



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

Financial Statements and Supplemental Schedules

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

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

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Independent Auditors' Report

The Auditor
State of Hawaii:

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

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

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

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

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

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

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

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

KPMG LLP

May 14, 2009

**DEPARTMENT OF TRANSPORTATION
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Management's Discussion and Analysis

June 30, 2008 and 2007

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

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

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

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

Using the Financial Statements

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

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

Airports Division Activities and Highlights

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

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

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

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2008: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., All Nippon Airways Co., Ltd., Aloha Airlines, Inc., American Airlines, Inc., ATA Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Airlines, Inc., Hawaiian Airlines, Inc., JALways Co., Ltd., Japan Air Lines Company, Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Northwest Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways, Ltd., Ryan International Airlines, Inc., United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Aloha Airlines, Inc., Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., and Pacific Wings, LLC.

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

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

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

Financial Operations Highlights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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- Nonoperating revenues, net decreased by 30.8% or \$13.0 million and 77.3% or \$18.4 million in fiscal years 2008 and 2007, respectively, primarily due to losses in the amounts held in State Treasury in 2008 and increases in federal operating grants and decreases in interest expense in 2007. Federal operating grants increased by 24.9% or \$5.0 million in fiscal year 2008 due to reimbursements received in fiscal year 2008 from applications submitted as a result of the Airports Division regaining its eligibility in fiscal year 2004 to apply for federal discretionary grants. Federal operating grants increased by 157.8% or \$12.2 million in fiscal year 2007 due to reimbursements received in fiscal year 2007 from applications submitted as a result of the Airports Division regaining its eligibility in fiscal year 2004 to apply for federal discretionary grants. Airports system revenue bond interest expense decreased by \$4.7 million and \$2.6 million in fiscal years 2008 and 2007, respectively, as a result of redeeming Refunding Series 2003 bonds in January 2005. In addition, the Airports Division wrote down their amounts held in State Treasury by \$20.0 million in fiscal year 2008.
- Loss before capital contributions for fiscal year 2008 of \$48.7 million as compared with loss before capital contributions of \$17.3 million for fiscal year 2007 was a result of an increase in operating expenses.
Loss before capital contributions for fiscal year 2007 of \$17.3 million as compared with income before capital contributions of \$1.3 million for fiscal year 2006 was a result of an increase in operating expenses.
- Capital contributions decreased by 37.8% or \$19.4 million and 29.9% or \$21.9 million in fiscal years 2008 and 2007, respectively, mainly due to the reduction of federal and other capital grants.

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Financial Position Summary

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

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

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

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

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of \$451.0 million, \$528.5 million, and \$537.8 million at June 30, 2008, 2007, and 2006, respectively. On January 5, 2005, the Airports Division redeemed \$69.3 million of its airports system revenue bonds to decrease annual debt service requirements in order to meet budget constraints and bond covenants. The \$637.7 million cash balance at June 30, 2008 provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects. In addition, the implementation of the PFC, geared to support the CIP, will help preserve the cash balance.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by \$1,582.4 million and \$1,599.2 million at June 30, 2008 and 2007, respectively, representing a decrease of \$16.7 million and an increase of \$34.1 million from June 30, 2008 and 2007, respectively.

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

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

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

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

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

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

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

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Revenues

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

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

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

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Expenses

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

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

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

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Capital Acquisitions and Construction Activities

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

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

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

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

Indebtedness

Airports System Revenue Bonds and Reimbursable General Obligation Bonds

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

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

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

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

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Special Obligation Bonds

The State Legislature has authorized \$200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2008 and 2007, there were outstanding bond obligations of \$35,855,000 and \$36,895,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

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

Credit Rating and Bond Insurance

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

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

Economic Factors and Current Known Facts

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

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

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

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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.

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Statements of Net Assets

June 30, 2008 and 2007

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

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

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

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

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Years ended June 30, 2008 and 2007

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

See accompanying notes to financial statements.

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(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years ended June 30, 2008 and 2007

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

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Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Supplemental information:		
Noncash investing, capital, and financing activities:		
The Airports Division's noncash capital and financing activities related to bonds payable included the following:		
Principal payments on special facility revenue bonds	\$ 1,040,000	\$ 1,000,000
Interest payments on special facility revenue bonds	2,342,556	2,425,056
Amortization of revenue bond issue costs	422,601	438,350
Amortization of revenue bond discount	60,806	60,804
Amortization of revenue bond premium	(1,306,846)	(1,373,759)
Amortization of deferred loss on refunding revenue bonds	1,611,975	1,673,605
At June 30, 2008 and 2007, contracts payable included \$20,515,902 and \$18,469,029, respectively, for the acquisition of capital assets.		
During fiscal years 2008 and 2007, interest of \$6,914,050 and \$4,034,621, respectively, was capitalized in property, plant, and equipment.		
During fiscal years 2008 and 2007, property, plant, and equipment with a net book value of \$27,713 and \$43,832, respectively, were written off.		
During fiscal year 2008, buildings with a value of \$3,091,250 were recorded for buildings acquired upon the expiration of land lease agreements.		
During fiscal year 2008, amounts held in State Treasury were written down by \$19,952,028.		

See accompanying notes to financial statements.

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June 30, 2008 and 2007

(1) Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Financial Statement Presentation

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

(c) Operating Revenues and Expenses

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

(d) Passenger Facility Charges

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

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

(e) Capital Contributions

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

(f) Cash and Cash Equivalents

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

(g) Receivables

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

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

(h) Investments

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

(i) Restricted Assets

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

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(j) Capital Assets

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

<u>Class of assets</u>	<u>Estimated useful lives</u>	<u>Capitalization threshold</u>
Land improvements	20 years	\$ 100,000
Buildings	45 years	100,000
Building improvements	20 years	100,000
Machinery and equipment	10 years	5,000

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

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

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

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

(l) Accrued Vacation and Compensatory Pay

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

(m) Employees' Retirement System

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

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(n) Risk Management

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

(o) Use of Estimates

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

(p) Recently Adopted Governmental Accounting Pronouncements

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

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

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

(q) Reclassifications

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

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(3) Cash and Cash Equivalents and Investments

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

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

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

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

(a) Amounts Held in State Treasury

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

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

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

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

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

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

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June 30, 2008 and 2007

(b) Investments

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

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

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(4) Capital Assets

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

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

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

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

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(5) Long-Term Liabilities

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

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

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

(6) Airports System Revenue Bonds

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

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

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

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

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- b. To pay when due all bonds and interest. Payment shall be provided from the following accounts:
 - 1. Interest account
 - 2. Serial bond principal account
 - 3. Sinking fund account
 - 4. Debt service reserve account
- c. To fund the major maintenance, renewal, and replacement account.
- d. To reimburse the State General Fund for general obligation bond requirements.
- e. To provide for betterments and improvements to the airports.
- f. To provide such special reserve funds and other special funds as created by law.
- g. To provide for any other purpose connected with or pertaining to the bonds or the airports authorized by law.

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

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

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

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

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

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

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

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount	
				2008	2007
2000A, refunding	5.50% – 6.00%	2021	\$ 26,415,000	\$ 26,415,000	\$ 26,415,000
2000B, refunding	5.00 – 8.00	2020	261,465,000	219,125,000	229,785,000
2001, refunding	4.00 – 5.75	2021	423,255,000	365,340,000	386,930,000
			<u>\$ 711,135,000</u>	610,880,000	643,130,000
Add unamortized premium				8,991,261	10,298,107
Less unamortized discount				(679,267)	(740,073)
Less deferred loss on refunding				(11,199,855)	(12,811,830)
Less current portion				<u>(21,140,000)</u>	<u>(32,250,000)</u>
Noncurrent portion				<u>\$ 586,852,139</u>	<u>\$ 607,626,204</u>

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

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

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2008 of \$21,140,000 and \$36,075,901, respectively.

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

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

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

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

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

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

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

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(7) General Obligation Bonds

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

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

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

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

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

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

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

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(8) Leases

(a) *Airport-Airline Lease Agreement*

Airports Division

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

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

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

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residual rate-setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units).

Prepaid Airport Use Charge Fund

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

Aviation Fuel Tax

The aviation fuel tax amounted to \$4,452,232 and \$2,169,230 for fiscal years 2008 and 2007, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

Airport landing fees amounted to \$40,558,804 and \$39,950,102 for fiscal years 2008 and 2007, respectively. Airport landing fees are shown net of aviation fuel tax credits of \$3,606,085 and \$1,900,767 for fiscal years 2008 and 2007, respectively, on the statements of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of \$36,952,719 and \$38,049,335 for fiscal years 2008 and 2007, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines are set at 36% of the airport landing fees for overseas flights.

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

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

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

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

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

Airports system support charges amounted to \$617,257 and \$617,845 for fiscal years 2008 and 2007, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

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

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

(b) *Special Facility Leases and Revenue Bonds*

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

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\$2,300,000 Issue

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

\$25,255,000 Issue

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

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

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

\$16,600,000 Issue

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

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

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The bonds bear interest at 7% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2008:

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

\$6,600,000 Issue

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

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

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

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

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

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

Net investments in direct financing leases at June 30, 2008 and 2007 consisted of the following:

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

(c) ***Other Operating Leases***

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

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

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

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal years 2008 and 2007 were \$59,122,856 and \$56,326,495, respectively.

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

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

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

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

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than \$200 million, 22.5% for on-airport sales, and 18.5% for off-airport sales and (2) for total concession receipts greater than \$200 million, 30% for on-airport sales, and 22.5% for off-airport sales.

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

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

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

(9) Passenger Facility Charges

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

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

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

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

(10) Pension Information

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

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

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

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

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

Contributory Plan

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

Hybrid Plan

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

Noncontributory Plan

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

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

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

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

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

(11) Postretirement Healthcare and Life Insurance Benefits

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

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

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

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

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

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

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

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

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

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

(12) Transactions with Other Government Agencies

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

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

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

(13) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2008 and 2007 was \$16,282,237 and \$16,226,470, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However,

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an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

(b) *Deferred Compensation Plan*

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

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

(c) *Other*

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

At June 30, 2008 and 2007, the Airports Division had commitments totaling approximately \$278,194,000 and \$260,009,000, respectively, for construction and service contracts.

(14) Risk Management

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

(a) *Torts*

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

(b) *Property and Liability Insurance*

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

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(c) ***Workers' Compensation***

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

(15) Contingent Liabilities and Other

(a) ***Litigation***

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

(b) ***Arbitrage***

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

(c) ***Asserted Claims***

Prepaid Airport Use Charge Fund

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

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

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

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

Environmental Protection Agency

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

(16) Subsequent Events

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

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Operating Revenues and Operating Expenses Other Than Depreciation

Year ended June 30, 2008

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

Notes:

- (1) Bad debt expense is allocated primarily by individually identifiable bad debts with the remainder allocated to the airports based upon their respective current-year revenues to total current-year revenues for all airports.
- (2) Statewide miscellaneous revenues are allocated to the airports based upon their respective current-year miscellaneous revenues to total current-year miscellaneous revenues for all airports.
- (3) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.
- (4) Statewide expenses are allocated to the airports based upon their respective current-year operating expenses to total current-year operating expenses for all airports.

See accompanying independent auditors' report.

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Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2008

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

Notes:

- (1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.
- (2) In fiscal year 2008, the Airports Division deposited \$10,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal year 2008 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

See accompanying independent auditors' report.

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Summary of Debt Service Requirements to Maturity

June 30, 2008

	Annual principal and interest requirements				
	Airports system revenue bonds		General obligation bonds		Total
	Principal	Interest	Principal	Interest	
Year ending June 30:					
2009	\$ 22,310,000	\$ 34,906,116	\$ 9,425	\$ 1,133	\$ 57,226,674
2010	23,615,000	33,605,699	9,425	686	57,230,810
2011	25,240,000	31,966,186	9,425	231	57,215,842
2012	26,945,000	30,269,561	—	—	57,214,561
2013	46,600,000	28,629,746	—	—	75,229,746
2014	49,400,000	25,833,876	—	—	75,233,876
2015	52,355,000	22,869,649	—	—	75,224,649
2016	55,500,000	19,726,999	—	—	75,226,999
2017	58,750,000	16,471,134	—	—	75,221,134
2018	62,295,000	12,934,356	—	—	75,229,356
2019	66,035,000	9,216,513	—	—	75,251,513
2020	69,665,000	5,577,400	—	—	75,242,400
2021	31,030,000	1,709,125	—	—	32,739,125
Total	<u>\$ 589,740,000</u>	<u>\$ 273,716,360</u>	<u>\$ 28,275</u>	<u>\$ 2,050</u>	<u>\$ 863,486,685</u>

See accompanying independent auditors' report.

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Debt Service Requirements to Maturity – Airports System Revenue Bonds
June 30, 2008

	Principal			Total	Interest	Total requirements
	Refunding series of 2000A, 5.50% to 6.00%	Refunding series of 2000B, 5.00% to 8.00%	Refunding series of 2001, 4.00% to 5.75%			
Year ending June 30:						
2009	\$ 145,000	\$ 11,830,000	\$ 10,335,000	\$ 22,310,000	\$ 34,906,116	\$ 57,216,116
2010	155,000	12,550,000	10,910,000	23,615,000	33,605,699	57,220,699
2011	160,000	13,550,000	11,530,000	25,240,000	31,966,186	57,206,186
2012	170,000	14,640,000	12,135,000	26,945,000	30,269,561	57,214,561
2013	180,000	15,580,000	30,840,000	46,600,000	28,629,746	75,229,746
2014	190,000	16,595,000	32,615,000	49,400,000	25,833,876	75,233,876
2015	200,000	17,665,000	34,490,000	52,355,000	22,869,649	75,224,649
2016	215,000	18,815,000	36,470,000	55,500,000	19,726,999	75,226,999
2017	225,000	19,960,000	38,565,000	58,750,000	16,471,134	75,221,134
2018	240,000	21,285,000	40,770,000	62,295,000	12,934,356	75,229,356
2019	125,000	22,845,000	43,065,000	66,035,000	9,216,513	75,251,513
2020	8,400,000	22,515,000	38,750,000	69,665,000	5,577,400	75,242,400
2021	16,010,000	—	15,020,000	31,030,000	1,709,125	32,739,125
Total	\$ 26,415,000	\$ 207,830,000	\$ 355,495,000	\$ 589,740,000	\$ 273,716,360	\$ 863,456,360

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2008.

See accompanying independent auditors' report.

**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Debt Service Requirements to Maturity – General Obligation Bonds

June 30, 2008

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

See accompanying independent auditors' report.

**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Reconciliation of Adjusted Airports System Charges

Year ended June 30, 2008

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

See accompanying independent auditors' report.

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

Airports System Charges – Fiscal Year 1995 – 97 Lease Extension

Period July 1, 2007 to December 31, 2007

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

See accompanying independent auditors' report.

**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**
(An Enterprise Fund of the State of Hawaii)
Airports System Charges – Fiscal Year 2008 Lease Extension
Period January 1, 2008 to June 30, 2008

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

See accompanying independent auditors' report.

**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Summary of Billed Airport Landing Fees

Year ended June 30, 2008

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

See accompanying independent auditors' report.

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

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

Year ended June 30, 2008

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport						All other airports			Total adjusted airport landing fees
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Gross airport landing fees			Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees		
					Honolulu International Airport	Hilo International Airport	Total							
Air Canada	233,644	—	55,222	288,866	\$ 478,640	\$ —	\$ 478,640	\$ —	\$ 478,640	\$ 120,399	\$ —	\$ 120,399	\$ 599,039	
Air New Zealand, Ltd.	104,602	—	630	105,232	218,517	—	218,517	—	218,517	1,216	—	1,216	219,733	
Air Pacific, Ltd.	36,464	—	—	36,464	76,593	—	76,593	—	76,593	—	—	—	76,593	
Alaska Airlines, Inc.	60,768	—	35,568	96,336	132,803	—	132,803	(63,866)	68,937	77,557	—	77,557	146,494	
Aloha Airlines, Inc.	2,050,102	402,206	1,970,967	4,423,275	1,612,153	297,793	1,909,946	(339,096)	1,570,850	1,719,226	—	1,719,226	3,290,076	
America West Airline, Inc.	22,968	—	50,094	73,062	44,328	—	44,328	—	44,328	96,681	—	96,681	141,009	
American Airlines, Inc.	730,782	—	426,572	1,157,354	1,540,073	—	1,540,073	(232,320)	1,307,753	895,903	—	895,903	2,203,656	
ATA Airlines, Inc.	302,203	29,114	235,336	566,653	613,317	59,174	672,491	(262,489)	410,002	480,845	—	480,845	890,847	
China Airlines, Inc.	190,480	—	—	190,480	397,140	—	397,140	—	397,140	—	—	—	397,140	
Continental Airlines, Inc.	498,316	—	—	498,316	1,043,764	—	1,043,764	—	1,043,764	—	—	—	1,043,764	
Continental Micronesia, Inc.	254,260	—	—	254,260	528,399	—	528,399	—	528,399	—	—	—	528,399	
Delta Airlines, Inc.	618,972	—	188,123	807,095	1,295,596	—	1,295,596	(75,844)	1,219,752	398,806	—	398,806	1,618,558	
Evergreen International Airlines, Inc.	113,140	—	—	113,140	237,730	—	237,730	—	237,730	—	—	—	237,730	
Federal Express Corporation	645,433	95,655	—	741,088	1,355,170	201,092	1,556,262	(206,348)	1,349,914	—	—	—	1,349,914	
Hawaii Island Air, Inc.	285,641	40,002	488,431	814,074	216,181	29,605	245,786	(45,304)	200,482	368,460	—	368,460	568,942	
Hawaiian Airlines, Inc.	4,121,310	465,520	2,707,945	7,294,775	5,277,873	353,517	5,631,390	(1,352,903)	4,278,487	2,526,538	—	2,526,538	6,805,025	
JALways Co., Ltd.	1,195,890	—	117,720	1,313,610	2,342,931	—	2,342,931	—	2,342,931	245,943	(5,391)	240,552	2,583,483	
Japan Air Lines Company, Ltd.	36,132	—	—	36,132	76,932	—	76,932	—	76,932	—	—	—	76,932	
Kalitta Air, LLC	165,195	—	—	165,195	343,705	—	343,705	—	343,705	—	—	—	343,705	
Korean Airlines Company, Ltd.	166,292	—	—	166,292	349,430	—	349,430	—	349,430	—	—	—	349,430	
Mesa Airlines, Inc.	534,155	121,636	412,049	1,067,840	407,362	92,943	500,305	—	500,305	313,995	—	313,995	814,300	
North American Airlines, Inc.	5,079	—	629	5,708	10,091	—	10,091	—	10,091	437	—	437	10,528	
Northwest Airlines, Inc.	1,170,260	—	163,520	1,333,780	2,454,468	—	2,454,468	(60,083)	2,394,385	233,455	—	233,455	2,627,840	
Pacific Wings LLC	23,273	978	89,828	114,079	17,367	679	18,046	(6,043)	12,003	67,931	—	67,931	79,934	
Philippine Airlines, Inc.	71,827	—	—	71,827	150,857	—	150,857	—	150,857	—	—	—	150,857	
Qantas Airways, Ltd.	192,116	—	—	192,116	402,680	—	402,680	—	402,680	—	—	—	402,680	
United Airlines, Inc.	1,360,457	—	1,273,456	2,633,913	2,841,252	—	2,841,252	(512,500)	2,328,752	2,536,723	(115,035)	2,421,688	4,750,440	
United Parcel Service Co.	520,754	—	185,807	706,561	1,091,193	—	1,091,193	(36,450)	1,054,743	140,328	—	140,328	1,195,071	
US Airways, Inc.	83,358	—	184,140	267,498	180,336	—	180,336	(8,219)	172,117	401,437	(64,112)	337,325	509,442	
Westjet	39,872	—	44,751	84,623	87,530	—	87,530	—	87,530	97,953	(12,835)	85,118	172,648	
Total	15,833,745	1,155,111	8,630,788	25,619,644	\$ 25,824,411	\$ 1,034,803	\$ 26,859,214	\$ (3,201,465)	\$ 23,657,749	\$ 10,723,833	\$ (197,373)	\$ 10,526,460	\$ 34,184,209	
Summary of revenue landing weights:														
Overseas				13,653,972										
Interisland				11,965,672										
				<u>25,619,644</u>										

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

Signatory airlines	\$ 3,398,838
Nonsignatory airlines	<u>207,247</u>
	<u>\$ 3,606,085</u>

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

See accompanying independent auditors' report.

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

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Nonsignatory Airlines
Year ended June 30, 2008

	Approved maximum revenue landing weights				Honolulu International Airport and Hilo International Airport					All other airports			Total adjusted airport landing fees
	(1,000-pound units)				Gross airport landing fees					Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees	
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees				
Above It All, Inc.	—	2,650	3,468	6,118	\$ —	\$ 2,528	\$ 2,528	\$ (87)	\$ 2,441	\$ 3,309	\$ (1,124)	\$ 2,185	\$ 4,626
Aero Micronesia dba Asia Pacific	38,212	164	1,148	39,524	111,214	156	111,370	—	111,370	1,095	—	1,095	112,465
Aeko Kula, Inc.	37,771	52,965	53,393	144,129	36,034	50,529	86,563	—	86,563	50,938	—	50,938	137,501
Air France	104	—	—	104	309	—	309	—	309	—	—	—	309
Air Japan Co. Ltd.	119,040	—	—	119,040	354,739	—	354,739	—	354,739	—	—	—	354,739
Air New Zealand	105	—	—	105	313	—	313	—	313	—	—	—	313
Air Transport International LLC	49,140	—	—	49,140	146,437	—	146,437	—	146,437	—	—	—	146,437
Air Ventures Hawaii, LLC	—	—	2,416	2,416	—	—	—	—	—	2,305	(367)	1,938	1,938
Airmed Hawaii, LLC	15,581	28	394	16,003	14,912	26	14,938	(4,350)	10,588	376	—	376	10,964
Alika Aviation Inc.	—	—	10,606	10,606	—	—	—	—	—	10,118	—	10,118	10,118
Aloha Airlines Inc.	256	—	256	256	763	—	763	—	763	—	—	—	763
Alpine Aviation, Inc.	25,634	110	13,490	39,234	24,454	105	24,559	(4,062)	20,497	12,870	—	12,870	33,367
Aris Inc.	—	—	17,196	17,196	—	—	—	—	—	16,405	(6,866)	9,539	9,539
Atlas Air Inc.	102,492	—	—	102,492	305,426	—	305,426	—	305,426	—	—	—	305,426
Big Island Air Incorporation	16	8	10,163	10,187	15	7	22	—	22	9,696	—	9,696	9,718
Bradley Pacific Aviation Inc.	31,893	952	59,702	92,547	83,386	1,528	84,914	—	84,914	145,217	—	145,217	230,131
Call Air Inc.	154	7	490	651	147	7	154	(101)	53	467	(41)	426	479
Corporate Air	38,334	9,644	19,470	67,448	36,571	9,201	45,772	—	45,772	18,574	—	18,574	64,346
Dipiazza, Charles	—	—	13,041	13,041	—	—	—	—	—	11,164	(1,806)	9,358	9,358
Fly Kauai, Inc.	—	—	1,074	1,074	—	—	—	—	—	1,024	—	1,024	1,024
Gemini Air Cargo, Inc.	3,224	—	—	3,224	9,608	—	9,608	—	9,608	—	—	—	9,608
George's Aviation Service, Inc.	441	357	1,372	2,170	394	307	701	(463)	238	1,195	(399)	796	1,034
Gould, Steve	—	—	14,895	14,895	—	—	—	—	—	14,210	—	14,210	14,210
Hale O'Lele Corporation	—	—	2,070	2,070	—	—	—	—	—	1,974	—	1,974	1,974
Harter, Jack Helicopters, Inc.	—	—	10,970	10,970	—	—	—	—	—	10,466	(1,798)	8,668	8,668
Hawaii Air Ambulance, Inc.	15,658	—	—	15,658	14,937	—	14,937	(610)	14,327	—	—	—	14,327
Hawaii Helicopters, Inc.	—	—	6,835	6,835	—	—	—	(1,388)	(1,388)	6,520	—	6,520	5,132
Hawaiian Airlines Inc.	—	—	134	134	—	—	—	—	—	399	—	399	399
Heli USA Airways	3,690	—	—	3,690	3,520	—	3,520	—	3,520	—	—	—	3,520
Helicopter Consultations of MA	4	56,608	62,607	119,219	3	54,004	54,007	(18,536)	35,471	59,727	—	59,727	95,198
Honolulu Soaring Club Inc.	—	—	2,587	2,587	—	—	—	—	—	2,468	(1,884)	584	584
Island Helicopters Kauai	—	—	13,700	13,700	—	—	—	—	—	13,069	(2,093)	10,976	10,976
Jetstar Airways PTY Limited	101,986	—	—	101,986	303,917	—	303,917	—	303,917	—	—	—	303,917
K&S Helicopters, Inc.	2,973	6,456	—	9,429	2,836	6,159	8,995	(4,306)	4,689	—	—	—	4,689
Kamaka Air, Inc.	7,762	—	18,843	26,605	7,405	—	7,405	—	7,405	17,976	—	17,976	25,381
Korean Airlines	59	—	—	59	176	—	176	—	176	—	—	—	176
Makani Kai Helicopters Ltd.	5,514	—	—	5,514	5,261	—	5,261	(1,667)	3,594	—	—	—	3,594
Marjet, Inc.	213	29	466	708	204	28	232	—	232	444	—	444	676
Maui Island Air Inc.	154	7	4,242	4,403	147	7	154	—	154	4,047	—	4,047	4,201
Miscellaneous use charge-overseas	50,969	576	165	51,710	151,681	1,709	153,390	(47)	153,343	1,608	(66)	1,542	154,885
Mokulele Flight Service, Inc.	25,295	42	64,697	90,034	24,132	40	24,172	(4)	24,168	61,721	(9)	61,712	85,880
Niihau Helicopters Inc.	—	—	1,410	1,410	—	—	—	—	—	1,345	—	1,345	1,345
Omni Air International, Inc.	82,323	—	—	82,323	245,323	—	245,323	(46,018)	199,305	—	—	—	199,305
Pacific Air Charters, Incorporated	597	14	1,063	1,674	569	13	582	(34)	548	1,014	—	1,014	1,562
Pacific Helicopter Tours, Inc.	1,374	12	1,920	3,306	1,311	12	1,323	(711)	612	1,831	(1,163)	668	1,280
Paragon Air Inc.	17	—	1,012	1,029	16	—	16	—	16	966	—	966	982
Pofolk Aviation Hawaii, Inc.	—	—	3,247	3,247	—	—	—	—	—	3,098	(137)	2,961	2,961
Rainbow Pacific Helicopters	10	—	—	10	—	—	10	—	10	—	—	—	10
Ryan International Airlines	396	—	—	396	1,180	—	1,180	—	1,180	—	—	—	1,180
Safari Aviation Inc.	—	7,198	16,600	23,798	—	6,867	6,867	—	6,867	15,836	—	15,836	22,703
Sky-Med Inc.	—	—	17,683	17,683	—	—	—	—	—	16,869	—	16,869	16,869
Smoky Mountain Helicopters	—	—	7,719	7,719	—	—	—	—	—	7,364	—	7,364	7,364
Squyres, Will Helicopter, Inc.	—	—	15,214	15,214	—	—	—	—	—	14,514	—	14,514	14,514
Sunshine Helicopters Inc.	—	7,682	23,419	31,101	—	6,863	6,863	(822)	6,041	22,807	(6,290)	16,517	22,558
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	20,723	4,664	29,733	55,120	19,770	4,449	24,219	(9,610)	14,609	28,365	—	28,365	42,974
Universal Enterprises, Inc.	55,596	1,101	69,423	126,120	148,303	2,190	150,493	(90,388)	60,105	178,461	—	178,461	238,566
Wings Over Kauai, LLC	—	—	1,831	1,831	—	—	—	—	—	1,747	—	1,747	1,747
Total	837,710	151,274	599,908	1,588,892	\$ 2,055,423	\$ 146,735	\$ 2,202,158	\$ (183,204)	\$ 2,018,954	\$ 773,599	\$ (24,043)	\$ 749,556	\$ 2,768,510
Summary of revenue landing weights:													
Overseas				720,610									1,180
Interisland				868,282									22,703
				<u>1,588,892</u>									1,588,892

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

See accompanying independent auditors' report.