561,705
	$ 21,725,000	$ 26,277,328	$ 48,002,328

$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, 2006:

Years Ending June 30	Principal	Interest	Total
2007	$ 600,000	$ 949,900	$ 1,549,900
2008	640,000	907,900	1,547,900
2009	700,000	863,100	1,563,100
2010	730,000	814,100	1,544,100
2011	785,000	763,000	1,548,000
2012-2016	4,850,000	2,908,500	7,758,500
2017-2020	5,265,000	950,950	6,215,950
	$13,570,000	$8,157,450	$21,727,450

$6,600,000 Issue

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

The bonds bear interest at 10.125% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2006:

Years Ending June 30	Principal	Interest	Total
2007	$ 400,000	$ 253,125	$ 653,125
2008	400,000	212,625	612,625
2009	400,000	172,125	572,125
2010	500,000	131,625	631,625
2011	900,000	45,562	945,562
	$2,600,000	$ 815,062	$3,415,062

Special facility revenue bonds payable at June 30, 2006 and 2005 consisted of the following:

	Continental		Sky Chefs	Total
2006				
Current portion	$ 600,000	$ -	$ 400,000	$ 1,000,000
Noncurrent portion	12,970,000	21,725,000	2,200,000	36,895,000
	$13,570,000	$21,725,000	$2,600,000	$37,895,000
2005				
Current portion	$ 565,000	$ -	$ 400,000	$ 965,000
Noncurrent portion	13,570,000	21,725,000	2,600,000	37,895,000
	$14,135,000	$21,725,000	$3,000,000	$38,860,000

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

Net investments in direct financing leases at June 30, 2006 and 2005 consisted of the following:

	2006	2005
Cash with bond fund trustee	$ 3,745,141	$ 3,686,225
Receivable from lessees, net of unearned interest of $35,503,691 and $37,486,047	34,149,859	35,173,775
Interest receivable	253,850	265,241
	$38,148,850	$39,125,241

Other Operating Leases

The Airports Division also leases certain building spaces and improvements to concessionaires, airline carriers and other airport users. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Information regarding the cost and related accumulated depreciation of these facilities, which is required to be disclosed by Statement of Governmental Accounting Standards No. 13, *Accounting for Leases*, is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

The future minimum rentals from these operating leases at June 30, 2006 are as follows:

Years Ending June 30	
2007	$ 59,114,285
2008	22,738,945
2009	15,751,795
2010	8,548,598
2011	8,277,289
2012-2016	32,617,758
2017-2021	25,030,114
2022-2026	13,235,475
2027-2031	6,918,103
2032	3,585,432
	$ 195,817,794

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal years 2006 and 2005 were $60,176,554 and $51,740,336, respectively.

In fiscal year 2006, the Airports Division converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 2.5% to 6%, and are due over periods ranging from 11 months to 36 months. The balance of $5,240,454 at June 30, 2006 is due as follows: 2007 - $2,109,422, 2008 - $342,693, and 2009 - $2,788,339.

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 41% and 44% of total concession fee revenues for fiscal years 2006 and 2005, respectively.

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

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

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

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

9. PASSENGER FACILITY CHARGES

PFC revenue for fiscal year 2006 and the period October 1, 2004 (effective date) to June 30, 2005, consisted of the following:

	2006	2005
Passenger facility charges	$21,994,207	$15,050,098
Interest earned on passenger facility charges	685,270	118,754
Total	$22,679,477	$15,168,852

10. PENSION INFORMATION

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

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

The pension contribution for fiscal years 2006 and 2005 was $6,123,102 and $3,640,182, respectively, which represented 13.8% of covered payroll and was equal to the required contribution for the year.

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

11. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

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

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

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

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

Contributions are financed on a pay-as-you-go basis, and are limited by State statute to the actual cost of benefit coverage. The amounts allocated to the Airports Division for fiscal years 2006 and 2005 amounted to $2,883,274 and $2,846,865, respectively.

12. TRANSACTIONS WITH OTHER GOVERNMENT AGENCIES

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $9,593,145 and $5,067,742 in fiscal years 2006 and 2005, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $5,955,567 and $6,652,910 in fiscal years 2006 and 2005, respectively. During fiscal years 2006 and 2005, the Airports Division received assessment refunds from the DOT amounting to $956,197 and $1,221,033, respectively. Such refunds reduced operating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

During fiscal years 2006 and 2005, revenues received from other state agencies totaled $178,448 and $160,006, respectively, and expenditures to other state agencies totaled $6,046,207 and $5,922,311, respectively.

13. COMMITMENTS

Sick Pay

Accumulated sick leave at June 30, 2006 and 2005 was $15,832,267 and $15,611,548, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

Deferred Compensation Plan

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

Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next 5-10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the Statements of Net Assets at June 30, 2006 and 2005.

At June 30, 2006 and 2005, the Airports Division had commitments totaling approximately $256,489,000 and $114,743,000, respectively, for construction and service contracts.

14. RISK MANAGEMENT

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

Torts

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

Property and Liability Insurance

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

Workers’ Compensation

The State is self-insured for workers’ compensation. Accordingly, the Airports Division is liable for all workers’ compensation claims filed by its employees. Liabilities for workers’ compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2006 and 2005, the workers’ compensation reserve was $4,100,000 in both years, of which $899,951 and $883,308 are included in other current liabilities (payable from current assets) and $3,200,049 and $3,216,692 are included in long-term liabilities in the accompanying Statements of Net Assets at June 30, 2006 and 2005, respectively. In the opinion of management, the Airports Division has adequately reserved for such claims.

15. CONTINGENT LIABILITIES AND OTHER

Litigation

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

Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2006 and 2005, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

Asserted Claims

Prepaid Airport Use Charge Fund

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

On October 27, 2003, the State reached a settlement with the ACH under which the Airports Division is to transfer the $5,393,344 overpayment to the Prepaid Airport Use Charge Fund escrow account in four equal annual installments beginning in fiscal year 2004. The transfer of funds is to be subject to ACH's obtaining the State's prior written approval for ACH's use of such funds. A liability for the refund 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 fund totaled $4,208,161 at June 30, 2005. Such amount was decreased in fiscal year 2006 for the third annual installment of $1,348,000 for the 1995 overpayment, and increased by $867,093, which represents overpayments of airports system support charges in fiscal year 2006.

Ceded Lands

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

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

The State filed a motion to dismiss OHA's complaint, which was ordered by the Circuit Court on May 19, 2004. On June 8, 2004, OHA filed a notice of appeal of the Circuit Court's judgment. The Supreme Court affirmed the Circuit Court's order dismissing OHA's complaint in a decision issued September 9, 2005. On December 23, 2005, the Supreme Court granted OHA's motion for reconsideration.

Despite the decisions of the Circuit Court and the Supreme Court, the State Legislature acknowledged that the State's obligation to Native Hawaiians is firmly established in the State Constitution. During the 2006 Legislative Session, the State Legislature enacted Act 178, which provided interim measures to ensure that a certain amount of proceeds were made available to OHA from the pro rata portion of the public land trust, for the betterment of the conditions of native Hawaiians. The Act provided that the State agencies that collect receipts from the use of lands within the public land trust transfer a total of $3,775,000 to OHA within 30 days of the close of each fiscal quarter (or $15,100,000 per fiscal year), beginning with the 2006 fiscal year. In addition, the Act appropriated $17,500,000 out of the State's general revenues to pay OHA for underpayments of the State's use of lands in the public land trust for the period from July 1, 2001 to June 30, 2005.

On September 20, 2006, the Governor of the State of Hawaii issued Executive Order No. 06-06, which established procedures for the State agencies to follow in order to carry out the requirements of Act. 178. Each State agency that collects receipts from the use of ceded or public land trust land shall: (a) establish trust holding accounts to accumulate OHA's portion of the receipts, and (b) determine if any federal or state law precludes any portion of the receipts from being used to better the conditions of native Hawaiians. If the use of the receipts is so limited, then the affected agency is to report the receipts to the State Department of Land and Natural Resources (DLNR), and to deposit the entire amount of the receipts to the credit of the State's general fund.

Since Public Law 105-66 precludes the payment of a portion of the Airports Division's receipts to OHA, the Airports Division will not be depositing any of the receipts on ceded lands in a trust holding account, but will only report such amounts to DLNR.

Environmental Protection Agency

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

Criminal Investigation

In fiscal year 2002, the State Attorney General launched a criminal investigation into allegations of forgery, conspiracy to commit theft, theft, and bribery relating to small purchase contracts issued by the

Airports Division. The investigation covers the 1997 through 2002 fiscal years. As of the date of this report, two Airports Division employees and two contractors were convicted on a conspiracy charge.

Through June 30, 2006, the Airports Division received $126,500 in restitution.

The effect, if any, on the June 30, 2006 financial statements as a result of the ultimate resolution of the investigation is presently unknown.

* * * * * *

STATE OF HAWAII, DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION

Schedule 1

(An Enterprise Fund of the State of Hawaii)

OPERATING REVENUES AND OPERATING EXPENSES OTHER THAN DEPRECIATION
YEAR ENDED JUNE 30, 2006

			Airports					
	Total	Statewide	Honolulu International	Hilo International	Kona International at Keahole	Kahului	Lihue	All Others
Operating revenues:								
Concession fees	$ 120,408,502	$ -	$ 84,053,901	$ 2,068,265	$ 8,472,917	$ 18,065,900	$ 7,486,061	$ 261,458
Airport landing fees	36,084,719	-	24,411,065	863,061	2,649,559	6,019,595	1,823,432	318,007
Aeronautical rentals:								
Exclusive-use premise charges	28,596,553	-	24,429,058	702,288	1,063,808	1,410,155	740,084	251,160
Nonexclusive joint-use premise charges	25,795,048	-	24,464,159	118,659	570,210	428,132	213,888	-
Nonaeronautical rentals	11,129,569	-	8,476,843	691,180	433,821	811,118	655,307	61,300
Aviation fuel tax	2,590,355	-	1,752,357	61,955	190,200	432,119	130,896	22,828
Airports system support charges	631,406	-	416,912	18,743	43,658	94,870	37,952	19,271
Miscellaneous	3,762,029	-	2,551,297	80,142	389,944	373,779	319,784	47,083
Bad debt expense	-	-	-	-	-	-	-	-
Net operating revenues	$ 228,998,181	$ -	$ 170,555,592	$ 4,604,293	$ 13,814,117	$ 27,635,668	$ 11,407,404	$ 981,107
Operating expenses other than depreciation:								
Salaries and wages	$ 56,808,276	$ 6,419,971	$ 25,949,824	$ 3,896,640	$ 4,343,340	$ 7,167,531	$ 4,837,451	$ 4,193,519
Other personnel services	38,410,030	1,179,608	23,370,672	2,782,762	2,849,352	4,115,082	2,282,778	1,829,776
Utilities	25,785,985	-	17,582,108	1,039,322	1,713,351	3,258,460	1,690,947	501,797
Special maintenance	13,447,139	124,062	6,837,556	1,727,455	1,265,433	940,888	772,452	1,779,293
State of Hawaii surcharge on gross receipts (Note 1)	9,593,145	9,593,145	-	-	-	-	-	-
Repairs and maintenance	8,867,925	558,216	5,566,531	392,629	561,160	1,021,926	511,533	255,930
Department of Transportation general administration expenses	4,999,371	4,999,371	-	-	-	-	-	-
Materials and supplies	4,599,737	137,778	2,079,111	415,396	414,692	734,950	419,099	398,711
Insurance	2,568,303	2,570,636	111	(1,526)	(789)	11	-	(140)
Claims and benefits	1,464,232	406,074	637,550	63,146	147,262	114,981	66,095	29,124
Travel	340,827	96,009	66,436	34,735	41,637	44,303	31,048	26,659
Rent	300,236	85,681	119,708	8,655	12,493	36,177	19,738	17,784
Communication	294,133	58,919	82,887	15,761	19,084	47,518	26,002	43,962
Dues and subscriptions	128,163	117,191	2,112	1,691	2,239	385	1,500	3,045
Freight and delivery	29,412	1,033	14,929	75	662	3,504	1,551	7,658
Printing and advertising	13,809	3,355	4,574	23	-	5,057	800	-
Miscellaneous	271,159	46,124	116,525	23,589	18,158	45,298	8,159	13,306
	167,921,882	26,397,173	82,430,634	10,400,353	11,388,074	17,536,071	10,669,153	9,100,424
Allocation of statewide expenses (Note 2)	-	(26,397,173)	15,374,953	1,939,873	2,124,102	3,270,826	1,990,009	1,697,410
Total operating expenses other than depreciation for net revenues and taxes	167,921,882	-	97,805,587	12,340,226	13,512,176	20,806,897	12,659,162	10,797,834
Disbursements out of major maintenance, renewal and replacement account not included above	7,962,632	-	5,838,138	-	133,594	-	-	1,990,900
Total operating expenses other than depreciation for statement of revenues, expenses and changes in net assets	$ 175,884,514	$ -	$ 103,643,725	$ 12,340,226	$ 13,645,770	$ 20,806,897	$ 12,659,162	$ 12,788,734

NOTES:

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

(2) Statewide expenses are allocated to the airports based upon their respective current-year operating expenses to total current-year operating expenses for all airports.

See accompanying independent auditors' report.

Schedule 2

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

CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT YEAR ENDED JUNE 30, 2006

REVENUES AND TAXES:		
Concession fees		$ 120,408,502
Aeronautical rentals:		
Exclusive-use premise charges		28,596,553
Nonexclusive joint-use premise charges		25,795,048
Airport landing fees		36,084,719
Nonaeronautical rentals		11,129,569
Aviation fuel tax		2,590,355
Airports system support charges		631,406
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $16,603,032 on capital improvement projects		31,178,350
Federal operating grants		7,750,408
Miscellaneous		3,762,029
		267,926,939
DEDUCTIONS:		
Operating expenses other than depreciation for net revenues and taxes (Schedule 1)	$ 167,921,882	
Amounts required to be paid into the State General Fund for general obligation bond requirements:		
Principal	9,425	
Interest	2,375	
Annual reserve required on major maintenance, renewal, and replacement account	4,056,462	171,990,144
Net revenues and taxes		95,936,795
DEBT SERVICE REQUIREMENT:		
Airports system revenue bonds:		
Principal	$ 30,565,000	
Interest (Note 1 to Schedule)	39,557,129	
	70,122,129	
Less funds deposited into the Airport Revenue fund for redemption of bonds (Note 2 to Schedule)	(28,000,000)	
	42,122,129	
Debt service coverage percentage	125%	52,652,661
EXCESS OF NET REVENUES AND TAXES OVER DEBT SERVICE REQUIREMENT		$ 43,284,134

(Continued)

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

CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT YEAR ENDED JUNE 30, 2006

Notes:

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

2. In fiscal year 2006, the Airports Division deposited $28,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal year 2006 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

See accompanying independent auditors' report. (Concluded)

Schedule 3

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

SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY
JUNE 30, 2006

	Annual Principal and Interest Requirements				
	Airports System Revenue Bonds		General Obligation Bonds		
Years Ending June 30	Principal	Interest	Principal	Interest	Total
2007	$ 32,250,000	$ 37,867,591	$ 9,425	$2,017	$ 70,129,033
2008	21,140,000	36,075,901	9,425	1,579	57,226,905
2009	22,310,000	34,906,116	9,425	1,133	57,226,674
2010	23,615,000	33,605,699	9,425	686	57,230,810
2011	25,240,000	31,966,186	9,425	231	57,215,842
2012	26,945,000	30,269,561	-	-	57,214,561
2013	46,600,000	28,629,746	-	-	75,229,746
2014	49,400,000	25,833,876	-	-	75,233,876
2015	52,355,000	22,869,649	-	-	75,224,649
2016	55,500,000	19,726,999	-	-	75,226,999
2017	58,750,000	16,471,134	-	-	75,221,134
2018	62,295,000	12,934,356	-	-	75,229,356
2019	66,035,000	9,216,513	-	-	75,251,513
2020	69,665,000	5,577,400	-	-	75,242,400
2021	31,030,000	1,709,125	-	-	32,739,125
Total	$643,130,000	$347,659,852	$47,125	$5,646	$990,842,623

See accompanying independent auditors' report.

Schedule 4

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

DEBT SERVICE REQUIREMENTS TO MATURITY—AIRPORTS SYSTEM REVENUE BONDS
JUNE 30, 2006

	Principal					
Years Ending June 30	Refunding Series of 2000A, 5.50% to 6.00%	Refunding Series of 2000B, 5.00% to 8.00%	Refunding Series of 2001, 4.00% to 5.75%	Total	Interest	Total Requirements
2007	$ -	$ 10,660,000	$ 21,590,000	$ 32,250,000	$ 37,867,591	$ 70,117,591
2008	-	11,295,000	9,845,000	21,140,000	36,075,901	57,215,901
2009	145,000	11,830,000	10,335,000	22,310,000	34,906,116	57,216,116
2010	155,000	12,550,000	10,910,000	23,615,000	33,605,699	57,220,699
2011	160,000	13,550,000	11,530,000	25,240,000	31,966,186	57,206,186
2012	170,000	14,640,000	12,135,000	26,945,000	30,269,561	57,214,561
2013	180,000	15,580,000	30,840,000	46,600,000	28,629,746	75,229,746
2014	190,000	16,595,000	32,615,000	49,400,000	25,833,876	75,233,876
2015	200,000	17,665,000	34,490,000	52,355,000	22,869,649	75,224,649
2016	215,000	18,815,000	36,470,000	55,500,000	19,726,999	75,226,999
2017	225,000	19,960,000	38,565,000	58,750,000	16,471,134	75,221,134
2018	240,000	21,285,000	40,770,000	62,295,000	12,934,356	75,229,356
2019	125,000	22,845,000	43,065,000	66,035,000	9,216,513	75,251,513
2020	8,400,000	22,515,000	38,750,000	69,665,000	5,577,400	75,242,400
2021	16,010,000	-	15,020,000	31,030,000	1,709,125	32,739,125
Total	$26,415,000	$229,785,000	$386,930,000	$643,130,000	$347,659,852	$990,789,852

NOTE: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2006.

See accompanying independent auditors' report.

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

DEBT SERVICE REQUIREMENTS TO MATURITY—GENERAL OBLIGATION BONDS
JUNE 30, 2006

Years Ending June 30	Series CI 4.00% to 5.00% Due 2011	Total Principal	Interest	Total Requirements
2007	$ 9,425	$ 9,425	$ 2,017	$ 11,442
2008	9,425	9,425	1,579	11,004
2009	9,425	9,425	1,133	10,558
2010	9,425	9,425	686	10,111
2011	9,425	9,425	231	9,656
Total	$ 47,125	$ 47,125	$ 5,646	$ 52,771

See accompanying independent auditors' report.

STATE OF HAWAII, DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION

(An Enterprise Fund of the State of Hawaii)

AIRPORTS SYSTEM CHARGES—FISCAL YEAR 1995-97 LEASE EXTENSION
YEAR ENDED JUNE 30, 2006

	Airline Activity			Airports System Charges								
						Nonexclusive Joint-Use Premise Charges						
	Approved Maximum Revenue Landing Weights (1,000 Pound Units)	Revenue Passenger Landings	Deplaning International Passengers	Airport Landing Fees	Airports System Support Charges	Joint-Use Charges– Overseas Terminal	Joint-Use Charges– Blended OST Terminal	Joint-Use Charges– Interisland Terminal	Joint-Use Charges– Neighbor Island Terminal	International Arrivals Building Charges	Exclusive-Use Premise Charges– Terminal Space	Total
Signatory airlines:												
Air Canada	413,152	1,343	68,335	$ 797,383	$ -	$ 549,633	$ -	$ -	$ 2,958	$ 275,322	$ 415,692	$ 2,040,988
Air New Zealand, Ltd.	107,854	131	22,825	208,158	-	61,278	-	-	-	91,962	209,834	571,232
Air Pacific, Ltd.	34,352	245	13,621	66,299	-	114,605	-	-	-	54,879	-	235,783
All Nippon Airways Co., Ltd.	3,728	10	2,048	7,195	-	4,678	-	-	-	8,251	1,600	21,724
Aloha Airlines, Inc.	5,346,924	39,875	-	4,174,155	-	-	320,337	1,705,556	362,059	-	2,300,956	8,863,063
America West Airlines, Inc.	131,274	663	-	253,359	-	127,234	-	-	6,885	-	-	387,478
American Airlines, Inc.	1,399,396	5,727	-	2,700,834	-	1,385,544	-	-	48,689	-	774,110	4,909,177
ATA Airlines, Inc.	533,655	2,833	-	1,029,465	-	788,665	-	-	20,197	-	288,682	2,127,009
China Airlines, Ltd.	210,956	397	111,514	407,146	-	185,706	-	-	-	449,290	169,615	1,211,757
Continental Airlines, Inc.	579,430	1,714	-	1,118,300	-	677,803	-	-	4,666	-	1,005,036	2,805,805
Continental Micronesia, Inc.	286,732	936	174,100	553,393	-	437,836	-	-	-	701,449	-	1,692,678
Delta Airlines, Inc.	1,200,500	3,430	-	2,316,965	-	1,161,481	-	-	16,676	-	1,170,776	4,665,898
Evergreen International Airlines, Inc.	140,850	-	-	271,841	-	-	-	-	-	-	-	271,841
Federal Express Corporation	504,585	-	-	973,849	-	-	-	-	-	-	7,006	980,855
Hawaii Island Air, Inc.	1,136,810	12,945	-	790,083	-	-	-	-	227,948	-	227,195	1,245,226
Hawaiian Airlines, Inc.	6,053,980	45,359	74,460	6,207,623	-	-	1,760,517	1,791,504	375,811	299,999	1,829,951	12,265,405
JALways Co., Ltd.	1,267,476	2,448	684,602	2,248,441	-	974,839	-	-	6,410	2,758,262	-	5,987,952
Japan Air Lines Company, Ltd.	347,598	639	206,927	670,864	-	298,439	-	-	18	833,709	1,681,937	3,484,967
Kalitta Air, LLC	217,980	-	-	420,701	-	-	-	-	-	-	-	420,701
Korean Airlines Company, Ltd.	100,132	211	52,771	193,255	-	98,700	-	-	-	212,614	170,585	675,154
Mesa Airlines, Inc.	34,639	370	-	24,074	-	-	-	-	6,515	-	69,937	100,526
North American Airlines, Inc.	47,110	215	-	71,990	-	52,565	-	-	1,791	-	277	126,623
Northwest Airlines, Inc.	1,394,986	4,391	336,738	2,548,193	-	1,601,655	-	-	17,028	1,356,718	1,005,749	6,529,343
Pacific Wings LLC	77,690	-	-	53,995	-	-	-	-	-	-	36,633	90,628
Philippine Airlines, Inc.	200,317	157	31,860	386,612	-	73,440	-	-	-	128,364	114,930	703,346
Polar Air Cargo, Inc.	13,482	-	-	26,020	-	-	-	-	-	-	-	26,020
Qantas Airways, Ltd.	257,356	171	55,834	496,697	-	79,989	-	-	-	224,955	343,830	1,145,471
United Airlines, Inc.	2,976,967	9,747	165,719	5,538,208	-	2,093,284	-	-	92,835	667,682	3,311,618	11,703,627
United Parcel Service Co.	628,330	-	-	942,288	-	-	-	-	-	-	4,057	946,345
Westjet	4,389	30	-	8,471	-	7,952	-	-	229	-	77	16,729
Nonsignatory airlines	1,513,348	1,504	109,649	3,044,096	631,406	687,845				366,885	785,949	5,516,181
Total airports system charges billed	27,165,978	135,491	2,111,003	38,549,953	631,406	11,463,171	2,080,854	3,497,060	1,190,715	8,430,341	15,926,032	81,769,532
Adjusted airports system charges based on final reconciliation				38,549,953	631,406	10,642,704	1,921,138	3,494,332	985,157	8,751,717	15,926,032	80,902,439
Fiscal year 2006 overpayment						$ (820,467)	$ (159,716)	$ (2,728)	$ (205,558)	$ 321,376	$ -	$ (867,093)

See accompanying independent auditors' report.

Schedule 6-2

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

RECONCILIATION OF AIRPORT LANDING FEES
YEAR ENDED JUNE 30, 2006

	Signatory Airlines	Nonsignatory Airlines	Total
Gross airport landing fees billed	$35,505,857	$3,044,096	$38,549,953
Less aviation fuel tax credit	(2,194,142)	(271,092)	(2,465,234)
Total	$33,311,715	$2,773,004	$36,084,719

See accompanying independent auditors' report.

Schedule 6-3

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

OVERPAYMENT OF AIRPORTS SYSTEM CHARGES—SIGNATORY AIRLINES
YEARS ENDED JUNE 30, 2006 AND 2005

FISCAL YEARS 2006 AND 2005

Airports system charges overpayments of $867,093 and $1,087,495 for fiscal years 2006 and 2005 have been transferred to the Prepaid Airport Use Charge Fund.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule 7

DEPARTMENT OF TRANSPORTATION—AIRPORTS DIVISION

(An Enterprise Fund of the State of Hawaii)

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES—SIGNATORY AIRLINES
YEAR ENDED JUNE 30, 2006

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport					All Other Airports			
					Gross Airport Landing Fees								
	Honolulu International Airport	Hilo International Airport	All Other Airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Total Adjusted Airport Landing Fees
Air Canada	365,446	-	47,706	413,152	$ 705,311	$ -	$ 705,311	$ -	$ 705,311	$ 92,072	$ -	$ 92,072	$ 797,383
Air New Zealand, Ltd.	107,854	-	-	107,854	208,158	-	208,158	-	208,158	-	-	-	208,158
Air Pacific, Ltd.	34,352	-	-	34,352	66,299	-	66,299	-	66,299	-	-	-	66,299
All Nippon Airways Co., Ltd.	3,728	-	-	3,728	7,195	-	7,195	-	7,195	-	-	-	7,195
Aloha Airlines, Inc.	2,564,110	475,629	2,307,185	5,346,924	1,915,929	330,562	2,246,491	(327,087)	1,919,404	1,927,664	-	1,927,664	3,847,068
America West Airlines, Inc.	53,856	-	77,418	131,274	103,942	-	103,942	-	103,942	149,417	-	149,417	253,359
American Airlines, Inc.	759,532	-	639,864	1,399,396	1,465,897	-	1,465,897	(206,472)	1,259,425	1,234,937	-	1,234,937	2,494,362
ATA Airlines, Inc.	318,464	9,707	205,484	533,655	614,146	18,735	632,881	(110,669)	522,212	396,584	-	396,584	918,796
China Airlines, Ltd.	210,956	-	-	210,956	407,146	-	407,146	-	407,146	-	-	-	407,146
Continental Airlines, Inc.	507,048	-	72,382	579,430	978,603	-	978,603	(3,880)	974,723	139,697	(17,001)	122,696	1,097,419
Continental Micronesia, Inc.	286,732	-	-	286,732	553,393	-	553,393	-	553,393	-	-	-	553,393
Delta Airlines, Inc.	869,050	-	331,450	1,200,500	1,677,266	-	1,677,266	(93,955)	1,583,311	639,699	-	639,699	2,223,010
Evergreen International Airlines, Inc.	140,850	-	-	140,850	271,841	-	271,841	-	271,841	-	-	-	271,841
Federal Express Corporation	425,350	79,235	-	504,585	820,926	152,923	973,849	(78,628)	895,221	-	-	-	895,221
Hawaii Island Air, Inc.	373,703	59,623	703,484	1,136,810	259,723	41,438	301,161	(30,097)	271,064	488,922	-	488,922	759,986
Hawaiian Airlines, Inc.	3,610,600	337,700	2,105,680	6,053,980	4,330,053	234,702	4,564,755	(616,135)	3,948,620	1,642,868	-	1,642,868	5,591,488
JALways Co., Ltd.	1,107,324	-	160,152	1,267,476	1,939,348	-	1,939,348	-	1,939,348	309,093	(2,920)	306,173	2,245,521
Japan Air Lines Company, Ltd.	347,034	-	564	347,598	669,775	-	669,775	-	669,775	1,089	-	1,089	670,864
Kalitta Air, LLC	217,980	-	-	217,980	420,701	-	420,701	-	420,701	-	-	-	420,701
Korean Airlines Company, Ltd.	100,132	-	-	100,132	193,255	-	193,255	-	193,255	-	-	-	193,255
Mesa Airlines, Inc.	17,249	282	17,108	34,639	11,988	196	12,184	-	12,184	11,890	-	11,890	24,074
North American Airlines, Inc.	24,850	-	22,260	47,110	29,028	-	29,028	-	29,028	42,962	-	42,962	71,990
Northwest Airlines, Inc.	1,178,378	-	216,608	1,394,986	2,274,269	-	2,274,269	(135,059)	2,139,210	273,924	-	273,924	2,413,134
Pacific Wings LLC	12,903	10,752	54,035	77,690	8,968	7,473	16,441	(3,790)	12,651	37,554	-	37,554	50,205
Philippine Airlines, Inc.	200,317	-	-	200,317	386,612	-	386,612	-	386,612	-	-	-	386,612
Polar Air Cargo Inc.	13,482	-	-	13,482	26,020	-	26,020	-	26,020	-	-	-	26,020
Qantas Airways, Ltd.	257,356	-	-	257,356	496,697	-	496,697	-	496,697	-	-	-	496,697
United Airlines, Inc.	1,565,666	-	1,411,301	2,976,967	3,019,779	-	3,019,779	(455,045)	2,564,734	2,518,429	(64,027)	2,454,402	5,019,136
United Parcel Service Co.	409,391	-	218,939	628,330	790,125	-	790,125	(49,377)	740,748	152,163	-	152,163	892,911
Westjet	2,487	-	1,902	4,389	4,800	-	4,800	-	4,800	3,671	-	3,671	8,471
Total	16,086,180	972,928	8,593,522	25,652,630	$24,657,193	$786,029	$25,443,222	$(2,110,194)	$23,333,028	$10,062,635	$ (83,948)	$9,978,687	$33,311,715

Summary of revenue landing weights:	
Overseas	14,313,586
Interisland	11,339,044
	25,652,630

Aviation fuel tax of $2,590,355 was paid by the users for the year ended June 30, 2006. Users can claim a credit for aviation fuel taxes paid up to six months after payment. Aviation fuel tax credits of $2,465,234 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 2,194,142
Nonsignatory airlines	271,092
	$ 2,465,234

NOTE 1: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2006.

See accompanying independent auditors' report.

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

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES—NONSIGNATORY AIRLINES
YEAR ENDED JUNE 30, 2006

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport					All Other Airports			
					Gross Airport Landing Fees								
	Honolulu International Airport	Hilo International Airport	All Other Airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Total Adjusted Airport Landing Fees
Aero Micronesia dba Asia Pacific	28,372	-	-	28,372	$ 84,549	$ -	$ 84,549	$ -	$ 84,549	$ -	$ -	$ -	$ 84,549
Air Japan Co., Ltd.	132,800	-	-	132,800	395,744	-	395,744	-	395,744	-	-	-	395,744
Air Transport International	42,393	-	-	42,393	126,331	-	126,331	(165)	126,166	-	-	-	126,166
Alika Aviation, Inc.	-	-	11,711	11,711	-	-	-	-	-	11,172	-	11,172	11,172
Alpine Aviation, Inc.	45,770	8,123	29,642	83,535	43,665	7,749	51,414	-	51,414	28,278	-	28,278	79,692
America West Airlines, Inc.	9,504	-	9,306	18,810	27,921	-	27,921	-	27,921	27,732	-	27,732	55,653
Aris Inc.	-	-	16,751	16,751	-	-	-	-	-	15,981	(1,692)	14,289	14,289
Atlas Air, Inc.	29,088	-	-	29,088	86,682	-	86,682	-	86,682	-	-	-	86,682
Big Island Air Incorporation	31	-	13,868	13,899	30	-	30	-	30	13,230	(625)	12,605	12,635
Bradley Pacific Aviation Inc.	28,389	466	59,724	88,579	76,001	758	76,759	(55,111)	21,648	152,503	(85,464)	67,039	88,687
Charles Dipiazza	-	-	17,544	17,544	-	-	-	-	-	16,737	(1,661)	15,076	15,076
Corporate Air	26,762	4,199	13,778	44,739	25,530	4,006	29,536	-	29,536	13,144	-	13,144	42,680
Eva Airways Corporation	60,843	-	-	60,843	181,311	-	181,311	-	181,311	-	-	-	181,311
Harter, Jack Helicopters, Inc.	-	-	12,892	12,892	-	-	-	-	-	12,299	(1,275)	11,024	11,024
Hawaii Air Ambulance, Inc.	11,677	61	209	11,947	11,140	58	11,198	(1,363)	9,835	200	-	200	10,035
Heli USA Airways, Inc.	14,020	-	-	14,020	13,375	-	13,375	(216)	13,159	-	-	-	13,159
Helicopter Consultants of Maui, Inc.		52,265	49,970	102,235	-	49,861	49,861	(11,424)	38,437	47,671	-	47,671	86,108
HMY Airways, Inc.	56,034	-	42,174	98,208	165,778	-	165,778	(5,945)	159,833	125,277	-	125,277	285,110
Island Helicopters Kauai, Inc.	-	-	16,986	16,986	-	-	-	-	-	16,205	(900)	15,305	15,305
Kamaka Air Inc.	7,057	39	20,367	27,463	6,732	38	6,770	-	6,770	19,431	-	19,431	26,201
Mokulele Flight Service, Inc.	77	1,316	24,388	25,781	73	1,255	1,328	-	1,328	23,266	(377)	22,889	24,217
Molokai-Lanai Air Shuttle, Inc.	26,010	-	30,058	56,068	24,813	-	24,813	-	24,813	28,675	-	28,675	53,488
Omni Air International, Inc.	125,625	-	1,629	127,254	371,895	-	371,895	(42,966)	328,929	3,621	-	3,621	332,550
Polynesian, Limited	3,358	-	-	3,358	10,006	-	10,006	-	10,006	-	-	-	10,006
Ryan International Airlines, Inc.	25,146	-	22,770	47,916	44,448	-	44,448	-	44,448	64,645	-	64,645	109,093
Safari Aviation, Inc.	-	6,335	16,406	22,741	-	6,044	6,044	(119)	5,925	15,651	(1,136)	14,515	20,440
Sky-Med Inc.	-	-	16,830	16,830	-	-	-	-	-	16,056	-	16,056	16,056
Steve Gould	-	-	12,274	12,274	-	-	-	-	-	11,709	-	11,709	11,709
Sunshine Helicopters Inc.	-	5,989	24,270	30,259	-	5,714	5,714	-	5,714	23,153	(3,486)	19,667	25,381
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	7,473	2,995	28,938	39,406	7,129	2,857	9,986	(1,269)	8,717	27,607	(2,738)	24,869	33,586
Universal Enterprises, Inc.	61,457	773	61,423	123,653	166,375	1,510	167,885	(46,770)	121,115	149,887	-	149,887	271,002
Westjet	17,849	-	7,608	25,457	53,189	-	53,189	(396)	52,793	22,671	-	22,671	75,464
Will Squyres Helicopters, Inc.	-	-	20,418	20,418	-	-	-	-	-	19,479	-	19,479	19,479
Miscellaneous	38,891	10,065	40,162	89,118	87,497	10,459	97,956	(2,910)	95,046	37,293	(3,084)	34,209	129,255
Total	798,626	92,626	622,096	1,513,348	$ 2,010,214	$ 90,309	$ 2,100,523	$ (168,654)	$ 1,931,869	$ 943,573	$ (102,438)	$ 841,135	$ 2,773,004

Summary of revenue landing weights:	
Overseas	790,416
Interisland	722,932
	1,513,348

NOTE 1: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2006. See accompanying independent auditors' report.