KPMG

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII

(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplemental Schedules

June 30, 2010 and 2009

(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)

Table of Contents

		Page
Independent Auditors' Report		1
Management's Discussion and Analysis		3
Financial Statements:		
	Statements of Net Assets as of June 30, 2010 and 2009	20
	Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2010 and 2009	22
	Statements of Cash Flows for the years ended June 30, 2010 and 2009	24
Notes to Financial Statements		26
Supplementary Information Schedules		
1	Operating Revenues and Operating Expenses Other than Depreciation for the year ended June 30, 2010	55
2	Calculations of Net Revenues and Taxes and Debt Service Requirement for the year ended June 30, 2010	56
3	Summary of Debt Service Requirements to Maturity as of June 30, 2010	57
4	Debt Service Requirements to Maturity – Airports System Revenue Bonds as of June 30, 2010	58
5	Airports System Charges – Fiscal Year 2010 Lease Extension for the year ended June 30, 2010	59
6	Summary of Billed Airport Landing Fees for the year ended June 30, 2010	60
7	Approved Maximum Revenue Landing Weights and Airport Landing Fees – Signatory Airlines for the year ended June 30, 2010	61
8	Approved Maximum Revenue Landing Weights and Airport Landing Fees – Nonsignatory Airlines for the year ended June 30, 2010	62

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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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2011 on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 19 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

July 28, 2011

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, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. It has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide) and is used as an alternate landing site for the Space Shuttle. 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 60.4% and 59.9% of total passenger traffic in the airports system during fiscal years 2010 and 2009, respectively. The other four principal airports accommodated 38.4% and 38.7% of the total passenger traffic for fiscal years 2010 and 2009, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly, Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.2% and 1.4% of the total passenger traffic for fiscal years 2010 and 2009, respectively.

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

Using the Financial Statements

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

The Airports Division's financial report includes three financial statements: the 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 2010 with increases in total passengers, revenue passenger landings, and deplaning international passengers by 1.6%, 1.9%, and 9.8%, respectively, as compared to fiscal year 2009. Aircraft operations and revenue landed weights decreased by 0.4%, and 3.2%, respectively, as compared with fiscal year 2009. Increased airline carrier passenger load factor is the reason for such changes. Although oversea carriers account for a higher percentage, 55% of revenue landed weights, the overall carrier mix remains diverse.

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

For fiscal year 2010, Hawaiian Airlines, Inc. and United Airlines accounted for 36% and 11% of the total landed weights, respectively. United Airlines, Inc. and Hawaiian Airlines, Inc. accounted for 19% and 15% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 63% and 9% of the inter-island landed weights, respectively. Hawaiian Airlines accounted for 48% of the revenue passenger landings and JALways Co., Ltd. accounted for 41% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2010: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., All Nippon Airways, Co., 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.

Activity for the airports system for the fiscal years ended June 30, 2010 and 2009 is as follows:

	2010	**2009**	**Percentage increase (decrease) from 2009**
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	18,238,865	17,806,225	2.4%
Kahului Airport	5,186,585	5,089,997	1.9
Kona International Airport at Keahole	2,639,967	2,667,591	(1.0)
Lihue Airport	2,443,178	2,464,024	(0.8)
Hilo International Airport	1,328,000	1,284,420	3.4
All others	348,386	407,622	(14.5)
Total passengers	30,184,981	29,719,879	1.6%
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	263,425	276,272	(4.7)%
Kahului Airport	116,414	119,311	(2.4)
Kona International Airport at Keahole	127,964	111,848	14.4
Lihue Airport	108,313	99,154	9.2
Hilo International Airport	71,212	66,294	7.4
All others	194,061	212,400	(8.6)
Total aircraft operations	881,389	885,279	(0.4)%
Revenue landed weights (1,000-pound units):			
Honolulu International Airport	13,305,936	13,383,583	(0.6)%
Kahului Airport	3,285,188	3,323,998	(1.2)
Kona International Airport at Keahole	1,789,777	1,896,222	(5.6)
Lihue Airport	1,397,744	1,491,519	(6.3)
Hilo International Airport	847,170	839,456	0.9
All others	43,699	78,039	(44.0)
Total signatory airlines	20,669,514	21,012,817	(1.6)
Nonsignatory airlines	2,606,792	3,029,989	(14.0)
Total revenue landed weights	23,276,306	24,042,806	(3.2)%

	2010	2009	Percentage increase (decrease) from 2009
Revenue passenger landings:			
Honolulu International Airport	75,707	70,613	7.2%
Kahului Airport	21,856	21,739	0.5
Kona International Airport at Keahole	13,155	14,227	(7.5)
Lihue Airport	12,342	13,474	(8.4)
Hilo International Airport	8,115	8,472	(4.2)
Total signatory airlines	131,175	128,525	2.1
Nonsignatory airlines	775	923	(16.0)
Total revenue passenger landings	131,950	129,448	1.9%
Deplaning international passengers:			
Honolulu International Airport	1,686,623	1,528,587	10.3%
Kona International Airport at Keahole	91,387	67,511	35.4
Total signatory airlines	1,778,010	1,596,098	11.4
Nonsignatory airlines	104,761	118,762	(11.8)
Total deplaning international passengers	1,882,771	1,714,860	9.8%

Financial Operations Highlights

The financial results for fiscal year 2010 reflected income before capital contributions of $32.0 million as compared to a loss before capital contributions of $58.0 million for fiscal year 2009. Operating revenues increased by $19.1 million, or 7.1%, while operating expenses decreased by $18.4 million, or 5.7%. Total nonoperating revenues increased by $25.2 million mainly due to increases in rental car CFCs of $2.3 million, PFCs of $5.1 million, offset by decreases in federal operating grants and interest income amounting $2.6 million and $9.9 million, respectively. Further, the Airports Division increased its amounts held in State Treasury for a change in fair value by $31.0 million in fiscal year 2010 as compared to a write-down of $26.6 million in fiscal year 2009.

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 CFCs of $8.5 million and PFCs of $3.0 million.

(Continued)

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.

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

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

Since the inception of this program through June 30, 2010, the total PFC revenues, including interest earned, and expenditures were $137.8 million and $54.4 million, respectively.

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

On July 7, 2010, State Legislature Senate Bill 2461 became law as Act 206, Session Laws of Hawaii 2010, authorizing the Airports Division to increase the CFC surcharge to $4.50 per day effective September 1, 2010.

Since September 1, 2008 through June 30, 2010, the total CFC revenues, including interest earned, and expenditures were $19.5 million and $2.1 million, respectively.

Operating expenses before depreciation for fiscal year 2010 decreased by 9.7%, or $22.9 million, as compared to fiscal year 2009 mainly due to decreases in salaries and wages, other personnel services, repairs and maintenance, and special maintenance costs offset by increases in the State surcharges on gross receipts.

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.

Total nonoperating expenses for fiscal years 2010 and 2009 decreased by 47.1%, or $27.4 million, and 11.3%, or $5.9 million, respectively, as compared with the previous year's 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 in fiscal year 2009.

As a result, net assets increased by $76.0 million and decreased by $8.5 million for fiscal years 2010 and 2009, respectively.

In summary, Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenues from a diverse mix of sources. We have monitored and adjusted signatory airline rates and charges accordingly, due to reduced passenger traffic as a result of economic downturn. In addition, the implementation of cost saving measures by management relating to personnel, security, and utility costs has improved our financial position. However, such cost saving measures are being monitored to prevent compromising our main objective, which is to adequately serve the traveling public and airport tenants.

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A summary of operations and changes in net assets for the years ended June 30, 2010, 2009, and 2008 is as follows:

		2010	2009	2008
Operating revenues	$	284,730,618	265,675,867	244,377,274
Operating expenses, excluding depreciation		(212,917,814)	(235,529,577)	(241,684,888)
Operating income before depreciation		71,812,804	30,146,290	2,692,386
Depreciation		(92,860,543)	(88,599,854)	(80,570,580)
Operating loss		(21,047,739)	(58,453,564)	(77,878,194)
Nonoperating revenues – net		53,059,569	411,170	29,165,607
Income (loss) before capital contributions		32,011,830	(58,042,394)	(48,712,587)
Capital contributions:				
Federal capital grants		27,494,010	45,770,795	28,881,614
Federal stimulus funds		14,735,504	3,031,140	—
Other capital contribution		1,516,145	747,067	3,091,250
Total capital contributions		43,745,659	49,549,002	31,972,864
Increase (decrease) in net assets	$	75,757,489	(8,493,392)	(16,739,723)

- Operating revenues increased by 7.1% from $265.7 million in fiscal year 2009 to $284.7 million in fiscal year 2010. The primary reason for the increase was mainly due to rent-a-car lease, concession fee, parking rate, and signatory airline terminal rate increases.

  Operating expenses excluding depreciation decreased by 9.6% from $235.5 million in fiscal year 2009 to $212.9 million in fiscal year 2010. The most recognized decrease related to special maintenance amounting to $14.4 million. The Airports Modernization Program has decreased the need for special maintenance work. Salaries and wages decreased by $4.8 million as a result of the State's furlough program and freezing of vacated positions. Security cost decreased by $2.5 million due to decreased guard services through further reevaluation of security requirements. These reductions were made in accordance with the Transportation Security Administration requirements and did not compromise airport security. Although the cost of fuel increased this past year, installation of energy-efficient air conditioning units, lighting equipment, and shut-down of certain terminals when not in use supported the stabilization utility costs. Bad debt expense increased by $2.0 million mainly due to a dispute in reporting joint use baggage revenue by Hawaiian Airlines, Inc.

The net results of the above resulted in operating income before depreciation of $71.8 million in fiscal year 2010. Operating income before depreciation for fiscal year 2010 increased by 138.2%, or $41.7 million, from fiscal year 2009. Depreciation expense increased by 4.8% from $88.6 million in fiscal year 2009 to $92.9 million in fiscal year 2010 due to an increase in capital assets. The operating loss before nonoperating revenues, net and capital contributions of $21.0 million in fiscal year 2010 represent a 64.0% decrease from the operating loss before nonoperating revenues, net and capital contributions of $58.5 million in fiscal year 2009.

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 in fiscal year 2009 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 reevaluation 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.

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.

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- Nonoperating revenues, net increased by 12,804.5%, or $52.6 million, in fiscal year 2010 primarily due to a gain on amounts held in State Treasury and increases in PFCs in all insurances across this section and rental car CFCs offset by decreases in interest income and federal operating grants and increases in interest expense. A gain on amounts held in State Treasury of $31.0 million in 2010 was experienced rather than a loss of $26.6 million in 2009. Interest income decreased by $9.9 million due to lower investment rates of return and the use of cash for the CIP projects. Federal operating grants decreased by 39.1% or $2.6 million as grants were utilized for capital improvement projects instead. PFCs increased by 18.3%, or $4.5 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 CFCs amounted to $10.8 million and reflected a 26.5% increase since this charge was implemented effective September 1, 2008. Airports system revenue bond interest expense increased by $3.7 million as a result of the issuance of Airport System Revenue Bonds in fiscal year 2010.
- 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 PFCs and rental car CFCs 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. PFCs 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 CFCs amounted to $8.5 million and reflected 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.
- Income before capital contributions for fiscal year 2010 of $32.0 million as compared with loss before capital contributions of $58.0 million for fiscal year 2009 was a result of an increase in nonoperating revenues – net.
- 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.
- Capital contributions decreased by 11.7%, or $5.8 million and 55.0%, or $17.6 million in fiscal years 2010 and 2009, respectively, mainly due to the increase of federal capital grants in fiscal years 2010 and 2009.

Financial Position Summary

A condensed summary of the Airports Division's net assets at June 30, 2010, 2009, and 2008 is shown below:

	2010	2009	2008
Assets:			
Current assets:			
Unrestricted assets	$ 481,448,998	376,703,470	479,292,741
Restricted assets	620,252,170	260,712,901	263,507,383
Noncurrent assets:			
Capital assets	1,693,932,983	1,617,928,949	1,535,613,752
Restricted assets	33,748,931	34,987,408	36,094,866
Other noncurrent assets	5,006,055	2,627,294	3,047,815
Total assets	2,834,389,137	2,292,960,022	2,317,556,557
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	55,097,084	51,378,877	46,452,432
Payable from restricted assets	63,687,384	52,311,833	55,565,308
Long-term liabilities, net of current portion	1,068,571,764	617,993,896	633,104,136
Total liabilities	1,187,356,232	721,684,606	735,121,876
Net assets:			
Invested in capital assets – net of related debt	952,768,400	1,030,743,140	955,900,642
Restricted	333,247,989	255,804,547	230,216,845
Unrestricted	361,016,516	284,727,729	396,317,194
Total net assets	$ 1,647,032,905	1,571,275,416	1,582,434,681

The largest portion of the Airports Division's net assets (57.8%, 65.6%, and 60.4% at June 30, 2010, 2009, and 2008, 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 (20.2%, 16.3%, and 14.5% at June 30, 2010, 2009, and 2008, 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 $445.8 million, $336.7 million, and $451.0 million at June 30, 2010, 2009, and 2008, respectively. The $445.8 million cash balance at June 30, 2010 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 $1,647.0 million and $1,571.3 million at June 30, 2010 and 2009, respectively, representing an increase of $75.8 million and a decrease of $8.5 million from June 30, 2010 and 2009, respectively.

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

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

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

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

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

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona, and

Lihue. The program is currently estimated to cost $1.3 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, 2010 and 2009 and the amount and percentage of change in relation to prior year amounts is as follows:

	2010		Increase (decrease) from 2009	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating revenues:				
Concession fees:				
Duty free	$ 38,000,000	10.3%	$ —	—%
Other concessions	89,542,278	24.3	13,479,767	17.7
Airport landing fees	55,947,843	15.2	(4,626,057)	(7.6)
Aeronautical rentals:				
Exclusive-use premise charge	39,576,057	10.7	4,458,294	12.7
Nonexclusive joint-use premise charge	38,544,169	10.5	3,481,428	9.9
Nonaeronautical rentals	13,723,544	3.7	1,417,998	11.5
Other	9,396,727	2.5	843,321	9.9
Total operating revenues	284,730,618	77.3	19,054,751	7.2
Nonoperating revenues:				
Interest income, investments	6,239,201	1.7	(9,910,357)	(61.4)
Interest income, passenger facility charges	835,925	0.2	(591,312)	(41.4)
Interest income, rental car customer facility charges	107,009	—	40,293	—
Interest income, direct financing leases	2,159,279	0.6	(90,519)	(4.0)
Federal operating grants	4,116,867	1.1	(2,641,004)	(39.1)
Passenger facility charges	28,485,813	7.7	5,126,555	21.9
Rental car customer facility charges	10,804,982	2.9	2,263,537	26.5

	2010		Increase (decrease) from 2009	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Gain on amounts held in State Treasury	$ 31,046,930	8.4%	$ 31,046,930	100.0%
Total nonoperating revenues	83,796,006	22.7	25,244,123	43.1
Total revenues	$ 368,526,624	100.0%	$ 44,298,874	13.7%

	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	0.4	(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)%

Expenses

A summary of expenses for the years ended June 30, 2010 and 2009 and the amount and percentage of change in relation to prior year amounts is as follows:

	2010		Increase (decrease) from 2009	
	Amount	Percentage of total	Amount	Percentage
Operating expenses:				
Salaries and wages	$ 70,603,092	21.0%	$ (4,792,418)	(6.4)%
Other personnel services	53,253,463	15.8	(3,239,852)	(5.7)
Utilities	34,872,299	10.4	672,116	2.0
Special maintenance	7,107,701	2.1	(14,400,539)	(67.0)
Repairs and maintenance	15,474,139	4.6	(1,828,732)	(10.6)
State of Hawaii surcharge on gross receipts	12,094,751	3.6	1,351,217	12.6
Materials and supplies	4,693,534	1.4	(924,082)	(16.4)
Department of Transportation general administration expenses	5,194,883	1.5	355,735	7.4
Insurance	3,253,248	1.0	(867,940)	(21.1)
Disbursements out of major maintenance, renewal, and replacement account	1,256,988	0.4	(655,773)	(34.3)
Bad debt expense	2,066,244	0.6	2,018,801	4,255.2
Other	3,047,472	0.9	(303,296)	(9.1)
Total operating expenses before depreciation	212,917,814	63.3	(22,614,763)	(9.6)
Depreciation	92,860,543	27.6	4,260,689	4.8
Total operating expenses	305,778,357	90.9	(18,354,074)	(5.7)
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	27,800,066	8.3	3,732,590	15.5
Special facility	2,159,279	0.7	(90,519)	(4.0)
General obligation bonds	—	—	(905)	(100.0)
Loss on amounts held in State Treasury	—	—	(26,576,132)	(100.0)
Loss on disposal of capital assets	388,685	0.1	(4,451,727)	(92.0)
Other	388,407	0.1	(17,583)	(4.3)
Total nonoperating expenses	30,736,437	9.2	(27,404,276)	(47.1)
Total expenses	$ 336,514,794	100.0%	$ (45,758,350)	(12.0)%

(Continued)

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

Management's Discussion and Analysis

June 30, 2010 and 2009

	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	7.0	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	15.3	5,891,614	11.3
Total expenses	$ 382,270,144	100.0%	$ 7,765,577	2.1%

(Continued)

Capital Acquisitions and Construction Activities

In fiscal years 2010 and 2009, there were 9 and 11 construction bid openings, respectively, totaling an estimated $108 million and $72 million, respectively, in potential construction contracts. Significant projects in fiscal year 2010 include the Emergency Power Facility, Relocate Interisland Maintenance Facility, Support Facility Site Preparation at Elliott Street, Relocate Interisland Cargo Facilities, and Mauka Extension Site Preparation at Honolulu International Airport, and Re-Roof Terminal Building at Kahului Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2010, which were under construction during the fiscal year. Major projects include the Holdroom Shelters and Additional Security Lane at Kona International Airport at Keahole, Apron Pavement Structural Improvements, Runway Safety Area Improvements Phase 2, and EDS Integration Improvements at Kahului Airport, Third Level Sterile Corridor, Electrical Distributed Generation System, Loading Bridge Replacement, Overseas Terminal Chiller Plant Replacement, Escalator Improvements, and Interisland Maintenance Facility Site Preparation at Honolulu International Airport, and T-Hangars at Kalaeloa Airport.

Finally, there were 29 construction projects that were substantially completed in fiscal year 2010. These projects totaled over $94 million and include the Holdroom Shelters and Additional Security Lane at Kona International Airport at Keahole, Air Conditioning System Replacement at Hilo International Airport; Interim Heliport Improvements, and Baggage Claim Improvements at Lihue Airport; General Aviation Apron at Lanai Airport; and Chilled Water Loop, and Interisland Maintenance Site Preparation 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

As of June 30, 2010, $992,780,000 of airports system revenue bonds were outstanding as compared to $589,740,000 as of June 30, 2009. On April 7, 2010, the Airports Division issued $645 million in Airport System Revenue Bonds of which $397 million is for Airport Modernization Projects. $191 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements and issuance costs. Prior to this issuance, the last series of "new money" bonds used to fund capital improvement projects were issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. At June 30, 2010, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $590,065,802.

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, 2010 and 2009, there were outstanding bond obligations of $33,525,000 and $34,755,000, 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, 2010, there were five series of airports system revenue bonds outstanding in the principal amount of $1,016,395,000. Payment of principal and interest on three of the five series of bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The credit ratings of FGIC have been revised downward since the issuance of the bonds. On April 7, 2010, the State issued two series of Airport System Revenue bonds that were rated as follows:

Standard & Poor's Corporation:	A-
Moody's Investors Service:	A2
Fitch IBCA, Inc.:	A

Economic Factors and Current Known Facts

The Airports Division has launched plans to modernize airport facilities over the next six years. The most noticeable project is the parking structure adjacent to the interisland terminal at the Honolulu International Airport, and the International Third Level Sterile Corridor, which was completed in late March 2009 and October 2010, respectively. 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 through landing and terminal rate increases. In order to finance the modernization projects, the Airports Division issued bonds in April 2010 and is planning for another bond issue in fiscal year 2012. In addition, the Airports Division is planning for a refunding of its Series 2001 Revenue Bonds, which will save approximately $3 million per year.

Request for Information

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

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

Statements of Net Assets

June 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted (note 3)	$ 445,758,508	336,793,740
Receivables:		
Accounts, net of allowance of $6,506,751 and $4,775,202 for uncollectible accounts for 2010 and 2009, respectively	14,391,767	20,569,567
Promissory note receivable, net of allowance of $2,489,889 and $2,489,889 for uncollectible notes for 2010 and 2009, respectively (note 8)	13,000	—
Interest	5,503,722	6,030,469
Claims – federal grants	14,362,612	11,766,631
Aviation fuel tax	308,966	268,052
Due from State of Hawaii	883,053	1,039,192
Total receivables	35,463,120	39,673,911
Inventory of materials and supplies, at cost	227,370	235,819
Total unrestricted current assets	481,448,998	376,703,470
Restricted assets:		
Cash and cash equivalents (note 3):		
Revenue bond debt service (note 6)	101,908,151	103,389,685
Debt extinguishment (note 6)	33,682,994	—
Passenger facility charges (note 9)	79,724,804	65,705,687
Rental car customer facility charges (note 10)	16,134,680	7,682,365
Security deposits and customer advances	5,051,317	4,908,354
Revenue bond construction (note 6)	281,952,864	—
Total cash and cash equivalents – restricted	518,454,810	181,686,091
Passenger facility charges receivable (note 9)	3,670,465	2,873,150
Rental car customer facility charges receivable (note 10)	1,233,887	902,147
Investments – revenue bond debt service reserve (notes 3 and 6)	96,893,008	75,251,513
Total restricted current assets	620,252,170	260,712,901
Total current assets	1,101,701,168	637,416,371
Noncurrent assets:		
Promissory note receivable (note 8)	99,000	108,469
Bond issue costs, net of accumulated amortization of $4,378,773 and $3,990,366 for 2010 and 2009, respectively (note 6)	4,907,055	2,518,825
Restricted assets – net investments in direct financing leases (note 8)	33,748,931	34,987,408
Capital assets, net of accumulated depreciation of $1,577,249,424 and $1,485,806,464 for 2010 and 2009, respectively (notes 4, 6, and 7)	1,693,932,983	1,617,928,949
Total noncurrent assets	1,732,687,969	1,655,543,651
Total assets	2,834,389,137	2,292,960,022

(Continued)

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

Statements of Net Assets

June 30, 2010 and 2009

Liabilities	**2010**	**2009**
Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	$ 8,904,640	10,485,318
Contracts payable, including retainage of $5,110,690 and $4,357,697 for 2010 and 2009, respectively	24,268,983	19,855,276
Current portion of workers' compensation (notes 5 and 15)	1,010,242	1,055,969
Current portion of compensated absences (note 5)	2,554,730	2,639,007
Current portion of postemployment liability (notes 5 and 12)	3,222,000	4,878,000
Deferred income (note 8)	6,327,612	4,854,314
Accrued wages	4,628,115	4,947,241
Due to State of Hawaii	—	550,000
Pollution remediation liability (note 16)	1,590,881	1,613,874
Prepaid airport use charge fund (notes 8 and 16)	2,553,179	463,926
Other	36,702	35,952
Total payable from unrestricted assets	55,097,084	51,378,877
Payable from restricted assets:		
Contracts payable, including retainage of $2,605,219 and $2,562,477 for 2010 and 2009, respectively	15,832,364	7,130,616
Current portion of airports system revenue bonds (notes 5 and 6)	23,615,000	22,310,000
Current portion of special facility revenue bonds (notes 5 and 8)	1,685,000	1,230,000
Accrued interest	18,455,965	17,685,464
Security deposits	4,099,055	3,955,753
Total payable from restricted assets	63,687,384	52,311,833
Total current liabilities	118,784,468	103,690,710
Long-term liabilities – net of current portion:		
Airports system revenue bonds (notes 5 and 6)	999,502,447	564,875,809
Special facility revenue bonds (notes 5 and 8)	31,840,000	33,525,000
Prepaid airport use charge fund (notes 8 and 16)	7,803,174	—
Compensated absences (note 5)	5,977,978	5,599,503
Workers' compensation (notes 5 and 15)	2,989,758	3,244,031
Postemployment liability (notes 5 and 12)	19,505,806	9,796,952
Customer advance (note 14)	952,601	952,601
Total liabilities	1,187,356,232	721,684,606
Net Assets		
Net assets:		
Invested in capital assets – net of related debt	952,768,400	1,030,743,140
Restricted:		
Debt service payment	41,847,037	39,763,058
Debt service reserve account	96,893,008	75,251,513
Debt extinguishment	33,682,994	—
Major maintenance, renewal, and replacement account	60,061,114	63,626,627
Passenger facility charges	83,395,269	68,578,837
Rental car customer facility charges	17,368,567	8,584,512
Total restricted	333,247,989	255,804,547
Unrestricted	361,016,516	284,727,729
Commitments and contingencies (notes 6, 8, 11, 12, 13, 14, 15, and 16)		
Total net assets	$ 1,647,032,905	1,571,275,416

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, 2010 and 2009

	2010	**2009**
Operating revenues (notes 6, 8, and 13):		
Concession fees	$ 127,542,278	114,062,511
Airport landing fees, net	55,947,843	60,573,900
Aeronautical rentals:		
Exclusive-use premise charges	39,576,057	35,117,763
Nonexclusive joint-use premise charges	38,544,169	35,062,741
Nonaeronautical rentals	13,723,544	12,305,546
Aviation fuel tax	3,633,095	3,548,705
Airports system support charges	762,543	873,520
Miscellaneous	5,001,089	4,131,181
Net operating revenues	284,730,618	265,675,867
Operating expenses (notes 4, 11, 12, 13, 15, and 16):		
Depreciation	92,860,543	88,599,854
Salaries and wages	70,603,092	75,395,510
Other personnel services	53,253,463	56,493,315
Utilities	34,872,299	34,200,183
Repairs and maintenance	15,474,139	17,299,871
State of Hawaii surcharge on gross receipts	12,094,751	10,743,534
Special maintenance	7,107,701	21,508,240
Department of Transportation general administration expenses	5,194,883	4,839,148
Materials and supplies	4,693,534	5,617,616
Insurance	3,253,248	4,121,188
Bad debt expense	2,066,244	47,443
Disbursements out of major maintenance, renewal, and replacement account	1,256,988	1,912,761
Rent	1,184,627	1,202,964
Claims and benefits	741,677	1,051,356
Communication	357,222	307,025
Travel	326,014	304,128
Dues and subscriptions	138,690	136,973
Printing and advertising	17,479	22,610
Freight and delivery	10,655	16,337
Miscellaneous	271,108	309,375
Total operating expenses	305,778,357	324,129,431
Operating loss, carried forward	(21,047,739)	(58,453,564)

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, 2010 and 2009

	2010	2009
Operating loss, brought forward	$ (21,047,739)	(58,453,564)
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities (note 3)	6,239,201	16,149,558
Investments in direct financing leases (note 8)	2,159,279	2,249,798
Interest expense:		
Revenue bonds:		
Airports system (note 6)	(27,800,066)	(24,067,476)
Special facility (note 8)	(2,159,279)	(2,249,798)
General obligation bonds (note 7)	—	(905)
Federal operating grants	4,116,867	6,757,871
Loss on disposal of capital assets (note 4)	(388,685)	(4,840,412)
Passenger facility charges (note 9)	29,321,738	24,786,495
Rental car customer facility charges (note 10)	10,911,991	8,608,161
Amortization of deferred bond issue costs	(388,407)	(405,990)
Gain (loss) on amounts held in State Treasury	31,046,930	(26,576,132)
Total nonoperating revenues, net	53,059,569	411,170
Income (loss) before capital contributions	32,011,830	(58,042,394)
Capital contributions:		
Federal capital grants	27,494,010	48,801,935
Federal stimulus grants	14,735,504	—
Other capital contributions (note 4)	1,516,145	747,067
Total capital contributions	43,745,659	49,549,002
Increase (decrease) in net assets	75,757,489	(8,493,392)
Total net assets – beginning of year	1,571,275,416	1,579,768,808
Total net assets – end of year	$ 1,647,032,905	1,571,275,416

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, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from providing services	$ 302,373,750	259,682,228
Cash paid to suppliers	(144,647,766)	(159,771,926)
Cash paid to employees	(62,875,165)	(67,226,322)
Net cash provided by operating activities	94,850,819	32,683,980
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	3,371,872	8,567,879
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(126,224,468)	(159,844,085)
Proceeds from federal and other capital grants and contributions	40,378,528	45,484,145
Interest paid on airports system revenue and general obligation bonds	(37,325,004)	(35,492,142)
Principal paid on general obligation bonds	—	(28,275)
Principal paid on airports system revenue bonds	(22,310,000)	(21,140,000)
Bond issue costs paid	(3,573,163)	—
Payments to refund airports system revenue bonds	(201,788,123)	—
Proceeds from issuance of refunding airport system revenue bonds	659,709,646	—
Payments from passenger facility charges program	(14,505,306)	(6,406,779)
Proceeds from passenger facility charges program	28,524,423	23,436,441
Payments from rental car customer facility charges program	(2,127,936)	—
Proceeds from rental car customer facility charges	10,580,251	7,706,014
Net cash provided by (used in) capital and related financing activities	331,338,848	(146,284,681)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	91,083,963	89,443,013
Interest received on investments	6,766,513	12,344,822
Purchases of investments	(112,725,458)	(89,443,013)
Gain (loss) on amounts held in State Treasury	31,046,930	(26,576,132)
Net cash provided by (used in) investing activities	16,171,948	(14,231,310)
Net increase (decrease) in cash and cash equivalents	445,733,487	(119,264,132)
Cash and cash equivalents – beginning of year	518,479,831	637,743,963
Cash and cash equivalents – end of year	$ 964,213,318	518,479,831

(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, 2010 and 2009

		2010	2009
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(21,047,739)	(58,453,564)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		92,860,543	88,599,854
Bad debt expense		2,066,244	47,443
Overpayment of airport use charge to be transferred to the PAUCF		10,303,174	—
Changes in operating assets and liabilities:			
Accounts receivable		4,108,026	(6,988,093)
Aviation fuel tax receivable		(40,914)	157,465
Due from State of Hawaii		156,139	450,048
Inventory of materials and supplies		8,449	32,008
Vouchers payable		(1,580,678)	1,742,624
Contracts payable		(343,961)	(1,360,540)
Deferred income		1,473,298	856,986
Accrued wages		(324,928)	433,809
Postemployment liability		8,052,854	7,735,379
Due to State of Hawaii		(550,000)	550,000
Pollution remediation liability		(22,993)	(1,051,999)
Prepaid airport use charge fund		(410,747)	—
Security deposits		143,302	(74,880)
Other		750	7,440
Net cash provided by operating activities	$	94,850,819	32,683,980
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	$	1,230,000	1,100,000
Interest payments on special facility revenue bonds		2,167,756	2,257,256
Amortization of revenue bond issue costs		388,407	405,990
Amortization of revenue bond discount		60,114	60,471
Amortization of revenue bond premium		(1,217,894)	(1,273,660)
Amortization of deferred loss on refunding revenue bonds		1,477,895	1,546,859

At June 30, 2010 and 2009, contracts payable included $31,560,540 and $18,101,124, respectively, for the acquisition of capital assets.

During fiscal years 2010 and 2009, interest of $10,624,031 and $11,695,577, respectively, was capitalized in property, plant, and equipment.

During fiscal years 2010 and 2009, property, plant, and equipment with a net book value of $403,316 and $6,890,545, respectively, were written off.

During fiscal year 2010, buildings with a value of $1,509,500 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 $4.50 per passenger. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the 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. Effective September 1, 2010, the CFC was raised to $4.50 a day on all u-drive rentals at a state airport.

(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, 2010 was as follows: current – $15,110,132; 30 days – $764,253; 60 days – $458,821; and over 90 days – $4,565,312. 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.

(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.

(Continued)

(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 15. 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)

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Petty cash	$ 17,805	17,805
Amounts held in State Treasury	964,195,513	518,462,026
Repurchase agreements	96,893,008	52,789,337
Certificates of deposit	—	22,462,176
	$ 1,061,106,326	593,731,344

Such amounts are reflected in the statements of net assets at June 30, 2010 and 2009 as follows:

	2010	2009
Cash and cash equivalents:		
Unrestricted	$ 445,758,508	336,793,740
Restricted	518,454,810	181,686,091
Total cash and cash equivalents	964,213,318	518,479,831
Investments – restricted	96,893,008	75,251,513
Total cash and cash equivalents and investments	$ 1,061,106,326	593,731,344

(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, 2010 and 2009, 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 $964,195,513 and $518,462,026, respectively. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by $31,046,930 and $(26,576,132) during the years ended June 30, 2010 and 2009, 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 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 57% at June 30, 2009 (amounts in thousands):

		Maturity (in years)		
	Fair value	**Less than 1**	**1 – 5**	**>5**
Investments – primary government:				
Student loan auction rate securities	$ 509,467	—	—	509,467
Certificates of deposit	32,869	31,883	986	—
U.S. government securities	262,951	—	205,102	57,849
Repurchase agreements	16,434	8,217	8,217	—
	$ 821,721	40,100	214,305	567,316
Investments – fiduciary funds:				
Student loan auction rate securities	$ 58,599	—	—	58,599
Certificates of deposit	3,781	3,667	114	—
U.S. government securities	30,244	—	23,590	6,654
Repurchase agreements	1,890	945	945	—
	$ 94,514	4,612	24,649	65,253

Information relating to the State's investment pool at June 30, 2010 will be included in the comprehensive annual financial report of the State when issued.

(b) Investments

At June 30, 2010 and 2009, the Airports Division's investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

(4) Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 consist of the following:

	Balance, June 30, 2009	Increases	Decreases	Transfers	Balance, June 30, 2010
Capital assets not being depreciated:					
Land	$ 308,438,655	—	—	—	308,438,655
Land improvements	26,481,609	—	—	—	26,481,609
Construction in progress	234,916,248	166,521,654	(2,215,472)	(169,675,463)	229,546,967
Total capital assets not being depreciated	569,836,512	166,521,654	(2,215,472)	(169,675,463)	564,467,231
Capital assets being depreciated:					
Land improvements	808,330,404	2,653,210	—	70,518,711	881,502,325
Buildings and improvements	1,519,498,899	1,509,500	—	87,370,185	1,608,378,584
Machinery and equipment	206,069,598	711,579	(1,733,477)	11,786,567	216,834,267
Total capital assets being depreciated	2,533,898,901	4,874,289	(1,733,477)	169,675,463	2,706,715,176
Less accumulated depreciation:					
Land improvements	(599,330,102)	(29,170,180)	—	—	(628,500,282)
Buildings and improvements	(742,559,925)	(53,783,192)	—	—	(796,343,117)
Machinery and equipment	(143,916,437)	(9,907,171)	1,335,031	82,552	(152,406,025)
Total depreciation	(1,485,806,464)	(92,860,543)	1,335,031	82,552	(1,577,249,424)
Capital assets being depreciated, net	1,048,092,437				1,129,465,752
Total capital assets	$ 1,617,928,949				1,693,932,983

	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

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2010 and 2009 follows:

	Balance, June 30, 2009	Increases	Decreases	Balance, June 30, 2010	Current	Noncurrent
Workers' compensation (note 14)	$ 4,300,000	649,704	(949,704)	4,000,000	1,010,242	2,989,758
Compensated absences	8,238,510	3,940,710	(3,646,512)	8,532,708	2,554,730	5,977,978
Prepaid airport use charge fund (notes 8 and 16)	463,926	10,303,174	(410,747)	10,356,353	2,553,179	7,803,174
Postemployment liability (note 11)	14,674,952	11,147,024	(3,094,170)	22,727,806	3,222,000	19,505,806
Airports system revenue bonds (note 6)	587,185,809	665,351,038	(229,419,400)	1,023,117,447	23,615,000	999,502,447
Special facility revenue bonds (note 8)	34,755,000	—	(1,230,000)	33,525,000	1,685,000	31,840,000
	$ 649,618,197	691,391,650	(238,750,533)	1,102,259,314	34,640,151	1,067,619,163

	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

(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, 2010 and 2009, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

(Continued)

At June 30, 2010 and 2009, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net assets) consisted of the following:

		2010	2009
Debt service reserve account	$	96,893,008	75,251,513
RHB Debt extinguishment		33,682,994	—
Major maintenance, renewal, and replacement account		60,061,114	63,626,627
		190,637,116	138,878,140
Principal and interest due July 1		41,847,037	39,763,058
	$	232,484,153	178,641,198

At June 30, 2010 and 2009, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $505,407,906 and $590,065,802, 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, 2010 and 2009:

Series	Interest rate	Final maturity date (July 1)		Original amount of issue	Outstanding amount 2010	Outstanding amount 2009
2000A, refunding	5.50% – 6.00%	2021	$	26,415,000	155,000	26,415,000
2000B, refunding	5.00% – 6.00%	2020		261,465,000	26,100,000	207,830,000
2001, refunding	4.00% – 5.75%	2021		423,255,000	345,160,000	355,495,000
2010A, refunding	2.00% – 5.25%	2039		478,980,000	478,980,000	—
2010B, refunding	3.00% – 5.00%	2020		166,000,000	166,000,000	—
			$	1,356,115,000	1,016,395,000	589,740,000
Add unamortized premium					19,294,995	7,717,601
Less unamortized discount					—	(618,796)
Less deferred loss on refunding					(12,572,548)	(9,652,996)
Less current portion					(23,615,000)	(22,310,000)
Noncurrent portion				$	999,502,447	564,875,809

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

	Principal	Interest	Total
Year ending June 30:			
2011	$ 25,370,000	52,121,428	77,491,428
2012	27,680,000	50,427,803	78,107,803
2013	46,145,000	49,003,450	95,148,450
2014	46,725,000	46,471,255	93,196,255
2015	52,960,000	43,897,328	96,857,328
2016 – 2020	310,425,000	173,194,831	483,619,831
2021 – 2025	100,135,000	111,416,438	211,551,438
2026 – 2030	107,580,000	86,485,523	194,065,523
2031 – 2035	138,180,000	55,891,775	194,071,775
2036 – 2039	137,580,000	17,672,780	155,252,780
	$ 992,780,000	686,582,611	1,679,362,611

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2010 of $23,615,000 and $18,232,037, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2010 and 2009 and the allocation thereof:

	2010	2009
Expensed as incurred	$ 27,800,066	24,067,476
Capitalized in capital assets	10,624,031	11,695,577
	$ 38,424,097	35,763,053

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

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

At June 30, 2010, the aggregate outstanding defeased bonds amounted to $228,615,000.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,147. This difference, reported in the accompanying financial statements as a deduction from airports system revenue bonds, is being charged to operations over the next 11 years.

(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.

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 year ended June 30, 2009 and the allocation thereof:

Expensed as incurred	$	905
Capitalized in capital assets		—
	$	905

(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 2010 have been transferred to the PAUCF (note 16).

Aviation Fuel Tax

The aviation fuel tax amounted to $3,633,095 and $3,548,705 for fiscal years 2010 and 2009, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

Airport landing fees amounted to $59,262,031 and $64,069,005 for fiscal years 2010 and 2009, respectively. Airport landing fees are shown net of aviation fuel tax credits of $3,314,188 and $3,495,105 for fiscal years 2010 and 2009, respectively, on the statements of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $55,947,843 and $60,573,900 for fiscal years 2010 and 2009, 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 38% and 37% of the airport landing fees for overseas flights for fiscal years 2010 and 2009, 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 $38,544,169 and $35,062,741 for fiscal years 2010 and 2009, 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 $39,576,057 and $35,117,763 for fiscal years 2010 and 2009, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $23,032,229 and $17,840,660 for fiscal years 2010 and 2009, respectively.

Airports system support charges amounted to $762,543 and $873,520 for fiscal years 2010 and 2009, 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

(Continued)

weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

(b) Special Facility Leases and Revenue Bonds

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

$25,255,000 Issue

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

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2010:

	Principal	Interest	Total
Year ending June 30:			
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	—	1,222,031	1,222,031
2016 – 2020	—	6,110,156	6,110,156
2021 – 2025	—	6,110,156	6,110,156
2026 – 2028	21,725,000	3,055,078	24,780,078
	$ 21,725,000	21,385,545	43,110,545

$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, 2010:

		Principal	Interest	Total
Year ending June 30:				
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		1,030,000	518,350	1,548,350
2016 – 2020		6,375,000	1,397,200	7,772,200
	$	10,900,000	4,622,450	15,522,450

$6,600,000 Issue

Bonds with a stated maturity date of December 1, 2010 remain outstanding. The bonds are subject to redemption on or after December 1, 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, 2010:

		Principal	Interest	Total
Year ending June 30:				
2011	$	900,000	45,562	945,562
	$	900,000	45,562	945,562

Special facility revenue bonds payable at June 30, 2010 and 2009 consisted of the following:

	Continental		Sky chefs	Total
2010:				
Current portion	$ 785,000	—	900,000	1,685,000
Noncurrent portion	10,115,000	21,725,000	—	31,840,000
	$ 10,900,000	21,725,000	900,000	33,525,000
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

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, 2010 and 2009 consisted of the following:

	2010	2009
Cash with bond fund trustee	$ 4,262,963	4,101,714
Receivable from lessees, net of unearned interest of $26,277,490 and $28,455,724, respectively	29,262,037	30,653,286
Interest receivable	223,931	232,408
	$ 33,748,931	34,987,408

(c) Other Operating Leases

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

The future minimum rentals from these operating leases at June 30, 2010 are as follows:

Year ending June 30:		
2011	$	107,532,751
2012		101,344,753
2013		91,844,904
2014		87,189,681
2015		53,374,136
2016 – 2020		113,414,624
2021 – 2025		11,804,979
2026 – 2030		6,676,794
2031 – 2035		2,444,672
2036 – 2040		1,211,639
	$	576,838,933

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 2010 and 2009 were $42,141,600 and $46,198,939, 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 $2,601,889 at June 30, 2010 is due as follows: 2011 – $2,502,889; 2012 – $12,000; 2013 – $12,000; and thereafter – $75,000.

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 30% and 40% of total concession fee revenues for fiscal years 2010 and 2009, 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 50 years of the lease term. Percentage rent during this period is calculated the same as during the first 5 years of the lease term.

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

(9) Passenger Facility Charges

Passenger facility charges across all following insurances in notes activity for the years ended June 30, 2010 and 2009 are as follows:

		2010	2009
Restricted assets – passenger facility charges, beginning of year	$	68,578,837	50,199,121
Passenger facility charges during the year		28,485,813	23,359,258
Interest earned on passenger facility charges during the year		835,925	1,427,237
Capital expenditures during the year		(14,505,306)	(6,406,779)
Restricted assets – passenger facility charges, end of year	$	83,395,269	68,578,837

Restricted assets – passenger facility charges are presented on the statements of net assets as of June 30, 2010 and 2009 as follows:

		2010	2009
Cash and cash equivalents	$	79,724,804	65,705,687
Receivable		3,670,465	2,873,150
Total restricted assets passenger facility charges	$	83,395,269	68,578,837

(10) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the year ended June 30, 2010 is as follows:

		2010	2009
Restricted assets – rental car customer facility charge, beginning of year	$	8,584,512	—
Rental car customer facility charges during the year		10,804,982	8,541,445
Interest earned on rental car customer facility charges during the year		107,009	66,716
Bad debt expense on rental car customer facility charges during the year		—	(23,649)
Capital expenditures during the year		(2,127,936)	—
Restricted assets – rental car customer facility charges, end of year	$	17,368,567	8,584,512

Restricted assets – rental car customer facility charges are presented on the statement of net assets as of June 30, 2010 as follows:

		2010	2009
Cash and cash equivalents	$	16,134,680	7,682,365
Receivable		1,233,887	902,147
Total restricted assets – rental car customer facility charge	$	17,368,567	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, 5.0% the second year, 7.5% the third year, etc.).

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

(a) Contributory Plan

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

(b) Hybrid Plan

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

(c) Noncontributory Plan

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

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts 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, 2010, 2009, and 2008 were $7,472,099, $7,924,498, and $6,859,479, 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, Hawaii 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 years ended June 30, 2010 and 2009 was $3,094,170 and $4,365,756, respectively, which represented 28% and 36%, respectively, of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $11,147,024 and $12,101,135, respectively.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2010:

Balance at June 30, 2009	$	14,674,952
Additions		11,147,024
Deletions		(3,094,170)
Balance at June 30, 2010		22,727,806
Less current portion		(3,222,000)
	$	19,505,806

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

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

(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 $12,094,751 and $10,743,534 in fiscal years 2010 and 2009, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $6,117,284 and $6,156,800 in fiscal years 2010 and 2009, respectively. During fiscal years 2010 and 2009, the Airports Division received assessment refunds from the DOT amounting to $922,401 and $1,317,652, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

During fiscal years 2010 and 2009, revenues received from other state agencies totaled $2,024,042 and $1,639,826, respectively, and expenditures to other state agencies totaled $7,734,552 and $9,325,516, respectively.

(14) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2010 and 2009 was $17,297,059 and $17,207,468, 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) Pledged Future Revenues

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 $1,356,115,000 in revenue bonds issued in 2000, 2001, and 2010, and are payable through 2039. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $1,679,362,611. In fiscal year 2010, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were $60,413,982 and $96,530,898, respectively. See also note 6 for further discussion on the revenue bonds.

(d) Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next 5 – 10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net assets at June 30, 2010 and 2009.

At June 30, 2010 and 2009, the Airports Division had commitments totaling approximately $282,140,899 and $275,943,000, 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, 2010 and 2009, the workers' compensation reserve was $4,000,000 and $4,300,000, respectively, of which $1,010,242 and $1,055,969 is included in current liabilities (payable from unrestricted net assets) and $2,989,758 and $3,244,031 is included in long-term liabilities in the accompanying statements of net assets at June 30, 2010 and 2009, 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.

(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, 2010 and 2009, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

(c) Asserted Claims

Prepaid Airport Use Charge Fund

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

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

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

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

On November 15, 2010, the State reached a settlement with the ACH under which the Airports Division is to transfer an overpayment of $10,303,174 for fiscal year 2010 to the PAUCF escrow account in four annual installments beginning in fiscal year 2011. A liability for the refund was recorded in the Airports Division's financial statements as of June 30, 2010, with an offsetting charge to operating revenues. The payable balance of the PAUCF at June 30, 2010 was $10,356,353.

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 $1,590,881 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(17) Subsequent Events

The Airport Division has evaluated subsequent events from the balance sheet date through July 28, 2011, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

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, 2010

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 127,542,278	—	79,628,979	2,491,360	11,074,988	21,907,312	12,206,339	233,300
Airport landing fees	55,947,843	—	38,188,394	1,297,955	4,192,822	8,767,596	3,162,363	338,713
Aeronautical rentals:								
Exclusive-use premise charges	39,576,057	—	31,850,574	949,367	993,188	3,930,854	1,510,578	341,496
Nonexclusive joint-use premise charges	38,544,169	—	28,887,999	1,073,255	1,235,596	5,417,235	1,930,084	—
Nonaeronautical rentals	13,723,544	—	8,535,812	376,105	1,038,244	2,829,627	866,529	77,227
Aviation fuel tax	3,633,095	—	2,486,453	83,873	271,105	565,772	204,038	21,854
Airports system support charges	762,543	—	478,320	35,513	56,530	78,010	48,819	65,351
Miscellaneous	5,001,089	357,148	3,009,556	77,367	663,489	446,016	423,894	23,619
	284,730,618	357,148	193,066,087	6,384,795	19,525,962	43,942,422	20,352,644	1,101,560
Allocation of statewide miscellaneous revenues (note 2)	—	(357,148)	231,454	5,950	51,027	34,301	32,600	1,816
Net operating revenues	$ 284,730,618	—	193,297,541	6,390,745	19,576,989	43,976,723	20,385,244	1,103,376
Operating expenses other than depreciation:								
Salaries and wages	$ 70,603,092	14,370,721	29,174,820	4,339,343	4,488,363	7,754,952	5,524,659	4,950,234
Other personnel services	53,253,463	2,963,553	31,204,691	3,385,440	4,011,870	5,645,958	3,803,493	2,238,458
Utilities	34,872,299	16,582	25,410,016	1,103,440	2,070,007	3,843,877	1,811,774	616,603
Special maintenance	7,107,701	2,921,434	374,584	722,964	1,759,621	255,251	196,884	876,963
Repairs and maintenance	15,474,139	3,692,508	8,746,630	188,413	738,013	1,263,323	149,200	696,052
State of Hawaii surcharge on gross receipts (note 3)	12,094,751	12,094,751	—	—	—	—	—	—
Materials and supplies	4,693,534	59,133	2,392,945	331,019	384,639	800,971	401,370	323,457
Department of Transportation general administration expenses	5,194,883	5,194,883	—	—	—	—	—	—
Insurance	3,253,248	3,253,136	(22)	198	(3)	(66)	—	5
Claims and benefits	741,677	(267,533)	388,568	59,575	206,945	150,386	144,346	59,390
Rent	1,184,627	965,938	137,359	5,532	16,712	30,869	11,592	16,625
Travel	326,014	57,643	82,391	31,707	34,326	46,010	29,738	44,199
Communication	357,222	77,437	58,386	33,009	20,097	53,401	58,225	56,667
Dues and subscriptions	138,690	133,638	3,787	(154)	293	316	794	16
Bad debt expense (note 1)	2,066,244	2,066,244	—	—	—	—	—	—
Printing and advertising	17,479	6,364	1,135	—	2,408	—	7,644	(72)
Freight and delivery	10,655	206	1,544	(583)	374	6,553	120	2,441
Miscellaneous	271,108	61,143	103,989	37,425	15,128	8,918	32,855	11,650
	211,660,826	47,667,781	98,080,823	10,237,328	13,748,793	19,860,719	12,172,694	9,892,688
Allocation of statewide expenses (note 4)	—	(47,667,781)	28,509,107	2,975,679	3,996,355	5,772,906	3,538,231	2,875,503
Total operating expenses other than depreciation for net revenues and taxes	211,660,826	—	126,589,930	13,213,007	17,745,148	25,633,625	15,710,925	12,768,191
Disbursements out of major maintenance, renewal, and replacement account not included above	1,256,988	—	574,425	684,817	—	—	—	(2,254)
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets	$ 212,917,814	—	127,164,355	13,897,824	17,745,148	25,633,625	15,710,925	12,765,937

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, 2010

Revenues and taxes:	
Concession fees	$ 127,542,278
Airport landing fees	55,947,843
Aeronautical rentals:	
Exclusive-use premise charges	39,576,057
Nonexclusive joint-use premise charges	38,544,169
Nonaeronautical rentals	13,723,544
Aviation fuel tax	3,633,095
Airports system support charges	762,543
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $2,824,174 on capital improvement projects	6,239,201
Federal operating grants	4,116,867
Miscellaneous	5,001,089
Total revenues and taxes	295,086,686
Deductions:	
Operating expenses other than depreciation for net revenues and taxes (schedule 1)	212,917,814
Annual reserve required on major maintenance, renewal, and replacement account	1,290,052
Total deductions	214,207,866
Net revenues and taxes	80,878,820
Add funded coverage per bond certificate	15,429,745
Adjusted net revenues and taxes	96,308,565
Debt service requirement:	
Airports system revenue bonds:	
Principal	23,615,000
Interest (note 1)	38,103,982
Total debt service	61,718,982
Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2)	(16,803,849)
Total debt service requirement	44,915,133
Debt service coverage percentage	125%
Total debt service with coverage requirement	56,143,916
Excess of net revenues and taxes over debt service requirement	$ 40,164,649

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 2010, the Airports Division deposited $16,803,849 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 2010 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, 2010

		Annual principal and interest requirements		
		Airports system revenue bonds		
		Principal	Interest	Total
Year ending June 30:				
2011	$	25,370,000	52,121,428	77,491,428
2012		27,680,000	50,427,803	78,107,803
2013		46,145,000	49,003,450	95,148,450
2014		46,725,000	46,471,255	93,196,255
2015		52,960,000	43,897,328	96,857,328
2016		55,835,000	41,028,898	96,863,898
2017		58,880,000	37,971,560	96,851,560
2018		62,105,000	34,757,720	96,862,720
2019		65,485,000	31,408,008	96,893,008
2020		68,120,000	28,028,645	96,148,645
2021		29,530,000	24,560,395	54,090,395
2022		18,005,000	23,011,445	41,016,445
2023		16,650,000	22,168,945	38,818,945
2024		17,510,000	21,296,545	38,806,545
2025		18,440,000	20,379,108	38,819,108
2026		19,395,000	19,428,488	38,823,488
2027		20,400,000	18,412,970	38,812,970
2028		21,460,000	17,356,370	38,816,370
2029		22,570,000	16,233,945	38,803,945
2030		23,755,000	15,053,750	38,808,750
2031		25,010,000	13,807,355	38,817,355
2032		26,255,000	12,556,855	38,811,855
2033		27,575,000	11,244,105	38,819,105
2034		28,945,000	9,865,355	38,810,355
2035		30,395,000	8,418,105	38,813,105
2036		31,910,000	6,898,355	38,808,355
2037		33,520,000	5,299,245	38,819,245
2038		35,195,000	3,619,455	38,814,455
2039		36,955,000	1,855,725	38,810,725
Total	$	992,780,000	686,582,611	1,679,362,611

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2010.

See accompanying independent auditors' report.

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2010

	Principal						
	Refunding series of 2000B, 5.00% to 8.00%	**Refunding series of 2001, 4.00% to 5.75%**	**Refunding series of 2010A, 2.00% to 5.25%**	**Refunding series of 2010B, 3.00% to 5.00%**	**Total**	**Interest**	**Total requirements**
Year ending June 30:							
2011	$ 13,550,000	11,530,000	290,000	—	25,370,000	52,121,428	77,491,428
2012	—	12,135,000	295,000	15,250,000	27,680,000	50,427,803	78,107,803
2013	—	30,840,000	305,000	15,000,000	46,145,000	49,003,450	95,148,450
2014	—	32,615,000	310,000	13,800,000	46,725,000	46,471,255	93,196,255
2015	—	34,490,000	320,000	18,150,000	52,960,000	43,897,328	96,857,328
2016	—	36,470,000	335,000	19,030,000	55,835,000	41,028,898	96,863,898
2017	—	38,565,000	340,000	19,975,000	58,880,000	37,971,560	96,851,560
2018	—	40,770,000	355,000	20,980,000	62,105,000	34,757,720	96,862,720
2019	—	43,065,000	255,000	22,165,000	65,485,000	31,408,008	96,893,008
2020	—	38,750,000	7,720,000	21,650,000	68,120,000	28,028,645	96,148,645
2021	—	15,020,000	14,510,000	—	29,530,000	24,560,395	54,090,395
2022	—	—	18,005,000	—	18,005,000	23,011,445	41,016,445
2023	—	—	16,650,000	—	16,650,000	22,168,945	38,818,945
2024	—	—	17,510,000	—	17,510,000	21,296,545	38,806,545
2025	—	—	18,440,000	—	18,440,000	20,379,108	38,819,108
2026	—	—	19,395,000	—	19,395,000	19,428,488	38,823,488
2027	—	—	20,400,000	—	20,400,000	18,412,970	38,812,970
2028	—	—	21,460,000	—	21,460,000	17,356,370	38,816,370
2029	—	—	22,570,000	—	22,570,000	16,233,945	38,803,945
2030	—	—	23,755,000	—	23,755,000	15,053,750	38,808,750
2031	—	—	25,010,000	—	25,010,000	13,807,355	38,817,355
2032	—	—	26,255,000	—	26,255,000	12,556,855	38,811,855
2033	—	—	27,575,000	—	27,575,000	11,244,105	38,819,105
2034	—	—	28,945,000	—	28,945,000	9,865,355	38,810,355
2035	—	—	30,395,000	—	30,395,000	8,418,105	38,813,105
2036	—	—	31,910,000	—	31,910,000	6,898,355	38,808,355
2037	—	—	33,520,000	—	33,520,000	5,299,245	38,819,245
2038	—	—	35,195,000	—	35,195,000	3,619,455	38,814,455
2039	—	—	36,955,000	—	36,955,000	1,855,725	38,810,725
Total	$ 13,550,000	334,250,000	478,980,000	166,000,000	992,780,000	686,582,611	1,679,362,611

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2010.

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, 2010

	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	182,448	568	258	$ 742,563	—	180,539	186,309	—	—	—	—	—	1,765	—	598,518	1,709,694
Air New Zealand, Ltd.	39,475	122	21,233	160,663	—	—	27,851	—	—	—	—	—	145,234	—	—	333,748
Air Pacific, Ltd.	15,152	106	11,360	61,669	—	—	11,442	—	—	—	—	—	77,702	—	—	150,813
Alaska Air, Inc.	431,568	2,997	—	1,756,482	—	612,019	656,716	—	—	—	—	—	—	—	270,252	3,295,469
All Nippon Airways, Inc.	62,476	126	33,801	254,277	—	—	39,325	—	—	—	—	—	231,199	—	3,315	528,116
American Airlines, Inc.	1,010,944	4,552	—	4,114,542	—	1,206,071	1,105,734	—	—	—	—	—	—	—	1,487,506	7,913,853
China Airlines, Ltd.	185,020	336	100,539	753,030	—	—	120,809	—	—	—	—	—	687,687	—	31,909	1,593,435
Continental Airlines, Inc.	494,429	1,757	—	2,011,963	—	476,697	434,002	—	—	—	—	—	—	—	491,139	3,413,801
Continental Micronesia, Inc.	159,627	586	108,683	649,682	—	—	122,914	—	—	—	—	—	743,392	—	816,858	2,332,846
Delta Airlines, Inc.	858,887	3,131	81,519	3,495,668	—	937,739	881,648	—	—	—	—	—	557,590	—	2,140,576	8,013,221
Evergreen International Airlines, Inc.	143,010	—	—	582,051	—	—	—	—	—	—	—	—	—	—	—	582,051
Federal Express Corporation	727,412	—	—	2,522,151	—	—	—	—	—	—	—	—	—	—	7,611	2,529,762
Hawaiian Airlines, Inc.	8,385,730	65,062	113,023	17,749,214	—	1,623,092	1,101,753	—	5,345,244	—	—	—	773,077	2,470,420	6,212,948	35,275,748
JALways Co, Ltd.	1,272,676	2,597	773,778	4,906,978	—	—	908,911	—	—	6,680	—	—	5,292,642	—	—	11,115,211
Japan Airlines Company, Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,128,338	2,128,338
Kalitta Air, LLC	185,895	—	—	690,026	—	—	—	—	—	—	—	—	—	—	—	690,026
Korean Airlines Company, Ltd.	212,109	373	104,509	863,282	—	—	124,459	—	—	—	—	—	714,842	—	267,604	1,970,187
Mesa Airlines, Inc.	876,924	18,658	—	1,359,235	—	—	—	—	172,537	419,497	268,243	357,113	—	—	261,673	2,838,298
Mokulele Flight Service, Inc.	423,165	17,819	—	655,905	—	—	—	—	159,925	171,585	13,896	17,735	—	—	111,680	1,130,726
North American Airlines, Inc.	5,110	17	—	20,798	—	—	—	—	—	—	—	—	—	—	—	20,798
Northwest Airlines, Inc.	921,189	2,480	249,385	3,749,237	—	1,010,475	735,312	—	—	—	—	—	1,705,793	—	418,870	7,619,687
Pacific Wings LLC	18,207	2,142	—	28,221	—	—	—	—	—	—	—	2,447	—	—	8,732	39,400
Philippine Airlines, Inc.	84,214	166	34,060	342,751	—	—	37,648	—	—	—	—	—	232,970	—	232,105	845,474
Qantas Airways, Ltd.	207,300	210	34,890	843,711	—	—	42,265	—	—	—	—	—	238,648	—	461,079	1,585,703
United Airlines, Inc.	2,540,346	8,322	110,972	10,218,057	—	2,628,942	2,551,377	—	—	—	—	—	759,048	—	5,390,582	21,548,006
United Parcel Service Co.	682,931	—	—	2,329,470	—	—	—	—	—	—	—	—	—	—	30,825	2,360,295
US Airways, Inc.	401,616	1,952	—	1,634,577	—	450,810	439,689	—	—	—	—	—	—	—	373,606	2,898,682
Westjet	141,651	975	—	576,518	—	206,767	229,368	—	—	—	—	—	—	—	35,573	1,048,226
Nonsignatory airlines	2,606,793	775	104,761	3,675,459	762,543	—	—	353,070	—	—	—	—	350,530	—	1,250,930	6,392,532
Total airports system charges billed	23,276,304	135,829	1,882,771	$ 66,748,180	762,543	9,333,151	9,757,532	353,070	5,677,706	597,762	282,139	377,295	12,512,119	2,470,420	23,032,229	131,904,146
Signatory airlines requirements				55,586,572	—	8,886,686	9,575,513	—	5,513,807	544,872	321,481	432,912	10,094,878	2,470,420	21,781,299	115,208,440
Nonsignatory airlines requirements				3,675,459	762,543	—	—	353,070	—	—	—	—	350,530	—	1,250,930	6,392,532
Fiscal year 2010 overpayment (underpayment)				$ 7,486,149	—	446,465	182,019	—	163,899	52,890	(39,342)	(55,617)	2,066,711	—	—	10,303,174

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, 2010

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	63,072,721	3,675,459	66,748,180
Less aviation fuel tax credit		(3,057,616)	(256,572)	(3,314,188)
Net airport landing fees billed	$	60,015,105	3,418,887	63,433,992

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, 2010

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport					All other airports			Total
					Gross airport landing fees								
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees	Total adjusted airport landing fees
Air Canada	105,328	—	77,120	182,448	$ 428,685	—	428,685	—	428,685	313,878	—	313,878	742,563
Air New Zealand, Ltd.	39,475	—	—	39,475	160,663	—	160,663	—	160,663	—	—	—	160,663
Air Pacific, Ltd.	15,152	—	—	15,152	61,669	—	61,669	—	61,669	—	—	—	61,669
Alaska Airlines, Inc.	139,968	—	291,600	431,568	569,670	—	569,670	(271,137)	298,533	1,186,812	—	1,186,812	1,485,345
All Nippon Airways	62,476	—	—	62,476	254,277	—	254,277	—	254,277	—	—	—	254,277
American Airlines, Inc.	587,281	—	423,662	1,010,943	2,390,238	—	2,390,238	(254,346)	2,135,892	1,724,304	—	1,724,304	3,860,196
China Airlines, Ltd.	185,020	—	—	185,020	753,030	—	753,030	—	753,030	—	—	—	753,030
Continental Airlines, Inc.	469,656	—	24,773	494,429	1,911,137	—	1,911,137	—	1,911,137	100,826	—	100,826	2,011,963
Continental Micronesia, Inc.	159,627	—	—	159,627	649,681	—	649,681	—	649,681	—	—	—	649,681
Delta Airlines, Inc.	575,293	—	283,594	858,887	2,341,441	—	2,341,441	(141,570)	2,199,871	1,154,228	—	1,154,228	3,354,099
Evergreen International Airlines, Inc.	143,010	—	—	143,010	582,051	—	582,051	—	582,051	—	—	—	582,051
Federal Express Corporation	628,387	98,169	856	727,412	2,368,662	152,161	2,520,823	(169,012)	2,351,811	1,327	—	1,327	2,353,138
Hawaiian Airlines, Inc.	4,739,669	623,480	3,022,580	8,385,729	11,477,698	966,394	12,444,092	(1,293,992)	11,150,100	5,305,122	—	5,305,122	16,455,222
JALways Co., Ltd.	1,164,114	—	108,564	1,272,678	4,465,122	—	4,465,122	—	4,465,122	441,856	(774)	441,082	4,906,204
Kalitta Air, LLC	161,325	—	24,570	185,895	647,521	—	647,521	—	647,521	42,506	—	42,506	690,027
Korean Airlines Company, Ltd.	212,109	—	—	212,109	863,282	—	863,282	—	863,282	—	—	—	863,282
Mesa Airlines, Inc.	438,228	95,504	343,194	876,926	679,253	148,031	827,284	(73,747)	753,537	531,951	—	531,951	1,285,488
Mokulele Flight Service, Inc.	170,999	30,009	222,156	423,164	265,049	46,513	311,562	(15,539)	296,023	344,342	—	344,342	640,365
North American Airlines, Inc.	5,110	—	—	5,110	20,798	—	20,798	—	20,798	—	—	—	20,798
Northwest Airlines, Inc.	921,189	—	—	921,189	3,749,238	—	3,749,238	—	3,749,238	—	—	—	3,749,238
Pacific Wings LLC	3,893	9	14,306	18,208	6,034	13	6,047	(1,641)	4,406	22,174	—	22,174	26,580
Philippine Airlines, Inc.	84,214	—	—	84,214	342,751	—	342,751	—	342,751	—	—	—	342,751
Qantas Airways, Ltd.	207,300	—	—	207,300	843,711	—	843,711	—	843,711	—	—	—	843,711
United Airlines, Inc.	1,339,834	—	1,200,511	2,540,345	5,443,490	—	5,443,490	(521,397)	4,922,093	4,774,566	(85,367)	4,689,199	9,611,292
United Parcel Service Co.	517,157	—	165,774	682,931	2,071,413	—	2,071,413	(38,241)	2,033,172	258,057	—	258,057	2,291,229
US Airways, Inc.	163,818	—	237,798	401,616	666,739	—	666,739	(168,700)	498,039	967,838	—	967,838	1,465,877
Westjet	66,302	—	75,348	141,650	269,851	—	269,851	(5,381)	264,470	306,668	(16,772)	289,896	554,366
Total	13,305,934	847,171	6,516,406	20,669,511	$ 44,283,154	1,313,112	45,596,266	(2,954,703)	42,641,563	17,476,455	(102,913)	17,373,542	60,015,105

Summary of revenue landing weights:	
Overseas	12,426,456
Interisland	8,243,055
	20,669,511

Aviation fuel tax of $3,592,182 was paid by the users for the year ended June 30, 2010. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,633,095 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,057,616
Nonsignatory airlines	256,572
	$ 3,314,188

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2010.

See accompanying independent auditors’ report.

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

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

Year ended June 30, 2010

	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
Above It All, Inc.	—	963	918	1,881	$ —	918	918	(220)	698	875	(227)	648	1,346
Aeko Kula, Inc.	515,953	98,654	259,154	873,761	492,220	94,116	586,336	—	586,336	247,233	—	247,233	833,569
Aero Micronesia dba Asia Pacific	35,916	—	1,476	37,392	108,438	—	108,438	—	108,438	—	—	—	108,438
Air France	104	—	—	104	309	—	309	—	309	—	—	—	309
Air Japan Co. Ltd.	86,400	—	—	86,400	257,472	—	257,472	—	257,472	—	—	—	257,472
Air Transport International LLC	40,083	—	—	40,083	119,447	—	119,447	—	119,447	—	—	—	119,447
Air Ventures Hawaii, LLC	—	—	2,740	2,740	—	—	—	—	—	2,614	(442)	2,172	2,172
Airmed Hawaii, LLC	10,677	—	—	10,677	10,233	—	10,233	(3,356)	6,877	—	—	—	6,877
Alika Aviation Inc.	—	—	8,007	8,007	—	—	—	—	—	7,639	—	7,639	7,639
Alpine Aviation, Inc.	1,282	—	2,399	3,681	1,223	—	1,223	(505)	718	2,288	—	2,288	3,006
Aris Inc.	—	—	12,932	12,932	—	—	—	—	—	12,337	(2,529)	9,808	9,808
Atlas Air Inc.	24,480	—	—	24,480	72,950	—	72,950	—	72,950	—	—	—	72,950
Big Island Air Incorporation	23	—	6,965	6,988	22	—	22	—	22	6,645	—	6,645	6,667
Bradley Pacific Aviation Inc.	30,474	709	64,558	95,741	83,136	999	84,135	—	84,135	165,460	—	165,460	249,595
Castle & Cooke Homes Hawaii, Inc.	9,367	—	476	9,843	25,782	—	25,782	—	25,782	891	—	891	26,673
Corporate Air	46,401	221	77,166	123,788	44,267	211	44,478	—	44,478	73,617	—	73,617	118,095
Fly Kauai, Inc.	—	—	469	469	—	—	—	—	—	447	—	447	447
George’s Aviation Service, Inc.	217	245	511	973	207	234	441	(340)	101	488	(263)	225	326
Gould, Steve	—	—	1,300	1,300	—	—	—	—	—	1,240	—	1,240	1,240
Hale O’Lele Corporation	—	—	175	175	—	—	—	—	—	167	—	167	167
Harter, Jack Helicopters, Inc.	—	—	11,338	11,338	—	—	—	—	—	10,816	(2,243)	8,573	8,573
Hawaii Air Ambulance, Inc.	18,739	—	—	18,739	17,877	—	17,877	(2,473)	15,404	—	—	—	15,404
Hawaii Helicopters, Inc.	—	—	8,387	8,387	—	—	—	—	—	8,002	—	8,002	8,002
Hawaii Island Air, Inc.	213,502	1,763	339,270	554,535	203,681	1,681	205,362	(30,078)	175,284	323,664	—	323,664	498,948
Hawaiian Airlines Inc.	820	—	—	820	2,444	—	2,444	—	2,444	—	—	—	2,444
Helicopter Consultations of Maui, Inc.	7,217	45,220	69,726	122,163	6,885	43,140	50,025	(13,856)	36,169	66,519	(2,670)	63,849	100,018
Honolulu Soaring Club Inc.	—	—	1,530	1,530	—	—	—	—	—	1,460	(360)	1,100	1,100
Island Helicopters Kauai, Inc.	—	—	13,000	13,000	—	—	—	512	512	12,402	(2,089)	10,313	10,825
Jetstar Airways PTY Limited	79,366	—	—	79,366	236,512	—	236,512	—	236,512	—	—	—	236,512
K&S Helicopters, Inc.	—	9,105	—	9,105	—	8,686	8,686	(3,931)	4,755	—	—	—	4,755
Kamaka Air, Inc.	6,626	9	13,369	20,004	6,321	9	6,330	—	6,330	12,754	—	12,754	19,084
Makani Kai Helicopters Ltd.	4,449	—	4,565	9,014	4,245	—	4,245	(1,716)	2,529	4,355	—	4,355	6,884
Marjet, Inc.	310	19	446	775	296	19	315	—	315	426	—	426	741
Maui Island Air Inc.	28	—	2,233	2,261	27	—	27	—	27	2,130	—	2,130	2,157
Miscellaneous	59,009	156	2,007	61,172	173,313	464	173,777	(88)	173,689	2,815	—	2,815	176,504
Niihau Helicopters Inc.	—	—	1,112	1,112	—	—	—	—	—	1,060	—	1,060	1,060
Omni Air International, Inc.	76,059	—	—	76,059	226,656	—	226,656	(45,680)	180,976	—	—	—	180,976
Pacific Air Charters, Incorporated	214	22	1,421	1,657	204	21	225	(121)	104	1,356	(169)	1,187	1,291
Pacific Helicopter Tours, Inc.	1,113	—	1,163	2,276	1,062	—	1,062	(622)	440	1,109	(238)	871	1,311
Pofolk Aviation Hawaii, Inc.	—	—	3,098	3,098	—	—	—	—	—	2,955	—	2,955	2,955
Rainbow Pacific Helicopters	3	—	—	3	2	—	2	—	2	—	—	—	2
Safari Aviation Inc.	—	5,785	12,030	17,815	—	5,518	5,518	—	5,518	11,477	—	11,477	16,995
Sky-Med Inc.	—	—	20,803	20,803	—	—	—	—	—	19,846	—	19,846	19,846
Skyview Soaring, LLC	—	—	472	472	—	—	—	—	—	450	—	450	450
Smoky Mountain Helicopters	—	—	2,634	2,634	—	—	—	—	—	2,513	—	2,513	2,513
Squyres, Will Helicopter, Inc.	—	—	11,816	11,816	—	—	—	—	—	11,272	—	11,272	11,272
Sunshine Helicopters Inc.	—	2,328	14,757	17,085	—	2,220	2,220	(104)	2,116	14,078	(7,611)	6,467	8,583
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	27,269	11,395	33,655	72,319	26,014	10,871	36,885	(13,048)	23,837	32,107	—	32,107	55,944
Universal Enterprises, Inc.	72,207	1,015	50,646	123,868	185,652	2,003	187,655	(122,105)	65,550	129,892	—	129,892	195,442
Wings Over Kauai, LLC	—	—	2,152	2,152	—	—	—	—	—	2,053	—	2,053	2,053
Total	1,368,308	177,609	1,060,876	2,606,793	$ 2,306,897	171,110	2,478,007	(237,731)	2,240,276	1,197,452	(18,841)	1,178,611	3,418,887

Summary of revenue landing weights:	
Overseas	586,692
Interisland	2,020,101
	2,606,793

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2010.

See accompanying independent auditors’ report.