KPMG

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

Financial Statements and Supplemental Schedules

June 30, 2009 and 2008

(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, 2009 and 2008, 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, 2009, 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, 2009 and 2008, 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 to the financial statements, the Airports Division adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2010 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 21 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were 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

March 2, 2010

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, 2009 and 2008. 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 59.9% and 59.3% of total passenger traffic in the airports system during fiscal years 2009 and 2008, respectively. The other four principal airports accommodated 38.7% and 39.3% of the total passenger traffic for fiscal years 2009 and 2008, 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 2009 and 2008.

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

Using the Financial Statements

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

The Airports Division's financial report includes three financial statements: the 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 2009 with a decrease to total passenger activity of 15.3% when compared with fiscal year 2008. Aircraft operations, revenue landed weights, revenue passenger landings, and deplaning international passengers decreased by 15.0%, 11.6%, 5.9%, and 10.3%, respectively, as compared with fiscal year 2008. 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 inter-island carriers account for a higher percentage (47%) of revenue landed weights, the overall carrier mix remains diverse.

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

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. Hawaiian Airlines, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and United Airlines, Inc. absorbed the majority of the market share from Aloha Airlines, increasing passenger activity by 10.9%, 1.1%, 1.3%, and 1.5%, respectively, in fiscal year 2009.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2009: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., American Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Airlines, Inc., Hawaiian Airlines, Inc., JALways Co., Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Northwest Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways, Ltd., United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and Pacific Wings, LLC.

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Activity for the airports system for the fiscal years ended June 30, 2009 and 2008 is as follows:

	2009	**2008**	**Percentage increase (decrease) from 2008**
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	17,806,225	20,808,838	(14.4)%
Kahului Airport	5,089,997	6,219,640	(18.2)
Kona International Airport at Keahole	2,667,591	3,131,118	(14.8)
Lihue Airport	2,464,024	2,884,600	(14.6)
Hilo International Airport	1,284,420	1,562,813	(17.8)
All others	407,622	488,147	(16.5)
Total passengers	29,719,879	35,095,156	(15.3)
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	276,272	304,839	(9.4)
Kahului Airport	119,311	142,126	(16.1)
Kona International Airport at Keahole	111,848	140,052	(20.1)
Lihue Airport	99,154	121,979	(18.7)
Hilo International Airport	66,294	90,167	(26.5)
All others	212,400	241,965	(12.2)
Total aircraft operations	885,279	1,041,128	(15.0)
Revenue landed weights (1,000 pound units):			
Honolulu International Airport	13,383,583	15,833,745	(15.5)
Kahului Airport	3,323,998	4,225,002	(21.3)
Kona International Airport at Keahole	1,896,222	2,241,326	(15.4)
Lihue Airport	1,491,519	1,823,644	(18.2)
Hilo International Airport	839,456	1,155,111	(27.3)
All others	78,039	340,816	(77.1)
Total signatory airlines	21,012,817	25,619,644	(18.0)
Nonsignatory airlines	3,029,989	1,588,892	90.7
Total revenue landed weights	24,042,806	27,208,536	(11.6)

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	2009	2008	Percentage increase (decrease) from 2008
Revenue passenger landings:			
Honolulu International Airport	70,613	63,266	11.6%
Kahului Airport	21,739	29,482	(26.3)
Kona International Airport at Keahole	14,227	16,154	(11.9)
Lihue Airport	13,474	16,999	(20.7)
Hilo International Airport	8,472	10,784	(21.4)
Total signatory airlines	128,525	136,685	(6.0)
Nonsignatory airlines	923	947	(2.5)
Total revenue passenger landings	129,448	137,632	(5.9)
Deplaning international passengers:			
Honolulu International Airport	1,528,587	1,726,243	(11.5)
Kona International Airport at Keahole	67,511	70,271	(3.9)
Total signatory airlines	1,596,098	1,796,514	(11.2)
Nonsignatory airlines	118,762	115,306	3.0
Total deplaning international passengers	1,714,860	1,911,820	(10.3)

Financial Operations Highlights

The financial results for fiscal year 2009 reflected a loss before capital contributions of $58.0 million as compared to a loss before capital contributions of $48.7 million for fiscal year 2008. Operating revenues increased by $21.3 million, or 8.7%, while operating expenses increased by $1.9 million, or 0.6%. Total nonoperating revenues decreased by $22.9 million mainly due to decreases in federal operating grants and interest income amounting $18.2 million and $15.5 million, respectively, offset by increases in rental car customer facility charges of $8.5 million and PFCs of $3.0 million.

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.

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

Effective February 1, 2007, the FAA approved the Airports Division's PFC Application No. 2 to impose a $3.00 PFC at the airports mentioned above with the addition of Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 1, 2007 and July 1, 2011 (amended from 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, 2009. The maximum amount of $62,500,000 was further amended to $49,560,000 as of November 30, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and fire fighting facilities improvements, elevator improvements, loading bridge replacements, air conditioning system improvements, and PFC administration costs.

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

The Airports Division has prepared the notice of intent for PFC Application No. 4 for the eligible "pay-go" projects totaling approximately $160 million. It is anticipated the application will be approved before the January 1, 2010 charge expiration date for PFC Application No. 3.

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

Since the inception of this program through June 30, 2009, the total PFC revenues, including interest earned, and expenditures were $108.6 million and $39.9 million, respectively.

On July 8, 2008, State Legislative Senate Bill 2365 became law as Act 226 Session Law of Hawaii 2008, authorizing the Airports Division to impose a CFC of $1 a day on all u-drive rentals at a state airport, effective September 1, 2008. Moneys collected through the CFC are deposited into a restricted fund to be used for enhancement, renovation, operation, and maintenance of existing rental motor vehicle customer facilities and the development of new rental motor vehicle customer facilities and related services at state airports to better serve Hawaii's visitors and residents.

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Since September 1, 2008 through June 30, 2009, the total CFC revenues, including interest earned, were $8.6 million. No expenditures were incurred.

Operating expenses before depreciation for fiscal year 2009 decreased by 2.5%, or $6.2 million, as compared to fiscal year 2008 mainly due to decreases in special maintenance and bad debt expense offset by increases in salaries and wages, other personnel services, and repair and maintenance costs.

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.

Total nonoperating expenses for fiscal years 2009 and 2008 increased by 11.3%, or $5.9 million, and 40.8%, or $15.1 million, respectively, as compared with the previous years mainly due to losses on the amounts held in State Treasury. The Airports Division wrote down its amounts held in State Treasury by $26.6 million and $19.9 million in fiscal years 2009 and 2008, respectively.

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 $8.5 million and $16.7 million for fiscal years 2009 and 2008, respectively.

In summary, Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. Despite the steady income stream from the Airports Division's diverse mix of operational revenue sources, reduced passenger traffic due to the current economic downturn required the Airports Division to implement increases in signatory airline fees in order to sustain decreases in concession revenues, interest income, and federal operating grants this past fiscal year. In addition, the Airports Division management team was instrumental in implementing operational cost savings measures relating mainly to personnel, security, and utility cost.

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A summary of operations and changes in net assets for the years ended June 30, 2009, 2008, and 2007 is as follows:

	2009	2008	2007
Operating revenues	$ 265,675,867	244,377,274	233,433,057
Operating expenses, excluding depreciation	(235,529,577)	(241,684,888)	(210,215,030)
Operating income before depreciation	30,146,290	2,692,386	23,218,027
Depreciation	(88,599,854)	(80,570,580)	(82,631,333)
Operating loss	(58,453,564)	(77,878,194)	(59,413,306)
Nonoperating revenues – net	411,170	29,165,607	42,137,688
Loss before capital contributions	(58,042,394)	(48,712,587)	(17,275,618)
Capital contributions:			
Federal capital grants	48,801,935	28,881,614	51,380,310
Other capital contribution	747,067	3,091,250	—
Total capital contributions	49,549,002	31,972,864	51,380,310
Increase (decrease) in net assets	$ (8,493,392)	(16,739,723)	34,104,692

- Operating revenues increased by 8.7% from $244.4 million in fiscal year 2008 to $265.7 million in fiscal year 2009. The primary reason for the increase was mainly due to signatory airline landing and terminal rate increases.

  Operating expenses excluding depreciation decreased by 2.5% from $241.7 million in fiscal year 2008 to $235.5 million in fiscal year 2009. The most recognized increase last year related to utility costs due to the rise in price of fuel. However, in fiscal year 2009, utility cost decreased by $0.7 million due to the decrease in fuel cost midway through the fiscal year along with installing energy-efficient air conditioning units, lighting equipment, and shut down of certain terminals when not in use supported the stabilization of utility cost.

  Salaries and wages increased by $3.4 million as a result of negotiated union contract pay raises and security contracts mirroring State employee union contracts, respectively. However, personnel costs were stabilized by freezing vacated positions. Other personnel costs increased by $5.4 million but were stabilized as a result of decreasing guard services through re-evaluation of security requirements due to decreased passenger traffic. These reductions were made in accordance with the Transportation Security Administration requirements and did not compromise airport security. Special maintenance expenses decreased by $10.0 million due to reduced special maintenance activity. Bad debt expense decreased by $3.9 million since there were no indications of further tenant and customer default.

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The net results of the above resulted in operating income before depreciation of $30.1 million in fiscal year 2009. Operating income before depreciation for fiscal year 2009 increased by 1,019.7%, or $27.5 million, from fiscal year 2008. Depreciation expense increased by 9.9% from $80.6 million in fiscal year 2008 to $88.6 million in fiscal year 2009 due to an increase in capital assets. The operating loss before nonoperating revenues, net and capital contributions of $58.5 million in fiscal year 2009 represent a 24.9% decrease from the operating loss before nonoperating revenues, net and capital contributions of $77.9 million in fiscal year 2008.

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

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

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

- Nonoperating revenues, net decreased by 98.6%, or $28.8 million, in fiscal year 2009 primarily due to an increase in the loss on amounts held in State Treasury and decreases in interest income and federal operating grants offset by increases in passenger facility charges and rental car customer facility charges and decreases in interest expense. The loss on amounts held in State Treasury increased by $6.6 million. Interest income decreased by $15.5 million due to lower investment rates of return and the use of cash for the CIP projects. Federal operating grants decreased by 72.9% or $18.2 million as grants were utilized for capital improvement projects instead. Passenger facility charges increased by 14.9%, or $3.0 million, as a result of raising the PFC collection rate to $4.50 from $3.00. However, the increase was subdued as a result of decreased passenger traffic. Rental car customer facility charges amounted to $8.5 million and reflected

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a 100% increase since this charge was implemented effective September 1, 2008. Airports system revenue bond interest expense decreased by $5.5 million as a result of principal payments.

- Nonoperating revenues, net decreased by 30.8%, or $13.0 million, in fiscal year 2008, primarily due to losses in the amounts held in State Treasury in 2008, increases in federal operating grants, and decreases in interest expense. 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. Airports system revenue bond interest expense decreased by $4.7 million in fiscal year 2008 as a result of principal payments. In addition, the Airports Division wrote down its amounts held in State Treasury by $20.0 million in fiscal year 2008.
- Loss before capital contributions for fiscal year 2009 of $58.0 million as compared with loss before capital contributions of $48.7 million for fiscal year 2008 was a result of a decrease in nonoperating revenues – net.
- 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.
- Capital contributions increased by 55.0%, or $17.6 million, and decreased 37.8%, or $19.4 million, in fiscal years 2009 and 2008, respectively, mainly due to the increase of federal capital grants in fiscal year 2009 and decrease in federal capital grants in fiscal year 2008.

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Financial Position Summary

A condensed summary of the Airports Division's net assets at June 30, 2009, 2008, and 2007 is shown below:

	2009	2008	2007
Assets:			
Current assets:			
Unrestricted assets	$ 376,703,470	479,292,741	551,383,428
Restricted assets	260,712,901	263,507,383	277,969,200
Noncurrent assets:			
Capital assets	1,617,928,949	1,535,613,752	1,485,773,891
Restricted assets	34,987,408	36,094,866	37,141,975
Other noncurrent assets	2,627,294	3,047,815	3,480,415
Total assets	2,292,960,022	2,317,556,557	2,355,748,909
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	51,378,877	46,452,432	43,968,110
Payable from restricted assets	52,311,833	55,565,308	60,110,609
Long-term liabilities, net of current portion	617,993,896	633,104,136	652,495,786
Total liabilities	721,684,606	735,121,876	756,574,505
Net assets:			
Invested in capital assets – net of related debt	1,030,743,140	955,900,642	881,703,354
Restricted	255,804,547	230,216,845	237,469,809
Unrestricted	284,727,729	396,317,194	480,001,241
Total net assets	$ 1,571,275,416	1,582,434,681	1,599,174,404

The largest portion of the Airports Division's net assets (65.6%, 60.4%, and 55.1% at June 30, 2009, 2008, and 2007, respectively) represents its investments in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net assets (16.3%, 14.5%, and 14.8% at June 30, 2009, 2008, and 2007, 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.

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The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $336.7 million, $451.0 million, and $528.5 million at June 30, 2009, 2008, and 2007, respectively. The $336.7 million cash balance at June 30, 2009 provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by $1,571.3 million and $1,582.4 million at June 30, 2009 and 2008, respectively, representing a decrease of $11.2 million and $16.7 million from June 30, 2008 and 2007, respectively.

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

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

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

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

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona, and Lihue. The program is currently estimated to cost $1.3 billion through 2016 and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

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

Revenues

A summary of revenues for the years ended June 30, 2009 and 2008 and the amount and percentage of change in relation to prior year amounts is as follows:

	2009		Increase (decrease) from 2008	
	Amount	Percentage of total	Amount	Percentage
Operating revenues:				
Concession fees:				
Duty free	$ 38,000,000	11.7%	$ —	—%
Other concessions	76,062,511	23.5	(7,854,921)	(9.4)
Airport landing fees	60,573,900	18.7	23,621,181	63.9
Aeronautical rentals:			—	
Exclusive-use premise charge	35,117,763	10.8	1,204,065	3.6
Nonexclusive joint-use premise charge	35,062,741	10.8	5,901,040	20.2
Nonaeronautical rentals	12,305,546	3.8	(357,965)	(2.8)
Other	8,553,406	2.6	(1,214,807)	(12.4)
Total operating revenues	265,675,867	81.9	21,298,593	8.7
Nonoperating revenues:				
Interest income, investments	16,149,558	5.0	(15,528,316)	(49.0)
Interest income, passenger facility charges	1,427,237	0.5	(677,121)	(32.2)
Interest income, rental car customer facility charges	66,716	—	66,716	100.0
Interest income, direct financing leases	2,249,798	0.7	(85,650)	(3.7)
Federal operating grants	6,757,871	2.1	(18,200,459)	(72.9)
Passenger facility charges	23,359,258	7.2	3,020,562	14.9
Rental car customer facility charges	8,541,445	2.6	8,541,445	100.0
Total nonoperating revenues	58,551,883	18.1	(22,862,823)	(28.1)
Total revenues	$ 324,227,750	100.0	$ (1,564,230)	(0.5)

	2008		Increase (decrease) from 2007	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating revenues:				
Concession fees:				
Duty Free	$ 38,000,000	11.7%	$ 631,472	1.7%
Other concessions	83,917,432	25.8	596,410	0.7
Airport landing fees	36,952,719	11.3	(1,096,616)	(2.9)
Aeronautical rentals:				
Exclusive-use premise charge	33,913,698	10.4	4,315,727	14.6
Nonexclusive joint-use premise charge	29,161,701	9.0	3,366,652	13.1
Nonaeronautical rentals	12,663,511	3.9	305,600	2.5
Other	9,768,213	3.0	2,824,972	40.7
Total operating revenues	244,377,274	75.0	10,944,217	4.7
Nonoperating revenues:				
Interest income, investments	31,677,874	9.7	(1,744,047)	(5.2)
Interest income, passenger facility charges	2,104,358	0.6	363,507	20.9
Interest income, direct financing leases	2,335,448	0.7	(82,733)	(3.4)
Federal operating grants	24,958,330	7.7	4,975,152	24.9
Passenger facility charges	20,338,696	6.3	(1,330,791)	(6.1)
Total nonoperating revenues	81,414,706	25.0	2,181,088	2.8
Total revenues	$ 325,791,980	100.0	$ 13,125,305	4.2

Expenses

A summary of expenses for the years ended June 30, 2009 and 2008 and the amount and percentage of change in relation to prior year amounts is as follows:

	2009		Increase (decrease) from 2008	
	Amount	Percentage of total	Amount	Percentage
Operating expenses:				
Salaries and wages	$ 75,395,510	19.7%	$ 3,405,916	4.7%
Other personnel services	56,493,315	14.8	4,903,784	9.5
Utilities	34,200,183	8.9	(674,956)	(1.9)
Special maintenance	21,508,240	5.6	(11,477,805)	(34.8)
Repairs and maintenance	17,299,871	4.5	3,119,053	22.0
State of Hawaii surcharge on gross receipts	10,743,534	2.8	(142,761)	(1.3)
Materials and supplies	5,617,616	1.5	(30,036)	(0.5)
Department of Transportation general administration expenses	4,839,148	1.3	(12,964)	(0.3)
Insurance	4,121,188	1.1	(127,149)	(3.0)
Disbursements out of major maintenance, renewal, and replacement account	1,912,761	0.5	(560,570)	(22.7)
Bad debt expense	47,443	—	(3,920,476)	(98.8)
Other	3,350,768	0.9	(637,347)	(16.0)
Total operating expenses before depreciation	235,529,577	61.6	(6,155,311)	(2.5)
Depreciation	88,599,854	23.2	8,029,274	10.0
Total operating expenses	324,129,431	84.8	1,873,963	0.6
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	24,067,476	6.3	(5,459,952)	(18.5)
Special facility	2,249,798	0.6	(85,650)	(3.7)
General obligation bonds	905	—	(280)	(23.6)
Loss on amounts held in State Treasury	26,576,132	6.9	6,624,104	33.2
Loss on disposal of capital assets	4,840,412	1.3	4,830,003	46,402.2
Other	405,990	0.1	(16,611)	(3.9)
Total nonoperating expenses	58,140,713	15.2	5,891,614	11.3
Total expenses	$ 382,270,144	100.0	$ 7,765,577	2.1

	2008		Increase (decrease) from 2007	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 71,989,594	19.2%	$ 10,785,742	17.6%
Other personnel services	51,589,531	13.8	5,444,266	11.8
Utilities	34,875,139	9.3	8,617,795	32.8
Special maintenance	32,986,045	8.8	(571,754)	(1.7)
Repairs and maintenance	14,180,818	3.8	1,377,616	10.8
State of Hawaii surcharge on gross receipts	10,886,295	2.9	1,121,507	11.5
Materials and supplies	5,647,652	1.5	1,127,362	24.9
Department of Transportation general administration expenses	4,852,112	1.3	(871,728)	(15.2)
Insurance	4,248,337	1.1	230,431	5.7
Bad debt expense	3,967,919	1.1	3,967,919	100.0
Disbursements out of major maintenance, renewal, and replacement account	2,473,331	0.7	(1,015,540)	(29.1)
Other	3,988,115	1.1	1,256,242	46.0
Total operating expenses before depreciation	241,684,888	64.6	31,469,858	15.0
Depreciation	80,570,580	21.5	(2,060,753)	(2.5)
Total operating expenses	322,255,468	86.1	29,409,105	10.0
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	29,527,428	7.9	(4,666,430)	(13.6)
Special facility	2,335,448	0.6	(82,733)	(3.4)
General obligation bonds	1,185	—	(524)	(30.7)
Loss on amounts held in State Treasury	19,952,028	5.3	19,952,028	100.0
Loss on disposal of capital assets	10,409	—	(33,423)	(76.3)
Other	422,601	0.1	(15,749)	(3.6)
Total nonoperating expenses	52,249,099	13.9	15,153,169	40.8
Total expenses	$ 374,504,567	100.0	$ 44,562,274	13.5

(Continued)

Capital Acquisitions and Construction Activities

In fiscal years 2009 and 2008, there were 11 and 24 construction bid openings, respectively, totaling an estimated $72 million and $184 million, respectively, in potential construction contracts. Significant projects in fiscal year 2009 include the Apron Pavement Structural Improvements at Kahului Airport; Parking Lot Improvements, Phase III and South Terminal New Baggage Carousel at Kona International Airport at Keahole; Replacement of Passenger Loading Bridges, Phase III and Air Conditioning Modifications, Phase II, and Overseas Terminal Chiller Plant at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2009, which were under construction during the fiscal year. Major projects 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.

Finally, there were nine construction projects that were substantially completed in fiscal year 2009. These projects totaled over $89 million and include the Airfield Lights and Sign Replacement at Lihue Airport; Electrical Vault for EDS Integration Improvements at Kahului Airport; and the EDS Integration Improvements Phase I, Replacement of Passenger Loading Bridges – Phase II, Environment Compliance Measures, International Parking Structure, OST Water Quality Management, and Noise Monitoring System Phase I and II 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, 2009, $589,740,000 of airports system revenue bonds were outstanding as compared to $610,880,000 as of June 30, 2008. 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, 2009, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $590,065,802.

As of June 30, 2009, $0 of reimbursable general obligation bonds issued for the airports system were outstanding compared to $28,275 as of June 30, 2008.

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.

 (Continued)

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, 2009 and 2008, there were outstanding bond obligations of $34,755,000 and $35,855,000, 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, 2009, there were three series of airports system revenue bonds outstanding in the principal amount of $589,740,000. Payment of principal and interest on all three series of bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The credit ratings of FGIC have been revised downward since the issuance of the bonds. As of June 30, 2009, 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 seven years. The most noticeable project is the parking structure adjacent to the interisland terminal at the Honolulu International Airport, which was completed in late March 2009. 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 first quarter of calendar year 2010.

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

Request for Information

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

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

Statements of Net Assets

June 30, 2009 and 2008

Assets	**2009**	**2008**
Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted (note 3)	$ 336,793,740	451,011,189
Receivables:		
Accounts, net of allowance of $4,775,202 and $4,853,567 for uncollectible accounts for 2009 and 2008, respectively	20,569,567	13,289,500
Promissory note receivable, net of allowance of $2,489,889 and $2,491,255 for uncollectible notes for 2009 and 2008, respectively (note 8)	—	324,886
Interest	6,030,469	2,225,733
Claims – federal grants	11,766,631	10,258,849
Aviation fuel tax	268,052	425,517
Due from State of Hawaii	1,039,192	1,489,240
Total receivables	39,673,911	28,013,725
Inventory of materials and supplies, at cost	235,819	267,827
Total unrestricted current assets	376,703,470	479,292,741
Restricted assets:		
Cash and cash equivalents (note 3):		
Revenue bond debt service (note 6)	103,389,685	104,766,211
Passenger facility charges (note 9)	65,705,687	48,676,025
Rental car customer facility charges (note 10)	7,682,365	—
Security deposits and customer advances	4,908,354	4,983,234
Revenue bond construction	—	28,307,304
Total cash and cash equivalents – restricted	181,686,091	186,732,774
Passenger facility charges receivable (note 9)	2,873,150	1,523,096
Rental car customer facility charges receivable (note 10)	902,147	—
Investments – revenue bond debt service reserve (notes 3 and 6)	75,251,513	75,251,513
Total restricted current assets	260,712,901	263,507,383
Total current assets	637,416,371	742,800,124
Noncurrent assets:		
Promissory note receivable (note 8)	108,469	123,000
Bond issue costs, net of accumulated amortization of $3,990,366 and $3,584,376 for 2009 and 2008, respectively (note 6)	2,518,825	2,924,815
Restricted assets – net investments in direct financing leases (note 8)	34,987,408	36,094,866
Capital assets, net of accumulated depreciation of $1,485,806,464 and $1,401,205,304 for 2009 and 2008, respectively (notes 4, 6, and 7)	1,617,928,949	1,535,613,752
Total noncurrent assets	1,655,543,651	1,574,756,433
Total assets	2,292,960,022	2,317,556,557

(Continued)

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

Statements of Net Assets

June 30, 2009 and 2008

Liabilities	**2009**	**2008**
Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	$ 10,485,318	8,742,694
Contracts payable, including retainage of $4,357,697 and $3,169,711 for 2009 and 2008, respectively	19,855,276	19,744,578
Current portion of workers' compensation (notes 5 and 15)	1,055,969	1,119,573
Current portion of compensated absences (note 5)	2,639,007	2,638,713
Current portion of postemployment liability (notes 5 and 12)	4,878,000	4,714,000
Deferred income (note 8)	4,854,314	3,997,328
Accrued wages	4,947,241	4,993,683
Due to State of Hawaii	550,000	—
Pollution remediation liability (note 16)	1,613,874	—
Prepaid airport use charge fund (notes 8 and 16)	463,926	463,926
Current portion of general obligation bonds (notes 5 and 7)	—	9,425
Other	35,952	28,512
Total payable from unrestricted assets	51,378,877	46,452,432
Payable from restricted assets:		
Contracts payable, including retainage of $2,562,477 and $1,583,469 for 2009 and 2008, respectively	7,130,616	11,016,632
Current portion of airports system revenue bonds (notes 5 and 6)	22,310,000	21,140,000
Current portion of special facility revenue bonds (notes 5 and 8)	1,230,000	1,100,000
Accrued interest	17,685,464	18,278,043
Security deposits	3,955,753	4,030,633
Total payable from restricted assets	52,311,833	55,565,308
Total current liabilities	103,690,710	102,017,740
Long-term liabilities – net of current portion:		
Airports system revenue bonds (notes 5 and 6)	564,875,809	586,852,139
Special facility revenue bonds (notes 5 and 8)	33,525,000	34,755,000
Compensated absences (note 5)	5,599,503	5,119,546
Workers' compensation (notes 5 and 15)	3,244,031	3,180,427
Postemployment liability (notes 5 and 12)	9,796,952	2,225,573
Customer advance (note 14)	952,601	952,601
General obligation bonds (notes 5 and 7)	—	18,850
Total liabilities	721,684,606	735,121,876
Net Assets		
Net assets:		
Invested in capital assets – net of related debt	1,030,743,140	955,900,642
Restricted:		
Debt service payment	39,763,058	39,177,951
Debt service reserve account	75,251,513	75,251,513
Major maintenance, renewal, and replacement account	63,626,627	65,588,260
Passenger facility charges	68,578,837	50,199,121
Rental car customer facility charges	8,584,512	—
Total restricted	255,804,547	230,216,845
Unrestricted	284,727,729	396,317,194
Commitments and contingencies (notes 6, 8, 11, 12, 13, 14, 15, 16, and 17)		
Total net assets	$ 1,571,275,416	1,582,434,681

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Operating revenues (notes 6, 8, and 13):		
Concession fees	$ 114,062,511	121,917,432
Airport landing fees, net	60,573,900	36,952,719
Aeronautical rentals:		
Exclusive-use premise charges	35,117,763	33,913,698
Nonexclusive joint-use premise charges	35,062,741	29,161,701
Nonaeronautical rentals	12,305,546	12,663,511
Aviation fuel tax	3,548,705	4,452,232
Airports system support charges	873,520	617,257
Miscellaneous	4,131,181	4,698,724
Net operating revenues	265,675,867	244,377,274
Operating expenses (notes 4, 11, 12, 13, 15, and 16):		
Depreciation	88,599,854	80,570,580
Salaries and wages	75,395,510	71,989,594
Other personnel services	56,493,315	51,589,531
Utilities	34,200,183	34,875,139
Special maintenance	21,508,240	32,986,045
Repairs and maintenance	17,299,871	14,180,818
State of Hawaii surcharge on gross receipts	10,743,534	10,886,295
Materials and supplies	5,617,616	5,647,652
Department of Transportation general administration expenses	4,839,148	4,852,112
Insurance	4,121,188	4,248,337
Disbursements out of major maintenance, renewal, and replacement account	1,912,761	2,473,331
Claims and benefits	1,051,356	1,365,011
Rent	1,202,964	1,264,561
Travel	304,128	452,879
Communication	307,025	296,314
Dues and subscriptions	136,973	189,092
Bad debt expense	47,443	3,967,919
Printing and advertising	22,610	24,863
Freight and delivery	16,337	13,309
Miscellaneous	309,375	382,086
Total operating expenses	324,129,431	322,255,468
Operating loss, carried forward	(58,453,564)	(77,878,194)

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Operating loss, brought forward	$ (58,453,564)	(77,878,194)
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities (note 3)	16,149,558	31,677,874
Investments in direct financing leases (note 8)	2,249,798	2,335,448
Interest expense:		
Revenue bonds:		
Airports system (note 6)	(24,067,476)	(29,527,428)
Special facility (note 8)	(2,249,798)	(2,335,448)
General obligation bonds (note 7)	(905)	(1,185)
Federal operating grants	6,757,871	24,958,330
Loss on disposal of capital assets (note 4)	(4,840,412)	(10,409)
Passenger facility charges (note 9)	24,786,495	22,443,054
Rental car customer facility charges (note 10)	8,608,161	—
Amortization of deferred bond issue costs	(405,990)	(422,601)
Loss on amounts held in State Treasury	(26,576,132)	(19,952,028)
Total nonoperating revenues, net	411,170	29,165,607
Loss before capital contributions	(58,042,394)	(48,712,587)
Capital contributions:		
Federal capital grants	48,801,935	28,881,614
Other capital contributions (note 4)	747,067	3,091,250
Total capital contributions	49,549,002	31,972,864
Decrease in net assets	(8,493,392)	(16,739,723)
Total net assets – beginning of year, as restated (note 2)	1,579,768,808	1,599,174,404
Total net assets – end of year	$ 1,571,275,416	1,582,434,681

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from providing services	$ 259,682,228	245,764,442
Cash paid to suppliers	(159,771,926)	(167,865,376)
Cash paid to employees	(67,226,322)	(64,385,601)
Net cash provided by operating activities	32,683,980	13,513,465
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	8,567,879	20,514,969
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(159,844,085)	(98,992,228)
Proceeds from sale of capital assets	—	17,305
Proceeds from federal and other capital grants and contributions	45,484,145	24,962,653
Interest paid on airports system revenue and general obligation bonds	(35,492,142)	(36,972,648)
Principal paid on general obligation bonds	(28,275)	(9,425)
Principal paid on airports system revenue bonds	(21,140,000)	(32,250,000)
Payments from passenger facility charges program	(6,406,779)	(19,393,753)
Proceeds from passenger facility charges program	23,436,441	24,220,409
Proceeds from rental car customer facility charges	7,706,014	—
Net cash used in capital and related financing activities	(146,284,681)	(138,417,687)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	89,443,013	107,741,739
Interest received on investments	12,344,822	34,110,563
Purchases of investments	(89,443,013)	(107,741,739)
Loss on amounts held in State Treasury	(26,576,132)	(19,952,028)
Net cash provided by (used in) investing activities	(14,231,310)	14,158,535
Net decrease in cash and cash equivalents	(119,264,132)	(90,230,718)
Cash and cash equivalents – beginning of year	637,743,963	727,974,681
Cash and cash equivalents – end of year	$ 518,479,831	637,743,963
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (58,453,564)	(77,878,194)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	88,599,854	80,570,580
Bad debt expense	47,443	3,967,919
Changes in operating assets and liabilities:		
Accounts receivable	(6,988,093)	(1,987,701)
Aviation fuel tax receivable	157,465	(236,205)
Due from State of Hawaii	450,048	(1,237,037)
Inventory of materials and supplies	32,008	(22,913)
Vouchers payable	1,742,624	1,810,919
Contracts payable	(1,360,540)	1,278,949
Deferred income	856,986	386,062
Accrued wages	433,809	664,420
Postemployment liability	7,735,379	6,939,573
Due to State of Hawaii	550,000	—
Pollution remediation liability	(1,051,999)	—
Prepaid airport use charge fund	—	(1,069,792)
Security deposits	(74,880)	327,210
Other	7,440	(325)
Net cash provided by operating activities	$ 32,683,980	13,513,465

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
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	$	1,100,000	1,040,000
Interest payments on special facility revenue bonds		2,257,256	2,342,556
Amortization of revenue bond issue costs		405,990	422,601
Amortization of revenue bond discount		60,471	60,806
Amortization of revenue bond premium		(1,273,660)	(1,306,846)
Amortization of deferred loss on refunding revenue bonds		1,546,859	1,611,975

At June 30, 2009 and 2008, contracts payable included $18,101,124 and $20,515,902, respectively, for the acquisition of capital assets.

During fiscal years 2009 and 2008, interest of $11,695,577 and $6,914,050, respectively, was capitalized in property, plant, and equipment.

During fiscal years 2009 and 2008, property, plant, and equipment with a net book value of $6,890,545 and $27,713, 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.

See accompanying notes to financial statements.

(1) Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Financial Statement Presentation

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

(c) Operating Revenues and Expenses

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

(d) Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $3.00 per passenger commencing on October 1, 2004. Effective December 31, 2008, the FAA authorized the Airports Division to increase the PFC to $4.50. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

(e) Rental Car Customer Facility Charge

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of $1 a day on all u-drive rentals at a state airport, effective September 1, 2008. The net receipts from CFCs are restricted to be used for funding approved rental car facility capital projects. CFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

(f) Capital Contributions

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

(g) 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.

(h) Receivables

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

An aging of the accounts receivable at June 30, 2009 was as follows: current – $19,070,402; 30 days – $427,631; 60 days – $355,294; and over 90 days – $5,491,442. 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.

(i) Investments

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

(j) Restricted Assets

Restricted assets consist of moneys and other resources, the use of which is legally restricted. Certain proceeds of the airports system revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the 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, unspent CFCs, and security deposits and customer advances.

(k) Capital Assets

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

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

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

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

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

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

(m) Accrued Vacation and Compensatory Pay

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

(n) Employees' Retirement System

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

(o) Risk Management

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

(p) Use of Estimates

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

(q) Recently Adopted Governmental Accounting Pronouncements

Effective July 1, 2008, the Airports Division adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how state and local governments should account for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

(Continued)

The Airports Division restated beginning net assets with the adoption of GASB Statement No. 49 as follows:

Net assets at June 30, 2008, as previously reported	$ 1,582,434,681
Effect of GASB Statement No. 49	(2,665,873)
Net assets at June 30, 2008, as restated	$ 1,579,768,808

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 $806,240,244. In fiscal year 2009, total debt service paid and net revenues and taxes available for debt service for the Airports Division were $56,046,116 and $68,991,330, respectively. See also note 6 for further discussion on the revenue bonds.

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2009 and 2008 consisted of the following:

	2009	2008
Petty cash	$ 17,805	17,805
Amounts held in State Treasury	518,462,026	637,726,158
Repurchase agreements	52,789,337	56,952,787
Certificates of deposit	22,462,176	18,298,726
	$ 593,731,344	712,995,476

Such amounts are reflected in the statements of net assets at June 30, 2009 and 2008 as follows:

		2009	2008
Cash and cash equivalents:			
Unrestricted	$	336,793,740	451,011,189
Restricted		181,686,091	186,732,774
Total cash and cash equivalents		518,479,831	637,743,963
Investments – restricted		75,251,513	75,251,513
Total cash and cash equivalents and investments	$	593,731,344	712,995,476

(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, 2009 and 2008, 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 $518,462,026 and $637,726,158, respectively. The Airports Division wrote down its amounts held in State Treasury by $26,576,132 and $19,952,028 during the year ended June 30, 2009 and 2008, respectively.

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

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being undercollateralized at various times during the fiscal year. All securities pledged as collateral

(Continued)

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 45% at June 30, 2008 (amounts in thousands):

	Fair value	Maturity (in years) Less than 1	1 – 5	>5
Investments – Primary Government:				
Student loan auction rate securities	$ 610,052	—	—	610,052
Certificates of deposit	94,897	94,897	—	—
U.S. government securities	637,164	152,920	484,244	—
Repurchase agreements	13,557	13,150	407	—
	$ 1,355,670	260,967	484,651	610,052
Investments – Fiduciary Funds:				
Student loan auction rate securities	$ 28,925	—	—	28,925
Certificates of deposit	4,499	4,499	—	—
U.S. government securities	40,110	9,626	30,484	—
Repurchase agreements	643	623	20	—
	$ 74,177	14,748	30,504	28,925

Information relating to the State's investment pool at June 30, 2009 will be included in the comprehensive annual financial report of the State when issued.

(b) Investments

At June 30, 2009 and 2008, 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.

(Continued)

(4) Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 consist of the following:

	Balance, July 1, 2008	Increases	Decreases	Transfers	Balance, June 30, 2009
Capital assets not being depreciated:					
Land	$ 308,438,655	—	—	—	308,438,655
Land improvements	26,481,609	—	—	—	26,481,609
Construction in progress	219,130,985	169,945,733	(5,430,923)	(148,729,547)	234,916,248
Total capital assets not being depreciated	554,051,249	169,945,733	(5,430,923)	(148,729,547)	569,836,512
Capital assets being depreciated:					
Land improvements	783,587,151	—	—	24,743,253	808,330,404
Buildings and improvements	1,424,760,297	—	(4,312,954)	99,051,556	1,519,498,899
Machinery and equipment	174,420,359	7,956,179	(1,277,890)	24,970,950	206,069,598
Total capital assets being depreciated	2,382,767,807	7,956,179	(5,590,844)	148,765,759	2,533,898,901
Less accumulated depreciation:					
Land improvements	(570,338,989)	(28,991,113)	—	—	(599,330,102)
Buildings and improvements	(694,249,154)	(51,245,110)	2,934,339	—	(742,559,925)
Machinery and equipment	(136,617,161)	(8,363,631)	1,196,884	(132,529)	(143,916,437)
Total depreciation	(1,401,205,304)	(88,599,854)	4,131,223	(132,529)	(1,485,806,464)
Capital assets being depreciated, net	981,562,503				1,048,092,437
Total capital assets	$ 1,535,613,752				1,617,928,949

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

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

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2009 and 2008 follows:

	Balance, June 30, 2008	Increases	Decreases	Balance, June 30, 2009	Current	Noncurrent
Workers' compensation (note 14)	$ 4,300,000	1,037,470	(1,037,470)	4,300,000	1,055,969	3,244,031
Compensated absences	7,758,259	4,363,003	(3,882,752)	8,238,510	2,639,007	5,599,503
Postemployment liability (note 11)	6,939,573	12,101,135	(4,365,756)	14,674,952	4,878,000	9,796,952
General obligation bonds (note 7)	28,275	—	(28,275)	—	—	—
Airports system revenue bonds (note 6)	607,992,139	1,607,330	(22,413,660)	587,185,809	22,310,000	564,875,809
Special facility revenue bonds (note 8)	35,855,000	—	(1,100,000)	34,755,000	1,230,000	33,525,000
	$ 662,873,246	19,108,938	(32,827,913)	649,154,271	32,112,976	617,041,295

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

(6) Airports System Revenue Bonds

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

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

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

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

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

    1. Interest account

    2. Serial bond principal account

    3. Sinking fund account

    4. Debt service reserve account

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

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

e. To provide for betterments and improvements to the airports

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

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

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

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal, and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2009 and 2008, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

(Continued)

At June 30, 2009 and 2008, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net assets) consisted of the following:

		2009	2008
Debt service reserve account	$	75,251,513	75,251,513
Major maintenance, renewal, and replacement account		63,626,627	65,588,260
		138,878,140	140,839,773
Principal and interest due July 1		39,763,058	39,177,951
	$	178,641,198	180,017,724

At June 30, 2009 and 2008, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $590,065,802 and $321,122,655, 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, 2009 and 2008:

Series	Interest rate	Final maturity date (July 1)		Original amount of issue	Outstanding amount 2009	Outstanding amount 2008
2000A, refunding	5.50% – 6.00%	2021	$	26,415,000	26,415,000	26,415,000
2000B, refunding	5.00 – 6.00	2020		261,465,000	207,830,000	219,125,000
2001, refunding	4.00 – 5.75	2021		423,255,000	355,495,000	365,340,000
			$	711,135,000	589,740,000	610,880,000
Add unamortized premium					7,717,601	8,991,261
Less unamortized discount					(618,796)	(679,267)
Less deferred loss on refunding					(9,652,996)	(11,199,855)
Less current portion					(22,310,000)	(21,140,000)
Noncurrent portion					$ 564,875,809	586,852,139

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

	Principal	Interest	Total
Year(s) ending June 30:			
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	49,400,000	25,833,876	75,233,876
2015 – 2019	294,935,000	81,218,651	376,153,651
2020 – 2022	100,695,000	7,286,525	107,981,525
	$ 567,430,000	238,810,244	806,240,244

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, 2009 of $22,310,000 and $17,453,058, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2009 and 2008 and the allocation thereof:

	2009	2008
Expensed as incurred	$ 24,067,476	29,527,428
Capitalized in capital assets	11,695,577	6,913,730
	$ 35,763,053	36,441,158

At June 30, 2009, the aggregate outstanding defeased bonds amounted to $47,340,000.

(7) General Obligation Bonds

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

The following is a summary of such general obligation bonds reimbursable by the Airports Division at June 30, 2009 and 2008:

Series	Interest rate		Original amount of issue		Outstanding amount 2009	Outstanding amount 2008
CI	4.00% – 5.00%	$	141,392		—	28,275
Less current portion					—	(9,425)
Noncurrent portion				$	—	18,850

During the year ended June 30, 2009, the general obligation bonds were paid in full by the Airports Division.

The following is a summary of interest costs incurred for the years ended June 30, 2009 and 2008 and the allocation thereof:

		2009	2008
Expensed as incurred	$	905	1,185
Capitalized in capital assets		—	320
	$	905	1,505

(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 1,000-pound units).

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

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (the PAUCF). Net excess payments for fiscal years 1996 through 2008 have been transferred to the PAUCF (note 16).

Aviation Fuel Tax

The aviation fuel tax amounted to $3,548,705 and $4,452,232 for fiscal years 2009 and 2008, 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.

(Continued)

Airports System Rates and Charges

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

Airport landing fees amounted to $64,069,005 and $40,558,804 for fiscal years 2009 and 2008, respectively. Airport landing fees are shown net of aviation fuel tax credits of $3,495,105 and $3,606,085 for fiscal years 2009 and 2008, respectively, on the statements of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $60,573,900 and $36,952,719 for fiscal years 2009 and 2008, 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 37% and 36% of the airport landing fees for overseas flights for fiscal years 2009 and 2008, respectively, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to $35,062,741 and $29,161,701 for fiscal years 2009 and 2008, 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 is recovered based on a computed rate per revenue passenger landing in accordance with the lease extension agreement. Effective March 1, 1997, a blended overseas joint-use premise charge was established to recover costs allocable to Hawaiian Airlines, Inc.’s and Aloha Airlines, Inc.’s consolidated terminal operations at the Honolulu International Airport.

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

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

Exclusive-use premise charges amounted to $35,117,763 and $33,913,698 for fiscal years 2009 and 2008, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $17,840,660 and $16,979,919 for fiscal years 2009 and 2008, respectively.

Airports system support charges amounted to $873,520 and $617,257 for fiscal years 2009 and 2008, 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.

(b) Special Facility Leases and Revenue Bonds

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

$25,255,000 Issue

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

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2009:

	Principal	Interest	Total
Year(s) ending June 30:			
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	—	1,222,031	1,222,031
2015 – 2019	—	6,110,156	6,110,156
2020 – 2024	—	6,110,156	6,110,156
2025 – 2028	21,725,000	4,277,109	26,002,109
	$ 21,725,000	22,607,576	44,332,576

$16,600,000 Issue

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

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

The bonds bear interest at 7% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2009:

	Principal	Interest	Total
Year(s) ending June 30:			
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	970,000	586,250	1,556,250
2015 – 2019	5,965,000	1,814,750	7,779,750
2020	1,440,000	100,800	1,540,800
	$ 11,630,000	5,436,550	17,066,550

$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, 2009:

	Principal	Interest	Total
Year(s) ending June 30:			
2010	$ 500,000	131,625	631,625
2011	900,000	45,562	945,562
	$ 1,400,000	177,187	1,577,187

(Continued)

Special facility revenue bonds payable at June 30, 2009 and 2008 consisted of the following:

	Continental		Sky chefs	Total
2009:				
Current portion	$ 730,000	—	500,000	1,230,000
Noncurrent portion	10,900,000	21,725,000	900,000	33,525,000
	$ 11,630,000	21,725,000	1,400,000	34,755,000
2008:				
Current portion	$ 700,000	—	400,000	1,100,000
Noncurrent portion	11,630,000	21,725,000	1,400,000	34,755,000
	$ 12,330,000	21,725,000	1,800,000	35,855,000

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, 2009 and 2008 consisted of the following:

	2009	2008
Cash with bond fund trustee	$ 4,101,714	4,089,593
Receivable from lessees, net of unearned interest of $28,455,724 and $30,722,132	30,653,286	31,765,407
Interest receivable	232,408	239,866
	$ 34,987,408	36,094,866

(c) Other Operating Leases

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

(Continued)

The future minimum rentals from these operating leases at June 30, 2009 are as follows:

Year(s) ending June 30:	
2010	$ 92,918,961
2011	86,031,344
2012	80,927,743
2013	68,797,185
2014	61,522,039
2015 – 2019	128,000,067
2020 – 2024	16,333,614
2025 – 2029	9,710,423
2030 – 2034	2,101,302
2035 – 2038	976,229
	$ 547,318,907

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 2009 and 2008 were $46,198,939 and $59,122,856, 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 0 months to 9 years. The balance of $2,598,358 at June 30, 2009 is due as follows: 2010 – $2,487,358; 2011 – $12,000; 2012 – $12,000; and thereafter – $87,000.

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 40% and 39% of total concession fee revenues for fiscal years 2009 and 2008, respectively.

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

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for a minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was $37,311,121, and the percentage rent was as follows: (1) for total concession receipts greater than $165 million, but less than $200 million, 22.5% for on-airport sales, and 18.5% for off-airport sales and (2) for total concession receipts greater than $200 million, 30.0% 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, 2009 and 2008 are as follows:

		2009	2008
Restricted assets – passenger facility charges, beginning of year	$	50,199,121	47,149,820
Passenger facility charges during the year		23,359,258	20,338,696
Interest earned on passenger facility charges during the year		1,427,237	2,104,358
Capital expenditures during the year		(6,406,779)	(19,393,753)
Restricted assets – passenger facility charges, end of year	$	68,578,837	50,199,121

Restricted assets – passenger facility charges are presented on the statements of net assets as of June 30, 2009 and 2008 as follows:

		2009	2008
Cash and cash equivalents	$	65,705,687	48,676,025
Receivable		2,873,150	1,523,096
Total restricted assets passenger facility charges	$	68,578,837	50,199,121

(10) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the year ended June 30, 2009 is as follows:

Restricted assets – rental car customer facility charge, beginning of year	$	—
Rental car customer facility charges during the year		8,541,445
Interest earned on rental car customer facility charges during the year		66,716
Bad debt expense on rental car customer facility charges during the year		(23,649)
Capital expenditures during the year		—
Restricted assets – rental car customer facility charges, end of year	$	8,584,512

Restricted assets – rental car customer facility charges are presented on the statement of net assets as of June 30, 2009 as follows:

Cash and cash equivalents	$	7,682,365
Receivable		902,147
Total restricted assets – rental car customer facility charge	$	8,584,512

(11) 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.).

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

(a) Contributory Plan

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

(b) Hybrid Plan

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

(c) Noncontributory Plan

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

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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, 2009, 2008, and 2007 were $7,924,498, $6,859,479, and $6,500,114, respectively, which represented 13.75% of covered payroll for the years then ended and were equal to the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

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

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

(12) 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, 2009 and 2008 was $4,365,756 and $4,141,249, respectively, which represented 36% of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $12,101,135 and $11,520,728, respectively.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	$	6,939,573
Additions		12,101,135
Deletions		(4,365,756)
Balance at June 30, 2009		14,674,952
Less current portion		4,878,000
	$	9,796,952

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, HI 96805-2121

(13) 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 $10,743,534 and $10,866,295 in fiscal years 2009 and 2008, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $6,156,800 and $6,312,409 in fiscal years 2009 and 2008, respectively. During fiscal years 2009 and 2008, the Airports Division received assessment refunds from the DOT amounting to $1,317,652 and $1,460,297, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

During fiscal years 2009 and 2008, revenues received from other state agencies totaled $1,639,826 and $1,985,076, respectively, and expenditures to other state agencies totaled $19,756,647 and $8,556,093, respectively.

(14) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2009 and 2008 was $17,207,468 and $16,282,237, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee’s job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

(b) Deferred Compensation Plan

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

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

(c) Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next 5 – 10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net assets at June 30, 2009 and 2008.

At June 30, 2009 and 2008, the Airports Division had commitments totaling approximately $275,943,000 and $278,194,000, respectively, for construction and service contracts.

(15) Risk Management

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

(a) Torts

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

(b) Property and Liability Insurance

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

(c) Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2009 and 2008, the workers' compensation reserve was $4,300,000 and $4,300,000, respectively, of which $1,055,969 and $1,119,573 is included in current liabilities (payable from unrestricted net assets) and $3,244,031 and $3,180,427 is included in long-term liabilities in the accompanying statements of net assets at June 30, 2009 and 2008, respectively. In the opinion of management, the Airports Division has adequately reserved for such claims.

(16) 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.

(Continued)

(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, 2009 and 2008, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

(c) Asserted Claims

Prepaid Airport Use Charge Fund

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

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

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

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

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 $1,613,874 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

Schedule 1

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

Operating Revenues and Operating Expenses Other Than Depreciation

Year ended June 30, 2009

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 114,062,511	—	78,491,555	2,048,429	8,337,338	16,876,434	8,107,970	200,785
Airport landing fees	60,573,900	—	41,083,047	1,404,527	4,585,340	9,482,008	3,505,901	513,077
Aeronautical rentals:								
Exclusive-use premise charges	35,117,763	—	29,002,810	669,626	971,701	2,851,833	1,288,553	333,240
Nonexclusive joint-use premise charges	35,062,741	—	26,456,150	796,848	1,469,742	4,827,315	1,512,686	—
Nonaeronautical rentals	12,305,546	—	7,961,455	748,178	499,450	2,359,243	657,921	79,299
Aviation fuel tax	3,548,705	—	2,406,839	82,284	268,631	555,501	205,392	30,058
Airports system support charges	873,520	—	535,652	41,058	61,439	98,365	53,887	83,119
Miscellaneous	4,131,181	507,065	2,145,497	98,949	536,233	445,955	363,354	34,128
	265,675,867	507,065	188,083,005	5,889,899	16,729,874	37,496,654	15,695,664	1,273,706
Allocation of statewide miscellaneous revenues (note 2)	—	(507,065)	300,186	13,844	75,027	62,395	50,838	4,775
Net operating revenues	$ 265,675,867	—	188,383,191	5,903,743	16,804,901	37,559,049	15,746,502	1,278,481
Operating expenses other than depreciation:								
Salaries and wages	$ 75,395,510	14,663,538	31,707,618	4,544,605	4,753,532	8,634,223	5,890,381	5,201,613
Other personnel services	56,493,315	5,358,297	32,610,374	3,711,249	3,963,619	5,575,244	3,251,232	2,023,300
Utilities	34,200,183	1,398	24,091,818	1,203,016	2,212,351	4,147,319	1,889,070	655,211
Special maintenance	21,508,240	671,065	8,257,387	3,591,315	1,678,468	431,154	3,121,947	3,756,904
Repairs and maintenance	17,299,871	1,276,934	10,628,617	960,945	843,740	1,931,273	1,276,542	381,820
State of Hawaii surcharge on gross receipts (note 3)	10,743,534	10,743,534	—	—	—	—	—	—
Materials and supplies	5,617,616	284,945	2,825,896	303,359	439,792	801,696	400,725	561,203
Department of Transportation general administration expenses	4,839,148	4,839,148	—	—	—	—	—	—
Insurance	4,121,188	4,118,249	(113)	103	(692)	441	3,250	(50)
Claims and benefits	1,051,356	35,643	389,715	168,071	185,101	130,300	111,033	31,493
Rent	1,202,964	972,433	151,755	5,189	15,714	20,937	18,877	18,059
Travel	304,128	62,131	75,973	27,692	33,804	31,387	27,804	45,337
Communication	307,025	72,457	66,286	21,941	22,938	47,997	24,516	50,890
Dues and subscriptions	136,973	131,465	1,723	537	797	1,291	1,160	—
Bad debt expense (note 1)	47,443	91	33,587	1,052	2,987	6,696	2,803	227
Printing and advertising	22,610	12,818	8,285	—	1,435	—	—	72
Freight and delivery	16,337	1,549	2,979	1,180	688	5,304	267	4,370
Miscellaneous	309,375	81,709	98,605	28,393	28,355	19,909	16,109	36,295
	233,616,816	43,327,404	110,950,505	14,568,647	14,182,629	21,785,171	16,035,716	12,766,744
Allocation of statewide expenses (note 4)	—	(43,327,404)	25,262,558	3,317,167	3,229,273	4,960,312	3,651,207	2,906,887
Total operating expenses other than depreciation for net revenues and taxes	233,616,816	—	136,213,063	17,885,814	17,411,902	26,745,483	19,686,923	15,673,631
Disbursements out of major maintenance, renewal, and replacement account not included above	1,912,761	—	1,243,516	241,297	—	—	—	427,948
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets	$ 235,529,577	—	137,456,579	18,127,111	17,411,902	26,745,483	19,686,923	16,101,579

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

See accompanying independent auditors' report.

Schedule 2

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

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2009

Revenues and taxes:		
Concession fees	$	114,062,511
Airport landing fees		60,573,900
Aeronautical rentals:		
Exclusive-use premise charges		35,117,763
Nonexclusive joint-use premise charges		35,062,741
Nonaeronautical rentals		12,305,546
Aviation fuel tax		3,548,705
Airports system support charges		873,520
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $6,362,021 on capital improvement projects		16,149,558
Federal operating grants		6,757,871
Miscellaneous		4,131,181
Total revenues and taxes		288,583,296
Deductions:		
Operating expenses other than depreciation for net revenues and taxes (schedule 1)		233,616,816
Amounts required to be paid into the State General Fund for general obligation bond requirements:		
Principal		28,275
Interest		905
Annual reserve required on major maintenance, renewal, and replacement account		250,000
Total deductions		233,895,996
Net revenues and taxes		54,687,300
Add funded coverage per bond certificate		14,304,030
Adjusted net revenues and taxes		68,991,330
Debt service requirement:		
Airports system revenue bonds:		
Principal		22,310,000
Interest (note 1)		34,906,116
Total debt service		57,216,116
Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2)		(17,453,058)
Total debt service requirement		39,763,058
Debt service coverage percentage		125%
Total debt service with coverage requirement		49,703,823
Excess of net revenues and taxes over debt service requirement	$	19,287,507

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 2009, the Airports Division deposited $17,453,058 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 2009 to the interest account as required in the “Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.”

See accompanying independent auditors’ report.

Schedule 3

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

Summary of Debt Service Requirements to Maturity

June 30, 2009

		Annual principal and interest requirements		
		Airports system revenue bonds		
		Principal	**Interest**	**Total**
Year ending June 30:				
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		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	$	567,430,000	238,810,244	806,240,244

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, 2009.

See accompanying independent auditors’ report.

Schedule 4

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2009

		Principal					
		Refunding series of 2000A, 5.50% to 6.00%	**Refunding series of 2000B, 5.00% to 8.00%**	**Refunding series of 2001, 4.00% to 5.75%**	**Total**	**Interest**	**Total requirements**
Year ending June 30:							
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	$	26,270,000	196,000,000	345,160,000	567,430,000	238,810,244	806,240,244

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, 2009.

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

Year ended June 30, 2009

	Airline activity			**Airports system charges**												
						Nonexclusive joint-use premise charges										
	Approved maximum revenue landing weights (1,000-pound units)	**Revenue passenger landings**	**Deplaning international passengers**	**Airports landing fees**	**Airports system support charges**	**Joint-use charges – overseas baggage**	**Joint-use charges – overseas holdroom**	**Joint-use charges – overseas**	**Joint-use charges – interisland baggage**	**Joint-use charges – interisland holdroom**	**Joint-use charges – commuter baggage**	**Joint-use charges – commuter holdroom**	**International arrivals building charges**	**Preferential use**	**Exclusive-use premise charges – terminal space**	**Total**
Signatory airlines:																
Air Canada	175,532	552	—	$ 689,167	—	166,553	127,089	—	—	—	—	—	—	—	447,188	1,429,997
Air New Zealand, Ltd.	85,650	121	19,174	316,520	—	—	24,943	—	—	—	—	—	105,398	—	—	446,861
Air Pacific, Ltd.	22,736	162	11,395	83,820	—	1,474	11,890	—	—	—	—	—	62,889	—	—	160,073
Alaska Air, Inc.	237,312	1,648	—	939,888	—	364,528	250,618	—	—	—	—	—	—	—	99,459	1,654,493
All Nippon Airways, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,860	2,860
Aloha Airlines, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(43,288)	(43,288)
American Airlines, Inc.	986,390	4,308	—	3,820,413	—	1,101,613	804,621	—	—	—	—	—	—	—	1,082,404	6,809,051
China Airlines, Ltd.	168,116	365	99,139	660,479	—	—	107,841	—	—	—	—	—	568,320	—	86,151	1,422,791
Continental Airlines, Inc.	429,872	1,359	—	1,673,278	—	340,330	323,351	—	—	—	—	—	—	—	1,020,127	3,357,086
Continental Micronesia, Inc.	155,604	557	106,175	602,066	—	—	105,870	—	—	—	—	—	606,060	—	—	1,313,996
Delta Airlines, Inc.	766,182	2,801	—	2,977,714	—	856,009	631,885	—	—	—	—	—	—	—	1,447,622	5,913,230
Evergreen International Airlines, Inc.	81,730	—	—	313,927	—	—	—	—	—	—	—	—	—	—	—	313,927
Federal Express Corporation	725,534	—	—	2,406,896	—	—	—	—	—	—	—	—	—	—	7,611	2,414,507
Hawaiian Airlines, Inc.	8,541,495	65,325	101,115	16,931,185	—	1,482,188	1,073,463	—	5,643,005	—	—	—	576,276	1,671,404	3,094,481	30,472,002
JALways Co, Ltd.	1,276,500	2,583	715,761	4,653,305	—	—	764,744	—	—	7,553	—	—	4,051,637	—	—	9,477,239
Japan Airlines Company, Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,884,475	1,884,475
Kalitta Air, LLC	147,666	—	—	572,461	—	—	—	—	—	—	—	—	—	—	—	572,461
Korean Airlines Company, Ltd.	179,874	358	85,096	711,947	—	—	92,998	—	—	—	—	—	486,736	—	229,051	1,520,732
Mesa Airlines, Inc.	1,048,664	22,312	—	1,502,639	—	—	—	—	195,023	389,930	251,518	332,450	—	—	368,278	3,039,838
Mokulele Flight Service, Inc.	553,826	9,466	—	880,045	—	—	—	—	182,282	153,281	11,116	14,346	—	—	611,564	1,852,634
North American Airlines, Inc.	5,828	21	—	21,674	—	—	—	—	—	—	—	—	—	—	—	21,674
Northwest Airlines, Inc.	1,287,428	3,850	308,517	4,855,434	—	1,163,194	932,503	—	—	—	—	—	1,731,612	—	717,162	9,399,905
Pacific Wings LLC	97,266	1,365	—	138,463	—	—	—	—	—	—	—	5,790	—	—	31,376	175,629
Philippine Airlines, Inc.	65,683	157	32,559	254,769	—	—	34,565	—	—	—	—	—	189,263	—	193,283	671,880
Qantas Airways, Ltd.	191,876	186	35,728	746,540	—	—	40,920	—	—	—	—	—	200,606	—	338,301	1,326,367
United Airlines, Inc.	2,606,831	8,526	81,439	9,940,646	—	2,559,817	1,929,203	—	—	—	—	—	464,106	—	4,497,522	19,391,294
United Parcel Service Co.	718,782	—	—	2,352,360	—	—	—	—	—	—	—	—	—	—	12,846	2,365,206
US Airways, Inc.	345,708	1,746	—	1,373,823	—	446,983	307,207	—	—	—	—	—	—	—	313,371	2,441,384
Westjet	110,732	757	—	439,231	—	167,427	128,808	—	—	—	—	—	—	—	619	736,085
Nonsignatory airlines	3,029,989	923	118,762	4,210,315	873,520	—	—	422,127	—	—	—	—	397,378	—	1,398,197	7,301,537
Total airports system charges billed	24,042,806	129,448	1,714,860	$ 64,069,005	873,520	8,650,116	7,692,519	422,127	6,020,310	550,764	262,634	352,586	9,440,281	1,671,404	17,840,660	117,845,926

See accompanying independent auditors' report.

Schedule 6

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, 2009

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	59,858,690	4,210,315	64,069,005
Less aviation fuel tax credit		(3,251,249)	(243,856)	(3,495,105)
Net airport landing fees billed	$	56,607,441	3,966,459	60,573,900

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, 2009

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport: Gross airport landing fees					All other airports			Total
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees	Total adjusted airport landing fees
Air Canada	110,660	—	64,872	175,532	$ 426,918	—	426,918	—	426,918	262,249	—	262,249	689,167
Air New Zealand, Ltd.	85,650	—	—	85,650	316,520	—	316,520	—	316,520	—	—	—	316,520
Air Pacific, Ltd.	22,736	—	—	22,736	83,820	—	83,820	—	83,820	—	—	—	83,820
Alaska Airlines, Inc.	87,408	—	149,904	237,312	341,676	—	341,676	(161,306)	180,370	598,212	—	598,212	778,582
American Airlines, Inc.	602,550	—	383,840	986,390	2,324,661	—	2,324,661	(237,258)	2,087,403	1,495,752	—	1,495,752	3,583,155
China Airlines, Ltd.	168,116	—	—	168,116	660,479	—	660,479	—	660,479	—	—	—	660,479
Continental Airlines, Inc.	429,872	—	—	429,872	1,673,278	—	1,673,278	—	1,673,278	—	—	—	1,673,278
Continental Micronesia, Inc.	155,604	—	—	155,604	602,066	—	602,066	—	602,066	—	—	—	602,066
Delta Airlines, Inc.	480,633	—	285,549	766,182	1,833,240	—	1,833,240	(161,750)	1,671,490	1,144,474	—	1,144,474	2,815,964
Evergreen International Airlines, Inc.	81,730	—	—	81,730	313,927	—	313,927	—	313,927	—	—	—	313,927
Federal Express Corporation	630,242	95,292	—	725,534	2,269,320	137,576	2,406,896	(228,664)	2,178,232	—	—	—	2,178,232
Hawaiian Airlines, Inc.	4,799,800	593,220	3,148,475	8,541,495	10,928,049	861,873	11,789,922	(1,547,598)	10,242,324	5,141,263	—	5,141,263	15,383,587
JALways Co., Ltd.	1,161,300	—	115,200	1,276,500	4,208,199	—	4,208,199	(634)	4,207,565	445,106	(4,601)	440,505	4,648,070
Kalitta Air, LLC	134,211	—	13,455	147,666	515,037	—	515,037	—	515,037	57,424	—	57,424	572,461
Korean Airlines Company, Ltd.	179,874	—	—	179,874	711,947	—	711,947	—	711,947	—	—	—	711,947
Mesa Airlines, Inc.	523,768	133,292	391,604	1,048,664	750,564	191,339	941,903	—	941,903	560,736	—	560,736	1,502,639
Mokulele Flight Service, Inc.	253,377	17,652	282,797	553,826	404,674	30,358	435,032	—	435,032	445,013	—	445,013	880,045
North American Airlines, Inc.	5,409	—	419	5,828	21,154	—	21,154	—	21,154	520	—	520	21,674
Northwest Airlines, Inc.	1,162,884	—	124,544	1,287,428	4,543,615	—	4,543,615	(44,151)	4,499,464	311,819	—	311,819	4,811,283
Pacific Wings LLC	11,603	—	85,663	97,266	16,093	—	16,093	(3,826)	12,267	122,370	—	122,370	134,637
Philippine Airlines, Inc.	65,683	—	—	65,683	254,769	—	254,769	—	254,769	—	—	—	254,769
Qantas Airways, Ltd.	191,876	—	—	191,876	746,540	—	746,540	—	746,540	—	—	—	746,540
United Airlines, Inc.	1,326,518	—	1,280,313	2,606,831	5,131,498	—	5,131,498	(560,708)	4,570,790	4,809,148	(84,659)	4,724,489	9,295,279
United Parcel Service Co.	544,847	—	173,935	718,782	2,106,632	—	2,106,632	(43,256)	2,063,376	245,728	—	245,728	2,309,104
US Airways, Inc.	112,662	—	233,046	345,708	445,629	—	445,629	(66,949)	378,680	928,194	(68,065)	860,129	1,238,809
Westjet	54,570	—	56,162	110,732	216,663	—	216,663	(15,334)	201,329	222,568	(22,490)	200,078	401,407
Total	13,383,583	839,456	6,789,778	21,012,817	$ 41,846,968	1,221,146	43,068,114	(3,071,434)	39,996,680	16,790,576	(179,815)	16,610,761	56,607,441

Summary of revenue landing weights:	
Overseas	12,121,028
Interisland	8,891,789
	21,012,817

Aviation fuel tax of $3,548,705 was paid by the users for the year ended June 30, 2009. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,495,105 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,251,249
Nonsignatory airlines	243,856
	$ 3,495,105

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2009.

See accompanying independent auditors' report.

Schedule 8

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, 2009

	Approved maximum revenue landing weights (1,000-pound units)				**Honolulu International Airport and Hilo International Airport**					**All other airports**			
					Gross airport landing fees								
	Honolulu International Airport	**Hilo International Airport**	**All other airports**	**Total**	**Honolulu International Airport**	**Hilo International Airport**	**Total**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Gross airport landing fees**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Total adjusted airport landing fees**
Above It All, Inc.	—	1,400	2,705	4,105	$ —	1,336	1,336	—	1,336	2,581	(743)	1,838	3,174
Aeko Kula, Inc.	544,737	89,880	264,076	898,693	504,060	50,427	554,487	—	554,487	302,865	—	302,865	857,352
Aero Micronesia dba Asia Pacific	33,948	—	492	34,440	101,165	—	101,165	—	101,165	469	—	469	101,634
Air France	104	—	—	104	309	—	309	—	309	—	—	—	309
Air Japan Co. Ltd.	117,760	—	—	117,760	350,925	—	350,925	—	350,925	—	—	—	350,925
Air Transport International LLC	46,766	—	—	46,766	139,363	—	139,363	—	139,363	—	—	—	139,363
Air Ventures Hawaii, LLC	—	—	2,860	2,860	—	—	—	—	—	2,728	(477)	2,251	2,251
Airmed Hawaii, LLC	12,675	—	—	12,675	12,140	—	12,140	(3,519)	8,621	—	—	—	8,621
Alika Aviation Inc.	—	—	7,648	7,648	—	—	—	—	—	7,296	—	7,296	7,296
Alpine Aviation, Inc.	26,253	15,896	206,848	248,997	24,744	15,165	39,909	(5,843)	34,066	197,333	—	197,333	231,399
Aris Inc.	—	—	11,700	11,700	—	—	—	—	—	11,162	(2,534)	8,628	8,628
Atlas Air Inc.	46,764	—	—	46,764	139,357	—	139,357	—	139,357	—	—	—	139,357
Big Island Air Incorporation	—	—	7,488	7,488	—	—	—	—	—	7,144	—	7,144	7,144
Bradley Pacific Aviation Inc.	26,714	503	54,953	82,170	71,359	1,035	72,394	—	72,394	138,725	—	138,725	211,119
Castle & Cooke Homes Hawaii, Inc.	8,492	—	1,028	9,520	22,947	—	22,947	—	22,947	1,445	—	1,445	24,392
Corporate Air	24,673	1,228	14,320	40,221	23,538	1,172	24,710	—	24,710	13,661	—	13,661	38,371
Dipiazza, Charles	—	—	3,593	3,593	—	—	—	—	—	3,427	(667)	2,760	2,760
Fly Kauai, Inc.	—	—	466	466	—	—	—	—	—	445	—	445	445
George's Aviation Service, Inc.	91	238	602	931	87	227	314	(317)	(3)	574	(250)	324	321
Gould, Steve	—	—	7,704	7,704	—	—	—	—	—	7,350	—	7,350	7,350
Hale O'Lele Corporation	—	—	151	151	—	—	—	—	—	144	—	144	144
Harter, Jack Helicopters, Inc.	—	—	10,893	10,893	—	—	—	—	—	10,392	(2,481)	7,911	7,911
Hawaii Air Ambulance, Inc.	15,523	—	—	15,523	14,809	—	14,809	(1,860)	12,949	—	—	—	12,949
Hawaii Helicopters, Inc.	—	—	6,046	6,046	—	—	—	—	—	5,768	—	5,768	5,768
Hawaii Island Air, Inc.	254,521	27,934	446,869	729,324	242,813	26,649	269,462	(41,259)	228,203	426,313	—	426,313	654,516
Hawaiian Airlines Inc.	—	198	—	198	—	590	590	—	590	—	—	—	590
Heli USA Airways	2,449	—	1,389	3,838	2,337	—	2,337	—	2,337	1,325	—	1,325	3,662
Helicopter Consultations of Maui, Inc.	4,242	37,312	54,451	96,005	4,047	35,596	39,643	(12,074)	27,569	51,946	(2,019)	49,927	77,496
Honolulu Soaring Club Inc.	—	—	1,919	1,919	—	—	—	—	—	1,831	(669)	1,162	1,162
Island Helicopters Kauai, Inc.	—	—	12,856	12,856	—	—	—	(512)	(512)	12,265	(1,202)	11,063	10,551
Jetstar Airways PTY Limited	92,859	—	—	92,859	276,719	—	276,719	—	276,719	—	—	—	276,719
K&S Helicopters, Inc.	—	8,646	—	8,646	—	8,248	8,248	(3,519)	4,729	—	—	—	4,729
Kamaka Air, Inc.	6,388	—	15,169	21,557	6,094	—	6,094	—	6,094	14,471	—	14,471	20,565
Makani Kai Helicopters Ltd.	4,862	—	—	4,862	4,638	—	4,638	(1,648)	2,990	—	—	—	2,990
Marjet, Inc.	39	—	87	126	37	—	37	—	37	83	—	83	120
Maui Island Air Inc.	70	7	2,156	2,233	67	7	74	—	74	2,057	—	2,057	2,131
Miscellaneous	67,828	457	1,000	69,285	201,562	1,329	202,891	2,767	205,658	995	(501)	494	206,152
Mokulele Flight Service, Inc.	10,158	—	27,702	37,860	9,690	—	9,690	—	9,690	26,427	—	26,427	36,117
Niihau Helicopters Inc.	—	—	802	802	—	—	—	—	—	765	—	765	765
Omni Air International, Inc.	73,135	—	—	73,135	217,942	—	217,942	(43,427)	174,515	—	—	—	174,515
Pacific Air Charters, Incorporated	561	14	1,621	2,196	536	14	550	(102)	448	1,546	(34)	1,512	1,960
Pacific Helicopter Tours, Inc.	1,062	17	1,088	2,167	1,013	16	1,029	(515)	514	1,038	(625)	413	927
Pofolk Aviation Hawaii, Inc.	—	—	191	191	—	—	—	—	—	182	—	182	182
Ryan International Airlines	2,178	—	396	2,574	6,089	—	6,089	—	6,089	779	—	779	6,868
Safari Aviation Inc.	—	6,479	12,313	18,792	—	6,181	6,181	—	6,181	11,747	—	11,747	17,928
Sky-Med Inc.	—	—	18,308	18,308	—	—	—	—	—	17,465	—	17,465	17,465
Skyview Soaring, LLC	—	—	448	448	—	—	—	—	—	428	—	428	428
Smoky Mountain Helicopters	—	—	4,434	4,434	—	—	—	—	—	4,230	—	4,230	4,230
Squyres, Will Helicopter, Inc.	—	—	11,408	11,408	—	—	—	—	—	10,884	(290)	10,594	10,594
Sunshine Helicopters Inc.	—	4,076	15,019	19,095	—	3,888	3,888	(566)	3,322	14,328	(6,477)	7,851	11,173
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	19,849	9,381	32,012	61,242	18,935	8,950	27,885	(12,631)	15,254	30,539	—	30,539	45,793
Universal Enterprises, Inc.	60,588	634	52,680	113,902	169,261	1,683	170,944	(99,862)	71,082	133,672	—	133,672	204,754
Wings Over Kauai, LLC	—	—	2,509	2,509	—	—	—	—	—	2,394	—	2,394	2,394
Total	1,505,289	204,300	1,320,400	3,029,989	$ 2,566,583	162,513	2,729,096	(224,887)	2,504,209	1,481,219	(18,969)	1,462,250	3,966,459

Summary of revenue landing weights:

Overseas	651,355
Interisland	2,378,634
	3,029,989

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2009.

See accompanying independent auditors' report.