

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

*Financial Statements for the Years Ended
June 30, 2003 and 2002, Supplemental
Schedules for the Year Ended June 30,
2003 and Independent Auditors' Report*

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

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INDEPENDENT AUDITORS' REPORT

The Director
Department of Transportation
State of Hawaii:

We have audited the statements of net assets of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (Airports Division) as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the Airports Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airports Division at June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis information on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the Airports Division. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information listed as "supplementary information - schedules as of and for the year ended June 30, 2003" in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Airport Division. These schedules are also the responsibility of the management of the Airports Division. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2003 on our consideration of the Airports Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 17, 2003 (October 27, 2003 as to the
Prepaid Airport Use Charge Fund portion of Note 15)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003

The following Management's Discussion and Analysis (MD&A) of the Airports Division, Department of Transportation, State of Hawaii (Airports Division) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Airports Division for the year ended June 30, 2003, with selected comparative information for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (State) as a single integrated system for management and financial purposes. Honolulu International Airport on the island of Oahu is the principal airport in the airports system providing facilities for inter-island flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. Kahului Airport on the island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the island of Hawaii, and Lihue Airport on the island of Kauai are the other major airports in the airports system, all of which provide facilities for inter-island flights. Kahului and Kona International at Keahole also provide facilities for domestic overseas flights and flights to and from Canada. Lihue Airport also provides facilities to domestic overseas flights. Kona International at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 61.4% and 60.7% of total passenger traffic in the airports system during fiscal years 2003 and 2002, respectively. The other four principal airports accommodated 37.9% of the total passenger traffic in both fiscal years 2003 and 2002.

The other airports in the airports system are Port Allen on the island of Kauai, Dillingham Airfield (currently leased from the United States military) 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 0.7% and 1.4% of the total passenger traffic for fiscal years 2003 and 2002, respectively.

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

USING THE FINANCIAL STATEMENTS

The Airports Division is accounted for as a proprietary fund, which uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the

time liabilities are incurred. The proprietary fund includes the enterprise fund type, which is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

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

AIRPORTS DIVISION ACTIVITIES AND HIGHLIGHTS

Globally, the air transportation industry is still facing challenges in the aftermath of the terrorist attacks that occurred on September 11, 2001, which have fundamentally altered the economic structure of airports. Similar to many airport operators across the nation, the Airports Division is working to manage the statewide system of airports in this new uncertain economic reality.

The Airports Division improved its fiscal year 2003 financial results despite decreases to passenger traffic (0.2%), landed weights (2.7%), number of flights (8.6%), and international passengers (2.5%) when compared to fiscal year 2002. Operating revenues were \$54.1 million higher than fiscal year 2002 or 29.6% better than the year before.

The decreases mentioned above are due to external events such as the continued war with Iraq, the consolidation of inter-island flights by Aloha and Hawaiian Airlines, and the outbreak of Severe Acute Respiratory Syndrome (SARS). International travel from Asia and Japan dropped dramatically because of the war and SARS. However, the volume of aircraft operations increased by 4.5% from fiscal year 2002, due to increases in air taxi and general aviation activities at Kona International Airport at Keahole and Hilo International Airport, on the island of Hawaii.

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

Activity for the airports system for the years ended June 30, 2003 and 2002 is as follows:

	2003	2002	% Increase (Decrease) from 2002
Passengers (enplaning, deplaning and transit passengers activity):			
Honolulu International Airport	19,060,548	19,037,893	0.1 %
Kahului Airport	5,386,688	5,380,715	0.1 %
Lihue Airport	2,524,432	2,563,695	(1.5)%
Kona International Airport at Keahole	2,571,730	2,536,013	1.4 %
Hilo International Airport	1,311,531	1,394,152	(5.9)%
All others	<u>428,724</u>	<u>448,895</u>	(4.5)%
Total passengers	<u>31,283,653</u>	<u>31,361,363</u>	(0.2)%

	2003	2002	% Increase (Decrease) from 2002
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	310,986	316,374	(1.7)%
Kahului Airport	155,727	155,921	(0.1)%
Lihue Airport	98,644	102,711	(4.0)%
Kona International Airport at Keahole	123,651	116,704	6.0 %
Hilo International Airport	102,948	88,097	16.9 %
All others	<u>308,574</u>	<u>273,391</u>	12.9 %
Total aircraft operations	<u>1,100,530</u>	<u>1,053,198</u>	4.5 %
Revenue landed weights (1,000 pound units):			
Honolulu International Airport	15,705,743	16,016,798	(1.9)%
Kahului Airport	3,747,099	3,916,932	(4.3)%
Lihue Airport	1,631,884	1,776,494	(8.1)%
Kona International Airport at Keahole	1,943,931	1,996,211	(2.6)%
Hilo International Airport	891,474	1,038,977	(14.2)%
All others	<u>378,858</u>	<u>414,977</u>	(8.7)%
Total signatory airlines	24,298,989	25,160,389	(3.4)%
Nonsignatory airlines	<u>1,944,868</u>	<u>1,804,226</u>	7.8 %
Total revenue landed weights	<u>26,243,857</u>	<u>26,964,615</u>	(2.7)%
Revenue passenger landings:			
Honolulu International Airport	66,014	71,072	(7.1)%
Kahului Airport	22,334	24,722	(9.7)%
Lihue Airport	13,063	14,698	(11.1)%
Kona International Airport at Keahole	12,297	13,106	(6.2)%
Hilo International Airport	<u>6,515</u>	<u>8,143</u>	(20.0)%
Total signatory airlines	120,223	131,741	(8.7)%
Nonsignatory airlines	<u>1,099</u>	<u>928</u>	18.4 %
Total revenue passenger landings	<u>121,322</u>	<u>132,669</u>	(8.6)%
Deplaning international passengers:			
Honolulu International Airport	1,873,656	1,951,576	(4.0)%
Kona International Airport at Keahole	<u>63,055</u>	<u>60,323</u>	4.5 %
Total signatory airlines	1,936,711	2,011,899	(3.7)%
Nonsignatory airlines	<u>74,596</u>	<u>51,833</u>	43.9 %
Total deplaning international passengers	<u>2,011,307</u>	<u>2,063,732</u>	(2.5)%

The following airlines serve the State with scheduled or charter overseas passenger flights: Air Canada, Air New Zealand, Ltd., Air Pacific, Ltd., Air Transat, All Nippon Airways Co., Ltd., Aloha Airlines, Inc., American Airlines, Inc., American Trans-Air, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Delta Airlines, Inc., Hawaiian Airlines, Inc., Japan Air Lines

Company, Ltd., JALways Co., Ltd., Korean Airlines Company, Ltd., North American Airlines (started service in January 2003), Northwest Airlines, Inc., Philippine Airlines, Inc., Polynesian Air, Qantas Airways, Ltd., Ryan International Airlines (terminated service in January 2003), and United Airlines, Inc. The principal airlines providing inter-island passenger flight service are: Aloha Airlines, Inc., Hawaiian Airlines, Inc., and Island Air, Inc.

FINANCIAL OPERATIONS HIGHLIGHTS

The Airport Division's operating revenues increased \$54.1 million or 29.6% over the prior year from \$182.9 million to \$237.0 million. World events such as the Iraq war and Asian passengers' concern over the spread of SARS directly increased airport expenses by \$24 million to \$244.1 million and also severely impacted the DFS Group, L.P.'s (DFS) ability to continue to pay the minimum annual rent guarantee, which resulted in an operating loss of \$7 million.

In comparison to fiscal year 2002, the Airports Division ended its fiscal year 2003 with a net increase of \$1.5 million in its net assets, compared to a net decrease in its net assets of \$23.1 million from fiscal year 2001. Fiscal year 2002 became a financial anomaly when the State Legislature enacted and the Governor approved Act 15, Third Special Session Laws of Hawaii 2001, which granted \$48.8 million in relief to airport concessionaires and airlines. The minimum annual guarantee (MAG) rents for qualified concessionaires were waived from September 11, 2001 to April 30, 2002, and reinstated on May 1, 2002, upon the expiration of Act 15. Airport landing fees and airports system support charges were waived from September 18, 2001 to March 31, 2002, and reinstated on April 1, 2002.

If Act 15 relief was included with the fiscal year 2002 revenues, then fiscal year 2002 would have increased reported revenues from \$182.9 million to approximately \$231.7 million. In contrast, in evaluating fiscal year 2003 with the war and SARS dramatically reducing international travel, the Airports Division still exceeded fiscal year 2002 by over \$5 million. The improvement in airport revenues despite external economic pressures is an important indicator that Hawaii remains a safe and desirable choice for travelers as a leisure destination. The future financial outlook for the Airports Division is optimistic and healthy.

A summary of operations and changes in net assets for the years ended June 30, 2003 and 2002 follows:

	2003	2002
Operating revenues	\$ 236,970,750	\$ 182,894,810
Operating expenses, excluding depreciation	<u>(165,895,285)</u>	<u>(141,289,738)</u>
Operating income before depreciation	71,075,465	41,605,072
Depreciation	<u>(78,204,779)</u>	<u>(84,729,799)</u>
Operating loss	(7,129,314)	(43,124,727)
Nonoperating expenses - net	<u>(13,909,406)</u>	<u>(15,107,088)</u>
Loss before capital contributions and transfers	(21,038,720)	(58,231,815)
Capital contributions and transfers:		
Federal capital grants	22,536,388	15,406,845
Contributed land		2,630,000
Transfers in		<u>17,103,058</u>
Total capital contributions and transfers	<u>22,536,388</u>	<u>35,139,903</u>
Net increase (decrease) in net assets	<u>\$ 1,497,668</u>	<u>\$ (23,091,912)</u>

- Operating revenues increased by 29.6% from \$182.9 million in fiscal year 2002 to \$237.0 million in fiscal year 2003. The primary reason for the increase was the reinstatement of airport landing fees and airports system support charges, effective April 1, 2002, and the MAG rents, effective May 1, 2002.
- Operating expenses excluding depreciation increased by 17.4% from \$141.3 million to \$165.9 million, primarily due to increases in bad debt expense of \$12.3 million, salaries and wages of \$5.7 million, other personnel services of \$3.1 million, State of Hawaii surcharge on gross receipts of \$2.8 million, and utilities of \$1.4 million.

The increase in bad debt expense of \$12.3 million was mainly due to a \$10 million bad debt allowance for the In-Bond concession contract. After a significant amount of negotiation between the Airports Division and DFS, both parties entered into a Withdrawal and Settlement Agreement (Agreement), effective August 1, 2003. Under the terms of the Agreement, DFS would bring current the amounts due for the In-Bond concession, based on compromised amounts. The Agreement allowed the MAG rent to be adjusted from \$60 million to \$40 million beginning January 1, 2003. The \$10 million bad debt allowance represents the amount of MAG rent adjustment from January 1, 2003 to June 30, 2003 in accordance with the Agreement.

The \$5.7 million increase in salaries and wages was primarily due to an increase in fiscal year 2003 fringe benefit rate from 21.2% to 32.2% as a result of an increase in the pension accumulation rate from 0% in fiscal year 2002 to 8.9% in fiscal year 2003.

The \$3.1 million increase in other personnel services was primarily due to increases in security costs as a result of changes in the national security levels from "yellow" to "orange" due to the war in Iraq.

The \$2.8 million increase in the State of Hawaii surcharge on gross receipts was primarily due to the increase in operating revenues.

- The net results of the above resulted in operating income before depreciation increasing by 70.8% or \$29.5 million from fiscal year 2002. Depreciation expense decreased by 7.7% from \$84.7 million to \$78.2 million, due to changes in the capitalization policy in fiscal year 2002, which increased the threshold for capitalization. The operating loss, before nonoperating expenses - net, of \$7.1 million in fiscal year 2003 is an 83.5% decrease from the operating loss of \$43.1 million in fiscal year 2002.
- Nonoperating expenses – net decreased by 7.9% in fiscal year 2003, or \$1.2 million, primarily due to decreases in interest expense from bond indebtedness and in interest income from investments.
- Loss before capital contributions and transfers decreased by 63.9% in fiscal year 2003, or \$37.2 million, due to an increase in operating income before depreciation.
- Capital contributions and transfers decreased by 35.9% in fiscal year 2003, or \$12.6 million, due to nonrecurring items in fiscal year 2002. In fiscal year 2002, there was a transfer in of \$17.1 million from the Highways Division representing the return of the unspent balance of \$250 million previously transferred to the Highways Division in fiscal year 1991, and a land donation of \$2.6 million from Castle & Cooke, Inc.

FINANCIAL POSITION SUMMARY

A condensed summary of the Airports Division's net assets at June 30, 2003 and 2002 is shown below:

	2003	2002
ASSETS:		
Current assets:		
Unrestricted assets	\$ 612,455,472	\$ 611,119,008
Restricted assets	247,195,323	255,897,665
Noncurrent assets:		
Restricted assets	41,118,410	41,943,647
Capital assets	1,485,668,685	1,510,323,740
Bond issue costs	5,939,035	6,654,833
Total	<u>\$2,392,376,925</u>	<u>\$2,425,938,893</u>
LIABILITIES:		
Current liabilities:		
Payable from unrestricted assets	\$ 28,108,790	\$ 34,686,263
Payable from restricted assets	47,684,537	55,987,403
Long-term liabilities	833,211,162	853,390,459
Total	<u>\$ 909,004,489</u>	<u>\$ 944,064,125</u>
NET ASSETS:		
Invested in capital assets - net of related debt	\$ 740,114,374	\$ 739,034,675
Restricted	167,154,587	175,159,213
Unrestricted	576,103,475	567,680,880
Total	<u>\$1,483,372,436</u>	<u>\$1,481,874,768</u>

The largest portion of the Airports Division's net assets (49.9% at June 30, 2003 and 2002) represents its investment in capital assets (e.g., land, building 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 to 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 (11.3% at June 30, 2003 and 11.8% at June 30, 2002) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (Certificate).

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash in the amount of \$572.9 million at June 30, 2003 and \$574.7 million at June 30, 2002. The sizable cash balance provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP.

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. The net assets exceeded liabilities by \$1,483.4 million at June 30, 2003, representing an increase of \$1.5 million from June 30, 2002, compared to \$1,481.9 million at June 30, 2002, representing a decrease of \$23.1 million from June 30, 2001.

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 expired in 1992 and were extended under various short-term agreements.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the expired 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 expired airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The lease extension agreement's residual rate-setting methodology provided for a final year-end reconciliation containing actual airports system cost data to determine whether airports system charges assessed to the signatory airlines were sufficient to recover airports system costs, including debt service requirements. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement and various agreements between the DOT and airlines since June 30, 1997. The final reconciliation for fiscal years 2003 and 2002 in accordance with these agreements resulted in a net underpayment by the signatory airlines of \$1,438,346 and \$3,557,938, respectively. The State waived the signatory airlines underpayments of rates and charges in both fiscal years based on its agreement with the airlines.

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

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

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

The following summarizes the rates in effect at June 30, 2003 and 2002:

	2003	2002
Airport landing fees:		
Signatory airlines:		
Overseas flights	\$ 1.930	\$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges:		
Signatory airlines:		
Overseas terminal	520.372	475.789
Blended overseas	400.140	380.666
Inter-island terminal	77.281	70.739
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges:		
Signatory airlines	4.029	3.623
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges -		
Signatory airlines	15.378	14.057
Airports system support charges - Nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

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

REVENUES

A summary of revenues for the year ended June 30, 2003 and the amount and percentage of change in relation to prior year amounts is as follows:

	2003		Increase (Decrease) from 2002	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Concession fees:				
Duty Free	\$ 60,000,000	22.2 %	\$ 20,152,297	50.6 %
Other concessions	71,878,195	26.5 %	8,937,754	14.2 %
Airport landing fees	34,579,691	12.8 %	20,014,216	137.4 %
Aeronautical rentals:				
Exclusive-use premise charges	27,697,345	10.2 %	978,766	3.7 %
Nonexclusive joint-use premise charges	25,095,942	9.3 %	2,119,592	9.2 %
Nonaeronautical rentals	9,568,167	3.5 %	520,640	5.8 %
Aviation fuel tax	2,854,123	1.1 %	(468,367)	(14.1) %
Airports system support charges	896,109	0.3 %	504,469	128.8 %
Miscellaneous	<u>4,401,178</u>	1.6 %	<u>1,316,573</u>	42.7 %
Total operating	236,970,750	87.5 %	54,075,940	29.6 %
NONOPERATING:				
Interest income, investments	25,654,588	9.5 %	(4,860,196)	(15.9) %
Interest income, direct financing leases	2,997,441	1.1 %	(66,037)	(2.2) %
Federal operating grants	3,088,120	1.1 %	(1,860,919)	(37.6) %
Gain on disposal of capital assets	<u>2,122,601</u>	0.8 %	<u>6,515,607</u>	(148.3) %
Total nonoperating	<u>33,862,750</u>	12.5 %	<u>(271,545)</u>	(0.8) %
TOTAL REVENUES	<u>\$270,833,500</u>	100.0 %	<u>\$53,804,395</u>	24.8 %

EXPENSES

A summary of expenses for the year ended June 30, 2003, and the amount and percentage of change in relation to prior year amounts is as follows:

	2003		Increase (Decrease) from 2002	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Salaries and wages	\$ 53,584,000	18.4 %	\$ 5,736,362	12.0 %
Other personnel services	39,732,886	13.6 %	3,055,152	8.3 %
Utilities	18,388,636	6.3 %	1,365,223	8.0 %
Bad debt expense	12,793,352	4.4 %	12,272,450	2,356.0 %
Repairs and maintenance	10,302,124	3.5 %	445,825	4.5 %
State of Hawaii surcharge on gross receipts	8,517,875	2.9 %	2,778,619	48.4 %
Special maintenance	7,686,122	2.6 %	(2,888,102)	(27.3) %
Materials and supplies	4,184,650	1.4 %	(454,916)	(9.8) %
Department of Transportation general administration expenses	3,577,238	1.2 %	225,518	6.7 %
Insurance	2,816,609	1.0 %	726,915	34.8 %
Disbursements out of major maintenance, renewal and replacement account	1,501,919	0.5 %	1,225,297	442.9 %
Claims and benefits	1,428,934	0.5 %	185,748	14.9 %
Communication	344,378	0.1 %	(58,181)	(14.5) %
Rent	270,159	0.1 %	25,282	10.3 %
Travel	269,264	0.1 %	(38,478)	(12.5) %
Dues and subscriptions	171,606	0.1 %	41,368	31.8 %
Printing and advertising	28,043	0.0 %	9,837	54.0 %
Freight and delivery	12,811	0.0 %	379	3.0 %
Miscellaneous	284,679	0.1 %	(48,751)	(14.6) %
Total operating	165,895,285	56.8 %	24,605,547	17.4 %
DEPRECIATION	78,204,779	26.8 %	(6,525,020)	(7.7) %
NONOPERATING:				
Interest expense:				
Revenue bonds:				
Airports system	42,862,164	14.7 %	(1,388,029)	(3.1) %
Special facility	2,997,441	1.0 %	(66,037)	(2.2) %
General obligation bonds	4,644	0.0 %	(15,161)	(76.6) %
Loss on redemption of bonds	1,907,907	0.7 %		0.0 %
Total nonoperating	47,772,156	16.4 %	(1,469,227)	(3.0) %
TOTAL EXPENSES	\$ 291,872,220	100.0 %	\$ 16,611,300	6.0 %

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the years ended June 30, 2003 and 2002. Cash equivalents include highly liquid investments with an original maturity of three months or less.

	2003	2002
Cash flow provided by operating activities	\$ 58,489,515	\$ 24,051,690
Cash flow provided by noncapital financing activities	6,111,664	1,781,250
Cash flow used in capital and related financing activities	(101,498,868)	(86,574,779)
Cash flow provided by investing activities	<u>26,378,621</u>	<u>34,054,737</u>
Net decrease in cash and cash equivalents	(10,519,068)	(26,687,102)
Cash and cash equivalents, beginning of year	<u>745,320,119</u>	<u>772,007,221</u>
Cash and cash equivalents, end of year	<u>\$ 734,801,051</u>	<u>\$ 745,320,119</u>

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

In fiscal year 2003, there were seven construction bid openings totaling an estimated \$28 million in construction contracts. Significant projects include the Overseas Terminal Improvements, Phase II at Honolulu International Airport; Electrical System Upgrade for TSA at Honolulu International Airport; and Kalaeloa Airport Improvements at Kalaeloa Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2003 that were under construction during the fiscal year. These projects include the Terminal Roof Replacement at Hilo International Airport; General Aviation Site Preparation at Kona International Airport at Keahole; Third Level Overseas Terminal Roadway Strengthening at Honolulu International Airport; Ticket Lobby Canopies at Honolulu International Airport; and Statewide Architectural Barrier Removal Phase III. These projects total approximately \$33.7 million in construction contracts.

Finally, there were six construction projects that were completed in fiscal year 2003. These projects total over \$6 million in construction contracts and include Perimeter Roadway at Honolulu International Airport; Overseas Terminal Improvements at Honolulu International Airport; Molokai Airport Runway Lighting System; and Statewide Architectural Barrier Removal Phase III at Molokai, Lanai, and Kauai Airports. During fiscal year 2003, the Airports Division expended over \$45 million on capital activities.

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

INDEBTEDNESS

Airports System Revenue Bonds and Reimbursable General Obligation Bonds

As of July 1, 2003, \$790,020,000 of airports system revenue bonds was outstanding compared to \$809,570,000 as of July 1, 2002. The last series of "new money" bonds used to fund capital improvement projects was issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. As of June 30, 2003 and 2002, \$38,696 and \$56,000,000 of authorized but unissued airports system revenue bonds lapsed. On July 1, 2003, there was legislative authorization to issue additional bonds of \$22,100,000.

As of June 30, 2003, \$75,402 of reimbursable general obligation bonds issued for the airports system was outstanding compared to \$349,167 as of June 30, 2002. These bonds are general obligations of the State, but since the proceeds were used to finance improvements to the airports system, the Airports Division is required to reimburse the State General Fund for the payment of the principal and interest on such bonds. The State does not presently intend to issue additional reimbursable general obligation bonds for the airports system.

Special Obligation Bonds

The State Legislature has authorized \$200,000,000 of special obligation bonds pursuant to Section 261-52, Hawaii Revised Statutes. As of June 30, 2003, there were outstanding bond obligations of \$40,845,000 and \$41,665,000 as of June 30, 2002. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

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

CREDIT RATING AND BOND INSURANCE

All airports system revenue bonds issued since 1989 have been issued with bond insurance and are rated AAA by Standard & Poor's Corporation, Aaa by Moody's Investors Service, and AAA by Fitch IBCA, Inc. As of September 16, 2002, the underlying ratings for airports system revenue bonds were as follows:

- Standard & Poor's Corporation: A- (with negative outlook), which is slightly below the rating agency's median for airports (A).
- Moody's Investors Service: A3 (with negative outlook), which is slightly below the rating agency's median for airports (A2).
- Fitch IBCA, Inc.: A (with negative outlook), which is slightly below the rating agency's median rating for airports (A+).

REQUEST FOR INFORMATION

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

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

STATEMENTS OF NET ASSETS
JUNE 30, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 3)	\$ 572,889,904	\$ 574,706,630
Receivables:		
Accounts - net of allowance for uncollectible accounts of \$16,118,548 and \$4,354,844	30,762,150	28,368,325
Interest	2,255,736	2,979,769
Claims receivable - federal grants	5,259,144	4,086,071
Aviation fuel tax	179,970	298,494
Due from State of Hawaii	906,686	461,011
	<u>39,363,686</u>	<u>36,193,670</u>
Total receivables	39,363,686	36,193,670
Inventory of materials and supplies, at cost	<u>201,882</u>	<u>218,708</u>
Total unrestricted current assets	612,455,472	611,119,008
Restricted assets:		
Cash and cash equivalents (Note 3):		
Revenue bond debt service (Note 6)	105,763,494	114,533,395
Revenue bond construction	53,156,796	53,338,882
Security deposits	<u>2,990,857</u>	<u>2,741,212</u>
Total cash and cash equivalents - restricted	161,911,147	170,613,489
Investments - revenue bond debt service reserve (Notes 3 and 6)	<u>85,284,176</u>	<u>85,284,176</u>
Total restricted current assets	<u>247,195,323</u>	<u>255,897,665</u>
Total current assets	859,650,795	867,016,673
NON-CURRENT ASSETS:		
Restricted assets - net investments in direct financing leases (Note 8)	41,118,410	41,943,647
Capital assets - net of accumulated depreciation of \$1,057,277,250 and \$979,814,076 (Notes 4, 6 and 7)	1,485,668,685	1,510,323,740
Bond issue costs - net of accumulated amortization of \$4,485,932 and \$3,770,134 (Note 6)	<u>5,939,035</u>	<u>6,654,833</u>
Total non-current assets	<u>1,532,726,130</u>	<u>1,558,922,220</u>
TOTAL ASSETS	<u>\$2,392,376,925</u>	<u>\$2,425,938,893</u>

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

STATEMENTS OF NET ASSETS (Continued)
JUNE 30, 2003 AND 2002

LIABILITIES AND NET ASSETS	2003	2002
CURRENT LIABILITIES:		
Payable from unrestricted assets:		
Vouchers payable	\$ 3,872,995	\$ 6,012,765
Contracts payable (including retainage of \$3,449,055 and \$3,521,402)	16,334,055	19,093,969
Current portion of general obligation bonds (Notes 5 and 7)	9,427	273,765
Deferred income (Note 8)	237,409	565,721
Current portion of workers' compensation (Notes 5 and 14)	858,782	837,449
Current portion of compensated absences (Note 5)	2,426,163	2,142,518
Accrued wages	3,519,136	2,700,392
Prepaid airport use charge fund (Note 8)	8,665	468,665
Due to other state agencies		934,803
Other	<u>842,158</u>	<u>1,656,216</u>
Total (payable from unrestricted assets)	28,108,790	34,686,263
Payable from restricted assets:		
Contracts payable (including retainage of \$126,564 and \$299,413)	126,608	304,186
Current portion of airports system revenue bonds (Notes 5 and 6)	19,550,000	27,185,000
Current portion of special facility revenue bonds (Notes 5 and 8)	850,000	820,000
Accrued interest	24,167,072	24,937,005
Security deposits	<u>2,990,857</u>	<u>2,741,212</u>
Total (payable from restricted assets)	<u>47,684,537</u>	<u>55,987,403</u>
Total current liabilities	75,793,327	90,673,666
LONG-TERM LIABILITIES - Net of current portion:		
Compensated absences (Note 5)	4,884,229	5,109,726
Workers' compensation (Notes 5 and 14)	3,241,218	3,262,551
General obligation bonds (Notes 5 and 7)	65,975	75,402
Airports system revenue bonds (Notes 5 and 6)	785,024,740	804,097,780
Special facility revenue bonds (Notes 5 and 8)	<u>39,995,000</u>	<u>40,845,000</u>
Total liabilities	909,004,489	944,064,125
COMMITMENTS AND CONTINGENCIES (Notes 8, 10, 13, 14 and 15)		

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

STATEMENTS OF NET ASSETS (Continued)
JUNE 30, 2003 AND 2002

LIABILITIES AND NET ASSETS (Continued)	2003	2002
NET ASSETS:		
Invested in capital assets - net of related debt	\$ 740,114,374	\$ 739,034,675
Restricted - reserved for revenue bond requirements:		
Debt service payment	19,550,000	27,185,000
Debt service reserve account	85,284,176	85,284,176
Major maintenance, renewal and replacement account	<u>62,320,411</u>	<u>62,690,037</u>
Total restricted	167,154,587	175,159,213
Unrestricted	<u>576,103,475</u>	<u>567,680,880</u>
Total net assets	<u>1,483,372,436</u>	<u>1,481,874,768</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$2,392,376,925</u></u>	<u><u>\$2,425,938,893</u></u>

See accompanying notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES (Notes 8, 9 and 12):		
Concession fees	\$ 131,878,195	\$ 102,788,144
Aeronautical rentals:		
Exclusive-use premise charges	27,697,345	26,718,579
Nonexclusive joint-use premise charges	25,095,942	22,976,350
Airport landing fees	34,579,691	14,565,475
Nonaeronautical rentals	9,568,167	9,047,527
Aviation fuel tax	2,854,123	3,322,490
Airports system support charges	896,109	391,640
Miscellaneous	<u>4,401,178</u>	<u>3,084,605</u>
Total operating revenues	236,970,750	182,894,810
OPERATING EXPENSES (Notes 8, 9, 10, 11, 12, 13, 14 and 15):		
Salaries and wages	53,584,000	47,847,638
Other personnel services	39,732,886	36,677,734
Utilities	18,388,636	17,023,413
Bad debt expense	12,793,352	520,902
Repairs and maintenance	10,302,124	9,856,299
State of Hawaii surcharge on gross receipts	8,517,875	5,739,256
Special maintenance	7,686,122	10,574,224
Materials and supplies	4,184,650	4,639,566
Department of Transportation general administration expenses	3,577,238	3,351,720
Insurance	2,816,609	2,089,694
Disbursements out of major maintenance, renewal and replacement account	1,501,919	276,622
Claims and benefits	1,428,934	1,243,186
Communication	344,378	402,559
Rent	270,159	244,877
Travel	269,264	307,742
Dues and subscriptions	171,606	130,238
Printing and advertising	28,043	18,206
Freight and delivery	12,811	12,432
Miscellaneous	284,679	333,430
Depreciation	<u>78,204,779</u>	<u>84,729,799</u>
Total operating expenses	<u>244,100,064</u>	<u>226,019,537</u>
OPERATING LOSS (Forward)	(7,129,314)	(43,124,727)

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (Continued)
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING LOSS (Forwarded)	\$ (7,129,314)	\$ (43,124,727)
NONOPERATING REVENUES (EXPENSES):		
Interest income:		
Certificates of deposit, repurchase agreements and U.S. government securities	25,654,588	30,514,784
Investments in direct financing leases (Note 8)	2,997,441	3,063,478
Interest expense:		
Revenue bonds:		
Airports system (Note 6)	(42,862,164)	(44,250,193)
Special facility (Note 8)	(2,997,441)	(3,063,478)
General obligation bonds (Note 7)	(4,644)	(19,805)
Federal operating grants	3,088,120	4,949,039
Gain (loss) on disposal of capital assets (Note 4)	2,122,601	(4,393,006)
Loss on redemption of bonds (Note 6)	<u>(1,907,907)</u>	<u>(1,907,907)</u>
Nonoperating expenses - net	<u>(13,909,406)</u>	<u>(15,107,088)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(21,038,720)	(58,231,815)
CAPITAL CONTRIBUTIONS AND TRANSFERS:		
Federal capital grants	22,536,388	15,406,845
Contributed land (Note 4)		2,630,000
Transfer in from Highways Division (Note 12)		<u>17,103,058</u>
Total capital contributions and transfers	<u>22,536,388</u>	<u>35,139,903</u>
INCREASE (DECREASE) IN NET ASSETS	1,497,668	(23,091,912)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>1,481,874,768</u>	<u>1,504,966,680</u>
TOTAL NET ASSETS, END OF YEAR	<u><u>\$1,483,372,436</u></u>	<u><u>\$1,481,874,768</u></u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ 233,342,724	\$ 155,273,144
Cash paid to suppliers	(122,146,101)	(84,133,549)
Cash paid to employees	<u>(52,707,108)</u>	<u>(47,087,905)</u>
Net cash provided by operating activities	58,489,515	24,051,690
CASH FLOWS FROM NONCAPITAL FINANCING		
ACTIVITIES - Proceeds from federal operating grants	6,111,664	1,781,250
CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(45,963,976)	(32,402,669)
Proceeds from federal capital grants	18,339,771	19,498,361
Interest paid on airports system revenue and general obligation		
bonds	(48,555,898)	(41,589,291)
Principal paid on general obligation bonds	(273,765)	(374,238)
Principal paid on airports system revenue bonds	(27,185,000)	(48,810,000)
Proceeds from disposal of capital assets	2,140,000	
Proceeds from transfer in from Highways Division	<u> </u>	<u>17,103,058</u>
Net cash used in capital and related financing activities	(101,498,868)	(86,574,779)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	99,475,676	107,495,728
Interest received on investments	26,378,621	34,543,635
Purchases of investments	<u>(99,475,676)</u>	<u>(107,984,626)</u>
Net cash provided by investing activities	<u>26,378,621</u>	<u>34,054,737</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,519,068)	(26,687,102)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>745,320,119</u>	<u>772,007,221</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 734,801,051</u>	<u>\$ 745,320,119</u>

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

STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (7,129,314)	\$ (43,124,727)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	78,204,779	84,729,799
Provision for uncollectible accounts	12,793,352	520,902
Changes in operating assets and liabilities:		
Accounts receivable	(15,187,177)	(16,026,031)
Aviation fuel tax receivable	118,524	95,710
Inventory of materials and supplies	16,826	258
Vouchers payable	(2,139,770)	1,591,603
Contracts payable	(6,331,394)	(15,929)
Deferred income	(328,312)	(11,490,907)
Accrued wages	876,892	759,733
Prepaid airport use charge fund	(460,000)	(679,502)
Due to State of Hawaii	(1,380,478)	7,136,198
Security deposits	249,645	(41,838)
Other	(814,058)	596,421
Net cash provided by operating activities	<u>\$ 58,489,515</u>	<u>\$ 24,051,690</u>

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 relating to special facility revenue bonds	\$ 820,000	\$ 790,000
Interest payments relating to special facility revenue bonds	3,002,678	2,784,831
Amortization of revenue bond issue costs	715,798	849,732
Amortization of revenue bond discount	149,429	223,544
Amortization of revenue bond premium	1,580,376	1,580,395
Amortization of deferred loss on refunding revenue bonds	1,907,907	1,907,907

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

**STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30, 2003 AND 2002**

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

- At June 30, 2003 and 2002, contracts payable included \$8,557,126 and \$5,163,224, respectively, for the acquisition of capital assets.
- During fiscal years 2003 and 2002, \$4,209,245 and \$4,561,307, respectively, of interest was capitalized in property, plant and equipment.
- Property, plant, and equipment with a net book value of \$17,399 and \$4,393,006 were written off in fiscal years 2003 and 2002, respectively.
- During fiscal year 1997, Castle & Cooke, Inc. donated property having an appraised fair market value of \$2,630,000 at that time. This acquisition was recorded in fiscal year 2002.

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002

1. REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Cash and Cash Equivalents - All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and cash equivalents include amounts held in the State Treasury. The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). The Airports Division's portion of this cash pool at June 30, 2003 and 2002 is described in Note 3. The Hawaii Revised Statutes authorize the State Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally insured savings and checking accounts, certificates of deposit, and repurchase agreements with federally insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with state statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

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

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

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

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

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

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

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

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

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

Employees' Retirement System - The Airports Division's contributions to the Employees' Retirement System of the State of Hawaii (ERS) are based on the current contribution rate determined by the State

Department of Budget and Finance. The Airports Division's policy is to fund its required contribution annually.

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

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

New Accounting Pronouncements - In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement amends Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2003. Management does not expect the adoption of Statement No. 39 to have a significant impact on the financial statements.

Reclassifications - Reclassifications have been made to the 2002 financial statements to conform to the classifications used in 2003.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments at June 30, 2003 and 2002 consisted of the following:

	2003	2002
Petty cash	\$ 17,805	\$ 17,805
Cash in State Treasury	734,783,246	745,302,314
Certificates of deposit		29,890,382
Repurchase agreements	<u>85,284,176</u>	<u>55,393,794</u>
	<u>\$820,085,227</u>	<u>\$830,604,295</u>

Such amounts are reflected in the statement of net assets at June 30, 2003 and 2002 as follows:

	2003	2002
Cash and cash equivalents:		
Unrestricted	\$572,889,904	\$574,706,630
Restricted	<u>161,911,147</u>	<u>170,613,489</u>
Total cash and cash equivalents	734,801,051	745,320,119
Investments - restricted	<u>85,284,176</u>	<u>85,284,176</u>
Total cash and cash equivalents and investments	<u>\$820,085,227</u>	<u>\$830,604,295</u>

At June 30, 2003 and 2002, information relating to the insurance and collateral of cash deposits was not available since such information is determined on a statewide basis and not for individual departments or divisions. Cash deposits of the State are covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agent in the name of the State.

State statutes authorize the Airports Division to invest, with certain restrictions, in obligations of the State or the United States, and in federally insured savings accounts, certificates of deposit, and repurchase agreements with federally insured financial institutions. Money held as reserves may be invested in obligations of the United States, the State, or any subdivision of the State. At June 30, 2003 and 2002, the investments consisted of certificates of deposit and repurchase agreements. 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.

Effective August 1, 1999, the State established a 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. The Airports Division records the pooled assets as Cash in State Treasury. At June 30, 2003 and 2002, the amounts held in the investment pool amounted to \$734,770,426 and \$745,302,314, respectively.

Fair values of the Airports Division's certificates of deposit and repurchase agreements approximate cost. The fair value of nonparticipating certificates of deposit and repurchase agreements are reported using a cost-based measure.

4. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2003 and 2002 consist of the following:

	Balance, July 1, 2002	Increases	Decreases	Transfers	Balance, June 30, 2003
Capital assets not being depreciated:					
Land	\$ 288,853,840				\$ 288,853,840
Land improvements	12,287,797				12,287,797
Construction in progress	<u>76,207,552</u>	<u>\$ 50,210,502</u>		<u>\$ (40,774,767)</u>	<u>85,643,287</u>
Total capital assets not being depreciated	377,349,189	50,210,502		(40,774,767)	386,784,924
Capital assets being depreciated:					
Land improvements	691,381,733	282,276		13,974,332	705,638,341
Buildings and improvements	1,246,316,243	568,051		25,395,087	1,272,279,381
Machinery and equipment	<u>175,090,651</u>	<u>2,506,294</u>	<u>\$ (759,004)</u>	<u>1,405,348</u>	<u>178,243,289</u>
Total capital assets being depreciated	2,112,788,627	3,356,621	(759,004)	40,774,767	2,156,161,011
Less accumulated depreciation:					
Land improvements	410,808,537	26,405,772			437,214,309
Buildings and improvements	426,489,143	41,403,300			467,892,443
Machinery and equipment	<u>142,516,396</u>	<u>10,395,707</u>	<u>(741,605)</u>		<u>152,170,498</u>
Total depreciation	<u>979,814,076</u>	<u>78,204,779</u>	<u>(741,605)</u>		<u>1,057,277,250</u>
Capital assets being depreciated - net	<u>1,132,974,551</u>				<u>1,098,883,761</u>
Total capital assets	<u>\$ 1,510,323,740</u>				<u>\$ 1,485,668,685</u>

	Balance, July 1, 2001	Increases	Decreases	Transfers	Balance, June 30, 2002
Capital assets not being depreciated:					
Land	\$ 283,341,229	\$ 2,630,000		\$ 2,882,611	\$ 288,853,840
Land improvements	12,244,205			43,592	12,287,797
Construction in progress	<u>101,884,586</u>	<u>41,027,791</u>	<u>\$ (4,705,061)</u>	<u>(61,999,764)</u>	<u>76,207,552</u>
Total capital assets not being depreciated	397,470,020	43,657,791	(4,705,061)	(59,073,561)	377,349,189
Capital assets being depreciated:					
Land improvements	645,857,513		(3,000)	45,527,220	691,381,733
Buildings and improvements	1,241,974,645		(146,451)	4,488,049	1,246,316,243
Machinery and equipment	<u>165,404,762</u>	<u>1,099,409</u>	<u>(471,812)</u>	<u>9,058,292</u>	<u>175,090,651</u>
Total capital assets being depreciated	2,053,236,920	1,099,409	(621,263)	59,073,561	2,112,788,627
Less accumulated depreciation:					
Land improvements	386,485,676	24,322,861			410,808,537
Buildings and improvements	386,195,805	40,293,338			426,489,143
Machinery and equipment	<u>122,873,973</u>	<u>20,113,600</u>	<u>(471,177)</u>		<u>142,516,396</u>
Total depreciation	<u>895,555,454</u>	<u>84,729,799</u>	<u>(471,177)</u>		<u>979,814,076</u>
Capital assets being depreciated - net	<u>1,157,681,466</u>				<u>1,132,974,551</u>
Total capital assets	<u>\$ 1,555,151,486</u>				<u>\$ 1,510,323,740</u>

During fiscal year 2003, the Airports Division completed the transfer of certain parcels of land to the State Department of Land and Natural Resources to settle its obligations under a 1984 land exchange agreement. As the fair value of the land received was less than the fair value of the land given, the Airports Division received \$2,140,000 in cash. The cash proceeds have been recorded as a gain on disposal of capital assets for fiscal year 2003.

During fiscal year 2003, the Airports Division acquired five buildings upon the expiration of land lease agreements. No amount has been recorded for these acquisitions as of June 30, 2003 as an appraisal at the date of acquisition is not available.

During fiscal year 2002, the Airports Division transferred artwork to the State Foundation on Culture and the Arts resulting in a loss of \$178,321.

In November 1997, Castle & Cooke, Inc. donated land to the Airports Division. The land donated consists of 413.742 acres adjacent to and surrounding the Lanai Airport. Due to an oversight, the

property was not recorded when received. In fiscal year 2002, the land was recorded at \$2,630,000, the fair market value at the time of the donation.

5. LONG-TERM LIABILITIES

A summary of the long-term liabilities changes during fiscal year 2003 and 2002 follows:

	Balance, June 30, 2002	Increases	Decreases	Balance, June 30, 2003	Current	Noncurrent
Workers' compensation	\$ 4,100,000	\$ 711,948	\$ (711,948)	\$ 4,100,000	\$ 858,782	\$ 3,241,218
Compensated absences	7,252,244	58,148		7,310,392	2,426,163	4,884,229
General obligation bonds	349,167		(273,765)	75,402	9,427	65,975
Airports system revenue bonds	831,282,780		(26,708,040)	804,574,740	19,550,000	785,024,740
Special facility revenue bonds	<u>41,665,000</u>		<u>(820,000)</u>	<u>40,845,000</u>	<u>850,000</u>	<u>39,995,000</u>
	<u>\$884,649,191</u>	<u>\$ 770,096</u>	<u>\$ (28,513,753)</u>	<u>\$856,905,534</u>	<u>\$23,694,372</u>	<u>\$833,211,162</u>

	Balance, June 30, 2001	Increases	Decreases	Balance, June 30, 2002	Current	Noncurrent
Workers' compensation	\$ 4,100,000	\$ 537,022	\$ (537,022)	\$ 4,100,000	\$ 837,449	\$ 3,262,551
Compensated absences	6,884,352	367,892		7,252,244	2,142,518	5,109,726
General obligation bonds	723,405		(374,238)	349,167	273,765	75,402
Airports system revenue bonds	879,541,724		(48,258,944)	831,282,780	27,185,000	804,097,780
Special facility revenue bonds	<u>42,455,000</u>		<u>(790,000)</u>	<u>41,665,000</u>	<u>820,000</u>	<u>40,845,000</u>
	<u>\$933,704,481</u>	<u>\$904,914</u>	<u>\$ (49,960,204)</u>	<u>\$884,649,191</u>	<u>\$31,258,732</u>	<u>\$853,390,459</u>

6. AIRPORTS SYSTEM REVENUE BONDS

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

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 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
- b. To pay or provide for the payment of the costs of operation, maintenance and repair of airport properties.
- 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, 2003 and 2002, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the 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 require the consent of 100% of the bondholders, have not taken effect as of June 30, 2003.

At June 30, 2003 and 2002, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statement of net assets) consisted of the following:

	2003	2002
Debt service reserve account	\$ 85,284,176	\$ 85,284,176
Major maintenance, renewal and replacement account	<u>62,320,411</u>	<u>62,690,037</u>
	147,604,587	147,974,213
Principal and interest due July 1	<u>43,443,083</u>	<u>51,843,358</u>
	<u><u>\$191,047,670</u></u>	<u><u>\$199,817,571</u></u>

At June 30, 2003 and 2002, respectively, \$38,696 and \$56,000,000 of authorized but unissued airports system revenue bonds lapsed. On July 1, 2003, there was legislative authorization to issue additional bonds of \$22,100,000.

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, 2003 and 2002:

Series	Interest Rate	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount	
				2003	2002
1993, refunding	4.00 - 6.45	2013	\$ 131,035,000	\$ 89,900,000	\$ 98,980,000
1994, first refunding	4.15 - 5.60	2004	63,455,000	20,725,000	30,150,000
1994, second refunding	4.40 - 5.85	2004	79,070,000	-	8,680,000
2000A, refunding	5.50 - 6.00	2021	26,415,000	26,415,000	26,415,000
2000B, refunding	5.00 - 8.00	2020	261,465,000	249,275,000	249,275,000
2001, refunding	4.00 - 5.75	2021	<u>423,255,000</u>	<u>423,255,000</u>	<u>423,255,000</u>
			<u>\$ 984,695,000</u>	809,570,000	836,755,000
Add unamortized premium				16,222,651	17,803,027
Less unamortized discount				(1,226,016)	(1,375,446)
Less deferred loss on refunding				(19,991,895)	(21,899,801)
Less current portion				<u>(19,550,000)</u>	<u>(27,185,000)</u>
Noncurrent portion				<u>\$ 785,024,740</u>	<u>\$ 804,097,780</u>

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

	Principal	Interest	Total
Year ending June 30:			
2004	\$ 20,910,000	\$ 46,667,760	\$ 67,577,760
2005	35,985,000	45,451,148	81,436,148
2006	41,935,000	43,349,176	85,284,176
2007	44,305,000	40,949,014	85,254,014
2008	33,925,000	38,391,831	72,316,831
2009-2013	167,930,000	164,063,233	331,993,233
2014-2018	278,300,000	97,836,014	376,136,014
2019-2021	<u>166,730,000</u>	<u>16,503,038</u>	<u>183,233,038</u>
	<u>\$ 790,020,000</u>	<u>\$ 493,211,214</u>	<u>\$ 1,283,231,214</u>

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2003.

The following is a summary of interest costs incurred for the years ended June 30, 2003 and 2002 and the allocation thereof:

	2003	2002
Expensed as incurred	\$ 42,862,164	\$ 44,250,193
Capitalized in capital assets	<u>4,208,853</u>	<u>4,559,404</u>
	<u>\$ 47,071,017</u>	<u>\$ 48,809,597</u>

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

On August 26, 2003, the Airports Division issued \$80,400,000 of Airports System Revenue Bonds, Refunding Series of 2003. The bonds bear interest at the initial rate of 2% per annum to June 30, 2004. Thereafter, the interest rate will be converted to a weekly rate, fixed rate, or extended rate, at the option of the Airports Division. The bonds are subject to redemption at 100% of the principal amount on July 1, 2004 and on each July 1 thereafter to 2013. Proceeds of the bonds were used to redeem \$80,310,000 of the Refunding Series of 1993 revenue bonds at a redemption price of 102%, on or about September 25, 2003.

7. GENERAL OBLIGATION BONDS

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

The following is a summary of such general obligation bonds reimbursable by the Airports Division at June 30, 2003 and 2002:

Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Outstanding Amount	
				2003	2002
CD	3.85 - 5.00	2003	\$ 391,319		\$ 48,909
CF	3.25 - 5.50	2002	1,938,982		215,429
CI	4.00 - 5.00	2011	<u>141,392</u>	<u>\$ 75,402</u>	<u>84,829</u>
			<u>\$2,471,693</u>	75,402	349,167
Less current portion				<u>(9,427)</u>	<u>(273,765)</u>
Noncurrent portion				<u>\$ 65,975</u>	<u>\$ 75,402</u>

Annual debt service requirements for general obligation bonds outstanding at June 30, 2003 are as follows:

	Principal	Interest	Total
Year ending June 30:			
2004	\$ 9,427	\$ 3,275	\$ 12,702
2005	9,425	2,865	12,290
2006	9,425	2,446	11,871
2007	9,425	2,017	11,442
2008	9,425	1,579	11,004
2009-2011	<u>28,275</u>	<u>2,050</u>	<u>30,325</u>
	<u>\$ 75,402</u>	<u>\$ 14,232</u>	<u>\$ 89,634</u>

The following is a summary of interest costs incurred for the years ended June 30, 2003 and 2002 and the allocation thereof:

	2003	2002
Expensed as incurred	\$ 4,644	\$ 19,805
Capitalized in capital assets	<u>392</u>	<u>1,903</u>
	<u>\$ 5,036</u>	<u>\$ 21,708</u>

8. LEASES

Airport-Airline Lease Agreement

Airports Division

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

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

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the prepaid airport use charge fund (PAUCF). During fiscal year 2000, the parties discussed the transfer of the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal years 1999, 1998, 1997, and 1996 have been transferred to the PAUCF. Net excess payments for fiscal year 2000 were transferred to the PAUCF in October 2001. The Airports Division paid \$460,000 and \$1,143,350 out of the PAUCF to the signatory airlines in fiscal years 2003 and 2002, respectively.

Aviation Fuel Tax

The aviation fuel tax amounted to \$2,854,123 and \$3,322,490 for fiscal years 2003 and 2002, 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.

Pursuant to the proclamation issued by the Governor declaring an economic emergency, airport landing fees and airports system support charges were waived from September 18, 2001 through March 31, 2002.

Airport landing fees amounted to \$37,330,350 and \$17,589,927 for fiscal years 2003 and 2002, respectively. Airport landing fees are shown net of aviation fuel tax credits of \$2,750,659 and \$3,024,452 for fiscal years 2003 and 2002, respectively, on the statement of revenues, expenses and changes in net assets, which resulted in net airport landing fees of \$34,579,691 and \$14,565,475 for fiscal years 2003 and 2002, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The inter-island airport landing fees for signatory airlines are set at 36% of the airport landing fees for overseas flights.

Nonexclusive joint-use premise charges for terminal rentals amounted to \$25,095,942 and \$22,976,350 for fiscal years 2003 and 2002, respectively. The State waived signatory airlines underpayment of nonexclusive joint-use premise charges of \$1,438,346 and \$3,557,938. Overseas and inter-island joint-use premise charges were established to recover airports system costs allocable to the overseas and inter-island terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing.

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

International arrivals building charges were established to recover airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger using the international arrivals area. Beginning fiscal year 2000, non-signatory 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 \$27,697,345 and \$26,718,579 for fiscal years 2003 and 2002, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to \$15,616,153 and \$15,664,316 for fiscal years 2003 and 2002, respectively.

Airports system support charges amounted to \$896,109 and \$391,640 for fiscal years 2003 and 2002, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system inter-island support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

The following summarizes the rates in effect at June 30, 2003 and 2002:

	2003	2002
Airport landing fees:		
Signatory airlines:		
Overseas flights	\$ 1.930	\$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges:		
Signatory airlines:		
Overseas terminal	520.372	475.789
Blended overseas	400.140	380.666
Inter-island terminal	77.281	70.739
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges:		
Signatory airlines	4.029	3.623
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges -		
Signatory airlines	15.378	14.057
Airports system support charges - Nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

Special Facility Leases and Revenue Bonds

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

\$2,300,000 Issue

Bonds with a stated maturity date of June 1, 2005 remain outstanding. The bonds are subject to early redemption, at the option of the Airports Division, at 100% of principal.

The bonds bear interest at 6.50% 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, 2003:

	Principal	Interest	Total
Year ending June 30:			
2004	\$ 170,000	\$ 23,075	\$ 193,075
2005	<u>185,000</u>	<u>12,025</u>	<u>197,025</u>
	<u>\$ 355,000</u>	<u>\$ 35,100</u>	<u>\$ 390,100</u>

\$25,255,000 Issue

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption at the option of the Airports Division, upon the request of Continental Airlines, Inc., at prices ranging from 101% to 100% of principal depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest. During the year ended June 30, 2000, the Airports Division redeemed \$3,400,000 in bonds.

The bonds bear interest at 5.625% per annum. Interest-only payments of \$614,672 are due semi-annually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2003:

	Principal	Interest	Total
Year ending June 30:			
2004		\$ 1,229,344	\$ 1,229,344
2005		1,229,344	1,229,344
2006		1,229,344	1,229,344
2007		1,229,344	1,229,344
2008		1,229,344	1,229,344
2009-2013		6,146,720	6,146,720
2014-2018		6,146,720	6,146,720
2019-2023		6,146,720	6,146,720
2024-2028	<u>\$ 21,855,000</u>	<u>5,532,047</u>	<u>27,387,047</u>
	<u>\$ 21,855,000</u>	<u>\$ 30,118,927</u>	<u>\$ 51,973,927</u>

\$16,600,000 Issue

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

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

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, 2003:

	Principal	Interest	Total
Year ending June 30:			
2004	\$ 480,000	\$ 1,059,450	\$ 1,539,450
2005	520,000	1,025,850	1,545,850
2006	565,000	989,450	1,554,450
2007	600,000	949,900	1,549,900
2008	640,000	907,900	1,547,900
2009-2013	3,955,000	3,797,850	7,752,850
2014-2018	5,575,000	2,205,000	7,780,000
2019-2020	<u>2,800,000</u>	<u>296,800</u>	<u>3,096,800</u>
	<u>\$ 15,135,000</u>	<u>\$ 11,232,200</u>	<u>\$ 26,367,200</u>

\$6,600,000 Issue

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

The bonds bear interest at 10.125% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2003:

	Principal	Interest	Total
Year ending June 30:			
2004	\$ 200,000	\$ 349,313	\$ 549,313
2005	300,000	329,063	629,063
2006	400,000	293,625	693,625
2007	400,000	253,125	653,125
2008	400,000	212,625	612,625
2009-2011	<u>1,800,000</u>	<u>349,313</u>	<u>2,149,313</u>
	<u>\$ 3,500,000</u>	<u>\$ 1,787,064</u>	<u>\$ 5,287,064</u>

Special facility revenue bonds payable at June 30, 2003 and 2002 consisted of the following:

2003	Delta	Continental		Sky Chefs	Total
Current portion	\$ 170,000	\$ 480,000	\$ -	\$ 200,000	\$ 850,000
Noncurrent portion	<u>185,000</u>	<u>14,655,000</u>	<u>21,855,000</u>	<u>3,300,000</u>	<u>39,995,000</u>
	<u>\$ 355,000</u>	<u>\$ 15,135,000</u>	<u>\$ 21,855,000</u>	<u>\$ 3,500,000</u>	<u>\$ 40,845,000</u>
2002					
Current portion	\$ 160,000	\$ 460,000	\$ -	\$ 200,000	\$ 820,000
Noncurrent portion	<u>355,000</u>	<u>15,135,000</u>	<u>21,855,000</u>	<u>3,500,000</u>	<u>40,845,000</u>
	<u>\$ 515,000</u>	<u>\$ 15,595,000</u>	<u>\$ 21,855,000</u>	<u>\$ 3,700,000</u>	<u>\$ 41,665,000</u>

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

Net investments in direct financing leases at June 30, 2003 and 2002 consisted of the following:

	2003	2002
Cash with bond fund trustee	\$ 3,590,889	\$ 3,609,928
Receivable from lessees - net of unearned interest of \$42,899,879 and \$45,618,669	37,254,111	38,055,072
Interest receivable	<u>273,410</u>	<u>278,647</u>
	<u>\$ 41,118,410</u>	<u>\$ 41,943,647</u>

Other Operating Leases

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

The future minimum rentals from these operating leases at June 30, 2003 are as follows:

Year ending June 30:	
2004	\$ 52,349,494
2005	62,461,919
2006	56,451,046
2007	12,735,846
2008	12,146,488
2009-2013	38,124,633
2014-2018	25,495,576
2019-2023	15,356,031
2024-2028	7,132,254
2029-2032	<u>453,723</u>
	<u>\$282,707,010</u>

The minimum rentals above have been updated to reflect the terms of the new In-Bond (Duty Free) concession contract as discussed in Note 9.

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 2003 and 2002 were approximately \$44,219,000 and \$66,031,000, respectively.

Concession fees revenues from the DFS Group, L.P. (DFS) concession contracts accounted for approximately 57% and 48% of total concession fees revenues for fiscal years 2003 and 2002, respectively.

The previous DFS In-Bond (Duty Free) concession contract, effective June 1, 2001, provided for payment of 30% of gross sales attributable to on-airport premises against 20% of the minimum annual guarantee (MAG) payments aggregating \$300,000,000 over the five-year contract and 22.5% of gross sales attributable to off-airport premises against 80% of the MAG payments aggregating \$300,000,000 over the five-year contract.

The DFS retail concession contract, effective March 15, 2001, provides for payment of 20% of gross sales against minimum guarantee payments aggregating \$47,250,000 over the five-year contract.

The DFS concession contracts provide for quarterly advance payments due on March 1, June 1, September 1 and December 1 of each year.

Pursuant to the proclamation by the Governor declaring an economic emergency, the Airports Division, under the approval from the Governor, established the Airport Concession Relief Program (Program). The Program, effective September 11, 2001 through April 30, 2002, granted relief to qualified airport concessionaires in the form of a limited waiver of the minimum annual rent payable under the concession agreements. During such time of the waiver of the minimum annual payments, the concessionaires continued to pay their required percentage rents.

To be eligible to participate in the Program, concessionaires must have met the following four requirements: (1) hold an existing contract on September 11, 2001, (2) prove they suffered significant losses since September 11, evidenced by at least a 15% decline in business volume after consideration of insurance and federal benefits received, (3) agree to submit a weekly report on daily sales, remit percentage rent payment for estimated sales on the first of each month, and submit all reports in accordance with the terms of the concessionaire's contract, and (4) be in good standing on September 11,

2001 and remain in good standing for the time period of the waiver. The total relief granted to the qualified concessionaires approximated \$26,100,000.

9. CONCESSIONNAIRE SETTLEMENT AGREEMENT

As of June 30, 2003, DFS, who operates the In-Bond (Duty Free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, was in significant arrears in the rents due to the Airports Division. A significant cause of DFS's financial difficulty stemmed from the downturn in Hawaii's economy as a result of a decrease in international visitor travel. Although the Governor had granted temporary rent relief to the Airports Division's concessionaires throughout fiscal years 2002 and 2003, the major concessionaire was unable to bring the rent due to a current basis.

After a significant amount of negotiation between the Airports Division and DFS, both parties entered into a Withdrawal and Settlement Agreement (Agreement) effective August 1, 2003. Under the terms of the Agreement, DFS would pay the full amount of the minimum annual guaranteed rent through December 31, 2002 for the In-Bond concession. Effective January 1, 2003, DFS would pay the full amount of a compromised rent. As part of the Agreement, the In-Bond concession agreement would be terminated early, a new concession put out to bid, and DFS would be required to submit a bid that met at least the minimum criteria. DFS was the only bidder and was awarded the contract on September 29, 2003.

The Agreement also required DFS to pay all amounts owed including interest for the Honolulu and Kona retail contracts and to remain current on all its contracts with the Airports Division.

10. PENSION INFORMATION

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

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

There were no required pension contributions for fiscal year 2002. The pension contribution for fiscal year 2003 was \$3,352,651, which represented 8.9% of covered payroll and was equal to the required contribution for the year.

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

11. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care (medical, prescription drug, vision, and dental) and life insurance benefits for retired employees. Contributions are financed on a pay-as-you-go basis, and are limited by state statute to the actual cost of benefit coverage. The Airports Division pays for 100% of these benefits for employees who have at least 10 years of service. The Airports Division's share of the cost of these benefits is pro-rated for employees with less than 10 years of service. The Airports Division also reimburses Medicare expenses of retirees and qualified spouses (through the State) who are at least 62 years of age and have at least 10 years of service. Contributions are financed on a pay-as-you-go basis, and are limited by state statute to the actual cost of benefit coverage. The amounts allocated to the Airports Division for fiscal years 2003 and 2002 aggregated approximately \$2,872,900 and \$2,230,700, respectively.

12. TRANSACTIONS WITH OTHER GOVERNMENT AGENCIES

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged or encumbered, for the payment of bonds and interest during the year. The assessments amounted to \$8,517,875 and \$5,739,256 in fiscal years 2003 and 2002, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to \$4,762,533 and \$4,313,386 in fiscal years 2003 and 2002, respectively. During fiscal years 2003 and 2002, the Airports Division received assessment refunds from the DOT amounting to \$1,185,295 and \$961,666, respectively. Such refunds reduced operating expenses in the accompanying statement of revenues, expenses and changes in net assets.

During fiscal years 2003 and 2002, revenues received from other state agencies totaled \$558,551 and \$470,692, respectively, and expenditures to other state agencies totaled \$5,261,441 and \$3,272,449, respectively.

The Airports Division also recorded a gain of \$2,140,000 for proceeds received from the State in exchange for land transfers completed during fiscal year 2003 as described in Note 4 above.

In fiscal year 1991, the Airports Division transferred \$250,000,000 to the Highways Division, pursuant to Act 309, Session Laws of Hawaii 1989, as amended. The funds were transferred to the Highways Division to be used for certain highway projects within 10 miles by road of an airport. During fiscal year 2002, the Highways Division transferred the remaining balance of approximately \$17,000,000 back to the Airports Division. Such amount has been reflected as a transfer-in on the statement of revenues, expenses and changes in net assets.

13. COMMITMENTS

Sick Pay

Accumulated sick leave at June 30, 2003 and 2002 was \$14,791,265 and \$15,521,047, 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's employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

Deferred Compensation Plan

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

Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP will pay a connection fee to the Airports Division of approximately \$950,000. As the specified upgrades have not been performed as of June 30, 2003, no amounts have been recorded in the financial statements relating to the FBOP commitment.

At June 30, 2003 and 2002, the Airports Division had commitments totaling approximately \$110,143,000 and \$108,571,000, respectively, for construction and service contracts.

14. RISK MANAGEMENT

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

Torts

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

Property and Liability Insurance

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

Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims include 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, 2003 and 2002, the workers' compensation reserve was \$4,100,000 in both years, of which \$858,782 and \$837,449 are included in other current liabilities (payable from current assets) and \$3,241,218 and \$3,262,551 are included in long-term liabilities in the accompanying statement of net assets at June 30, 2003 and 2002, respectively. In the opinion of management, the Airports Division has adequately reserved for such claims.

15. CONTINGENT LIABILITIES AND OTHER

Litigation

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

Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2003 and 2002, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

Asserted Claims

Prepaid Airport Use Charge Fund

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

On October 27, 2003, the State reached a settlement with the ACH under which the Airports Division is to transfer the \$5,393,344 overpayment to the Prepaid Airport Use Charge Fund 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 has not been recorded in the Airports Division's financial statements as of June 30, 2003, because the Airports Division and the State were still in dispute over the repayment at fiscal year end.

Ceded Lands

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

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

The claims made in OHA v. State of Hawaii are asserted against the State and not the Airports Division. The State intends to vigorously defend against all of OHA's claims, and the State Attorney General is of the view that OHA's claims are without merit. Accordingly, no provision for any payments of monies claimed by OHA has been recorded in the financial statements as of June 30, 2003.

Environmental Protection Agency

The Airports Division has been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. Although settlement of the violations is considered to be likely, the Airports Division is unable to estimate the potential fines or penalties that may be imposed and, accordingly, an accrual has not been recorded as of June 30, 2003.

Criminal Investigation

In fiscal year 2002, the State Attorney General launched a criminal investigation into allegations of forgery, conspiracy to commit theft, theft, and bribery relating to small purchase contracts issued by the Airports Division. The investigation covers the 1997 through 2002 fiscal years. As of the date of this report, several Airports Division employees have been arrested, and the investigation is continuing.

Through June 30, 2003, the Airports Division received \$6,500 in restitution.

The effect, if any, on the June 30, 2003 financial statements as a result of the ultimate resolution of the investigation is presently unknown.

* * * * *

(An Enterprise Fund of the State of Hawaii)**OPERATING REVENUES AND OPERATING EXPENSES OTHER THAN DEPRECIATION
YEAR ENDED JUNE 30, 2003**

	Total	Statewide	Airports					All Others
			Honolulu International	Hilo International	Kona International at Keahole	Kahului	Lihue	
Operating revenues:								
Concession fees	\$ 131,878,195		\$ 100,544,820	\$ 6,235,962	\$ 2,034,704	\$ 16,163,738	\$ 6,690,247	\$ 208,724
Aeronautical rentals:								
Exclusive-use premise charges	27,697,345		23,879,272	675,584	933,983	1,295,177	728,115	185,214
Nonexclusive joint-use premise charges	25,095,942		24,008,267	100,188	443,152	343,452	200,883	
Airport landing fees	34,579,691		24,485,381	763,095	2,191,710	5,094,825	1,639,744	404,936
Nonaeronautical rentals	9,568,167		6,005,443	596,063	360,429	1,894,352	571,194	140,686
Aviation fuel tax	2,854,123		2,020,963	62,984	180,898	420,514	135,341	33,423
Airports system support charges	896,109		689,095	16,745	32,038	89,888	38,623	29,720
Miscellaneous	4,401,178		3,102,203	125,668	361,468	383,932	313,720	114,187
Total operating revenues	<u>\$ 236,970,750</u>	<u>\$ -</u>	<u>\$ 184,735,444</u>	<u>\$ 8,576,289</u>	<u>\$ 6,538,382</u>	<u>\$ 25,685,878</u>	<u>\$ 10,317,867</u>	<u>\$ 1,116,890</u>
Operating expenses other than depreciation:								
Salaries and wages	\$ 53,584,000	\$ 6,762,496	\$ 24,827,892	\$ 3,407,154	\$ 3,671,437	\$ 6,623,666	\$ 4,631,665	\$ 3,659,690
Other personnel services	39,732,886	4,255,949	25,202,590	1,780,292	2,629,008	3,100,119	1,732,246	1,032,682
Utilities	18,388,636		12,817,897	676,452	1,138,591	2,004,982	1,295,426	455,288
Bad debt expense	12,793,352	2,793,352	10,000,000					
Repairs and maintenance	10,302,124	467,475	7,330,997	413,013	197,080	1,105,641	414,228	373,690
State of Hawaii surcharge on gross receipts (Note 1)	8,517,875	8,517,875						
Special maintenance	7,686,122	4,074,335	2,349,568	1,056,449	71,359	3,977	87,526	42,908
Materials and supplies	4,184,650	323,332	1,809,647	383,361	353,512	596,142	385,931	332,725
Department of Transportation general administration expenses	3,577,238	3,577,238						
Insurance	2,816,609	2,814,264	(75)	(384)	1,626	1,328	(2)	(148)
Claims and benefits	1,428,934	48,861	844,426	87,944	65,398	211,881	167,147	3,277
Communication	344,378	90,998	66,965	22,373	19,846	61,767	25,455	56,974
Rent	270,159	61,994	119,580	4,404	12,719	44,846	13,497	13,119
Travel	269,264	48,484	63,743	24,015	33,498	34,251	37,790	27,483
Dues and subscriptions	171,606	110,416	50,894	2,544	2,492	1,501	1,351	2,408
Printing and advertising	28,043	12,991	5,738	2,866	2,139	1,379	1,696	1,234
Freight and delivery	12,811	1,005	1,120	1,563	610	1,918	1,268	5,327
Miscellaneous	284,679	82,407	96,655	17,274	25,598	18,976	24,899	18,870
	164,393,366	34,043,472	85,587,637	7,879,320	8,224,913	13,812,374	8,820,123	6,025,527
Allocation of statewide expenses (Note 2)	-	(34,043,472)	22,352,917	2,057,841	2,148,100	3,607,377	2,303,551	1,573,686
Total operating expenses other than depreciation for net revenues and taxes	164,393,366	-	107,940,554	9,937,161	10,373,013	17,419,751	11,123,674	7,599,213
Disbursements out of major maintenance, renewal and replacement account not included above	1,501,919			898,127	118,948	484,844		
Total operating expenses other than depreciation for statement of revenues, expenses and changes in net assets	<u>\$ 165,895,285</u>	<u>\$ -</u>	<u>\$ 107,940,554</u>	<u>\$ 10,835,288</u>	<u>\$ 10,491,961</u>	<u>\$ 17,904,595</u>	<u>\$ 11,123,674</u>	<u>\$ 7,599,213</u>

NOTES:

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

See accompanying independent auditors' report.

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

CALCULATIONS OF NET REVENUES AND TAXES AND
DEBT SERVICE REQUIREMENT
YEAR ENDED JUNE 30, 2003

REVENUES:

Concession fees		\$ 131,878,195
Aeronautical rentals:		
Exclusive-use premise charges		27,697,345
Nonexclusive joint-use premise charges		25,095,942
Airport landing fees		34,579,691
Nonaeronautical rentals		9,568,167
Aviation fuel tax		2,854,123
Airports system support charges		896,109
Interest income, exclusive of interest on investments in direct financing leases and including interest income of \$15,078,596 on capital improvement projects		25,654,588
Federal operating grants		3,088,120
Miscellaneous		<u>4,401,178</u>
		265,713,458

DEDUCTIONS:

Operating expenses other than depreciation for net revenues and taxes (Schedule 1)	\$ 164,393,366	
Amounts required to be paid into the State General Fund for general obligation bond requirements:		
Principal	273,765	
Interest	5,036	
Annual reserve required on major maintenance, renewal, and replacement account	<u>2,438,434</u>	<u>167,110,601</u>
Net revenues and taxes		98,602,857

DEBT SERVICE REQUIREMENT:

Airports system revenue bonds:		
Principal	\$ 19,550,000	
Interest (Note 1)	<u>47,786,165</u>	
	67,336,165	
Less credits to the interest account (Note 2)	<u>(32,250,000)</u>	
	35,086,165	
Debt service coverage percentage	<u>125%</u>	<u>43,857,706</u>

EXCESS OF NET REVENUES AND TAXES OVER DEBT
SERVICE REQUIREMENT

\$ 54,745,151

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

**CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT
(Continued)
YEAR ENDED JUNE 30, 2003**

Notes:

1. For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of bond issue costs and debt discount, which are reported as interest expense for financial statement reporting purposes.
2. In fiscal year 2003, the Airports Division deposited \$32,250,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal year 2003 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.

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

SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY
JUNE 30, 2003

Year Ending June 30	Annual Principal and Interest Requirements				
	Airports System Revenue Bonds		General Obligation Bonds		Total
	Principal	Interest	Principal	Interest	
2004	\$ 20,910,000	\$ 46,667,760	\$ 9,427	\$ 3,275	\$ 67,590,462
2005	35,985,000	45,451,148	9,425	2,865	81,448,438
2006	41,935,000	43,349,176	9,425	2,446	85,296,047
2007	44,305,000	40,949,014	9,425	2,017	85,265,456
2008	33,925,000	38,391,831	9,425	1,579	72,327,835
2009	26,375,000	36,403,806	9,425	1,133	62,789,364
2010	27,950,000	34,841,196	9,425	686	62,801,307
2011	29,865,000	32,922,076	9,425	231	62,796,732
2012	31,880,000	30,927,139	-	-	62,807,139
2013	51,860,000	28,969,016	-	-	80,829,016
2014	49,400,000	25,833,876	-	-	75,233,876
2015	52,355,000	22,869,649	-	-	75,224,649
2016	55,500,000	19,726,999	-	-	75,226,999
2017	58,750,000	16,471,134	-	-	75,221,134
2018	62,295,000	12,934,356	-	-	75,229,356
2019	66,035,000	9,216,513	-	-	75,251,513
2020	69,665,000	5,577,400	-	-	75,242,400
2021	<u>31,030,000</u>	<u>1,709,125</u>	<u>-</u>	<u>-</u>	<u>32,739,125</u>
Total	<u>\$790,020,000</u>	<u>\$493,211,214</u>	<u>\$75,402</u>	<u>\$14,232</u>	<u>\$1,283,320,848</u>

See accompanying independent auditors' report.

STATE OF HAWAII

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

DEBT SERVICE REQUIREMENTS TO MATURITY - AIRPORTS SYSTEM REVENUE BONDS

JUNE 30, 2003

Year Ending June 30	Principal					Total	Interest	Total Requirements
	Refunding Series of 1993, 4.00% to 6.45%	First Refunding Series of 1994, 4.15% to 5.60%	Refunding Series of 2000 A, 5.50% to 6.00%	Refunding Series of 2000B, 5.00% to 8.00%	Refunding Series of 2001, 4.00% to 5.75%			
2004	\$ 10,145,000	\$ 10,765,000	\$	\$	\$	\$ 20,910,000	\$ 46,667,760	\$ 67,577,760
2005	10,735,000	-	-	9,455,000	15,795,000	35,985,000	45,451,148	81,436,148
2006	11,370,000	-	-	10,035,000	20,530,000	41,935,000	43,349,176	85,284,176
2007	12,055,000	-	-	10,660,000	21,590,000	44,305,000	40,949,014	85,254,014
2008	12,785,000	-	-	11,295,000	9,845,000	33,925,000	38,391,831	72,316,831
2009	4,065,000	-	145,000	11,830,000	10,335,000	26,375,000	36,403,806	62,778,806
2010	4,335,000	-	155,000	12,550,000	10,910,000	27,950,000	34,841,196	62,791,196
2011	4,625,000	-	160,000	13,550,000	11,530,000	29,865,000	32,922,076	62,787,076
2012	4,935,000	-	170,000	14,640,000	12,135,000	31,880,000	30,927,139	62,807,139
2013	5,260,000	-	180,000	15,580,000	30,840,000	51,860,000	28,969,016	80,829,016
2014	-	-	190,000	16,595,000	32,615,000	49,400,000	25,833,876	75,233,876
2015	-	-	200,000	17,665,000	34,490,000	52,355,000	22,869,649	75,224,649
2016	-	-	215,000	18,815,000	36,470,000	55,500,000	19,726,999	75,226,999
2017	-	-	225,000	19,960,000	38,565,000	58,750,000	16,471,134	75,221,134
2018	-	-	240,000	21,285,000	40,770,000	62,295,000	12,934,356	75,229,356
2019	-	-	125,000	22,845,000	43,065,000	66,035,000	9,216,513	75,251,513
2020	-	-	8,400,000	22,515,000	38,750,000	69,665,000	5,577,400	75,242,400
2021	-	-	16,010,000	-	15,020,000	31,030,000	1,709,125	32,739,125
Total	<u>\$ 80,310,000</u>	<u>\$ 10,765,000</u>	<u>\$ 26,415,000</u>	<u>\$ 249,275,000</u>	<u>\$ 423,255,000</u>	<u>\$ 790,020,000</u>	<u>\$ 493,211,214</u>	<u>\$ 1,283,231,214</u>

NOTE: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2003.

See accompanying independent auditors' report.

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

JUNE 30, 2003

Year Ending June 30	Series CI 4.00% to 5.00% Due 2011	Total Principal	Interest	Total Requirements
2004	\$ 9,427	\$ 9,427	\$ 3,275	\$ 12,702
2005	9,425	9,425	2,865	12,290
2006	9,425	9,425	2,446	11,871
2007	9,425	9,425	2,017	11,442
2008	9,425	9,425	1,579	11,004
2009	9,425	9,425	1,133	10,558
2010	9,425	9,425	686	10,111
2011	<u>9,425</u>	<u>9,425</u>	<u>231</u>	<u>9,656</u>
Total	<u>\$ 75,402</u>	<u>\$ 75,402</u>	<u>\$ 14,232</u>	<u>\$ 89,634</u>

See accompanying independent auditors' report.

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

Schedule 6

AIRPORTS SYSTEM CHARGES - FISCAL YEAR 1995-97 LEASE EXTENSION
YEAR ENDED JUNE 30, 2003

	Airline Activity			Airports System Charges									Total
	Approved Maximum Revenue Landing Weights (1,000 Pound Units)	Revenue Passenger Landings	Deplaning International Passengers	Airport Landing Fees	Airports System Support Charges	Nonexclusive Joint-Use Premise Charges					Exclusive- Use Premise Charges - Terminal Space		
						Joint-Use Charges - Overseas Terminal	Joint-Use Charges - Blended OST Terminal	Joint-Use Charges - Interisland Terminal	Joint-Use Charges - Neighbor Island Terminal	International Arrivals Building Charges			
Signatory airlines:													
Air Canada	511,031	1,489	126,734	\$ 986,290		\$ 654,628			\$ 3,552	\$ 510,611	\$ 426,336	\$ 2,581,417	
Air New Zealand, Ltd.	44,790	139	24,686	86,445		72,332				99,460	209,830	468,067	
Air Pacific, Ltd.	32,316	225	12,012	62,371		117,084				48,396		227,851	
All Nippon Airways Co., Ltd.	89,920	281	49,958	173,546		146,225				201,281	11,232	532,284	
Aloha Airlines, Inc.	5,884,659	44,615	11,936	4,549,119			\$ 573,000	\$1,538,278	357,969	48,090	2,096,522	9,162,978	
American Airlines, Inc.	1,481,220	5,806		2,858,755		1,718,789			38,491		775,509	5,391,544	
American Trans-Air, Inc.	387,042	1,724		744,558		468,335			12,671		213,192	1,438,756	
China Airlines, Ltd.	164,430	261	80,857	317,350		135,817				325,773	169,632	948,572	
Continental Airlines, Inc.	527,960	1,461		1,017,855		758,182			46		1,190,352	2,966,435	
Continental Micronesia	149,308	519	105,921	288,164		270,073				426,756	33,551	1,018,544	
Delta Airlines, Inc.	733,570	2,089		1,415,222		886,194			5,936		1,154,955	3,462,307	
Federal Express Corporation	478,580			923,659							12,120	935,779	
Hawaiian Airlines, Inc.	6,330,494	47,119	36,690	6,342,151			1,585,355	1,600,412	345,205	147,824	1,733,667	11,754,614	
Island Air, Inc.	576,876			400,929							166,884	567,813	
Jalways Co., Ltd.	633,467	1,313	311,550	1,222,591		683,248				1,255,235		3,161,074	
Japan Air Lines Company, Ltd.	1,318,833	2,469	605,647	2,325,510		1,095,903			5,583	2,440,152	1,201,062	7,068,210	
Kalitta Air, LLC	26,325			50,807								50,807	
Korean Airlines Company, Ltd.	217,310	273	69,200	419,408		142,062				278,807	224,370	1,064,647	
Northwest Airlines, Inc.	1,244,105	2,476	334,263	2,401,123		1,288,441				1,346,746	1,136,412	6,172,722	
Philippine Airlines	205,002	65	13,152	395,654		33,824				52,989	55,800	538,267	
Polar Air Cargo, Inc.	210,258			405,798								405,798	
Qantas Airways, Ltd.	92,038	153	44,994	177,633		79,617				181,281	343,836	782,367	
United Airlines, Inc.	2,390,349	7,746	109,111	4,612,514		1,859,289			64,173	439,608	3,222,592	10,198,176	
United Parcel Service Co.	569,106			832,394							3,785	836,179	
Nonsignatory airlines	1,944,868	1,099	74,596	4,320,504	\$896,109	502,621				249,598	1,234,514	7,203,346	
Total airports system charges billed	26,243,857	121,322	2,011,307	37,330,350	896,109	10,912,664	2,158,355	3,138,690	833,626	8,052,607	15,616,153	78,938,554	
Adjusted airports system charges based on final reconciliation				37,330,350	896,109	10,415,227	2,135,691	3,780,630	985,157	9,217,583	15,616,153	80,376,900	
Fiscal year 2003 underpayment waived						\$ (497,437)	\$ (22,664)	\$ 641,940	\$151,531	\$1,164,976	\$ -	\$ 1,438,346	

See accompanying independent auditors' report.

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

RECONCILIATION OF AIRPORT LANDING FEES
YEAR ENDED JUNE 30, 2003

	Signatory Airlines	Nonsignatory Airlines	Total
Gross airport landing fees billed	\$ 33,009,846	\$ 4,320,504	\$ 37,330,350
Less aviation fuel tax credit	<u>(2,684,784)</u>	<u>(65,875)</u>	<u>(2,750,659)</u>
Total	<u>\$ 30,325,062</u>	<u>\$ 4,254,629</u>	<u>\$ 34,579,691</u>

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

**UNDERPAYMENT OF AIRPORTS SYSTEM CHARGES - SIGNATORY AIRLINES
YEARS ENDED JUNE 30, 2003 AND 2002**

Fiscal Years 2003 and 2002

Airports system charges underpayments of \$1,438,346 and \$3,557,938 were waived for fiscal years 2003 and 2002, respectively, due to the September 11 terrorist attacks and subsequent decline in the airline and tourism markets.

See accompanying independent auditors' report.

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

Schedule 7

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES - SIGNATORY AIRLINES
YEAR ENDED JUNE 30, 2003

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport Gross Airport Landing Fees					All Other Airports			Total Adjusted Airport Landing Fees
	Honolulu International Airport	Hilo International Airport	All Other Airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	
Air Canada	446,801		64,230	511,031	\$ 862,326		\$ 862,326		\$ 862,326	\$ 123,964		\$ 123,964	\$ 986,290
Air New Zealand, Ltd.	44,790			44,790	86,445		86,445	\$ (166)	86,279				86,279
Air Pacific, Ltd.	32,316			32,316	62,371		62,371		62,371				62,371
All Nippon Airways Co., Ltd.	89,920			89,920	173,546		173,546		173,546				173,546
Aloha Airlines, Inc.	2,809,165	509,604	2,565,890	5,884,659	2,214,934	\$354,175	2,569,109	(370,940)	2,198,169	1,980,010		1,980,010	4,178,179
American Airlines, Inc.	903,866		577,354	1,481,220	1,744,462		1,744,462	(409,268)	1,335,194	1,114,293		1,114,293	2,449,487
American Trans-Air, Inc.	205,742		181,300	387,042	394,649		394,649	(111,044)	283,605	349,909		349,909	633,514
China Airlines, Ltd.	164,430			164,430	317,350		317,350		317,350				317,350
Continental Airlines, Inc.	526,910		1,050	527,960	1,015,829		1,015,829	(185,950)	829,879	2,027		2,027	831,906
Continental Micronesia	149,308			149,308	288,164		288,164		288,164				288,164
Delta Airlines, Inc.	596,160		137,410	733,570	1,150,020		1,150,020	(191,104)	958,916	265,202		265,202	1,224,118
Federal Express Corporation	424,620	53,960		478,580	819,516	104,143	923,659	(54,006)	869,653				869,653
Hawaiian Airlines, Inc.	3,601,174	327,910	2,401,410	6,330,494	4,131,287	227,897	4,359,184	(632,552)	3,726,632	1,982,966		1,982,966	5,709,598
Island Air, Inc.	246,317		330,559	576,876	171,191		171,191		171,191	229,738		229,738	400,929
Jalways Co., Ltd.	633,467			633,467	1,222,591		1,222,591		1,222,591				1,222,591
Japan Air Lines Company, Ltd.	1,140,827		178,006	1,318,833	1,981,959		1,981,959	(5,083)	1,976,876	343,552		343,552	2,320,428
Kalitta Air LLC	26,325			26,325	50,807		50,807		50,807				50,807
Korean Airlines Company, Ltd.	217,310			217,310	419,408		419,408		419,408				419,408
Northwest Airlines, Inc.	1,244,105			1,244,105	2,401,123		2,401,123	(199,080)	2,202,043				2,202,043
Philippine Airlines, Inc. (Note 2)	205,002			205,002	395,653		395,653		395,653				395,653
Polar Air Cargo Inc.	210,258			210,258	405,798		405,798	(2,887)	402,911				402,911
Qantas Airways, Ltd.	92,038			92,038	177,633		177,633		177,633				177,633
United Airlines, Inc.	1,341,155		1,049,194	2,390,349	2,587,570		2,587,570	(357,767)	2,229,803	2,024,944	\$ (130,095)	1,894,849	4,124,652
United Parcel Service Co.	353,737		215,369	569,106	682,712		682,712	(34,842)	647,870	149,682		149,682	797,552
Total	15,705,743	891,474	7,701,772	24,298,989	\$23,757,344	\$686,215	\$24,443,559	\$(2,554,689)	\$21,888,870	\$8,566,287	\$ (130,095)	\$8,436,192	\$30,325,062

Summary of revenue landing
weights:
Overseas 13,055,186
Interisland 11,243,803
24,298,989

Aviation fuel tax of \$2,854,123 was paid by the users for the year ended June 30, 2003. Of this amount, \$2,750,659 was credited against airport landing fees in accordance with Article V.E. of the Airports Code.

Signatory airlines	\$ 2,684,784
Nonsignatory airlines	65,875
	<u>\$ 2,750,659</u>

NOTES:

- (1) The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2003.
- (2) Philippine Airlines, Inc. became a signatory airline on December 1, 2002.

See accompanying independent auditors' report.

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

Schedule 8

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES - NONSIGNATORY AIRLINES
YEAR ENDED JUNE 30, 2003

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport Gross Airport Landing Fees			Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	All Other Airports			Total Adjusted Airport Landing Fees
	Honolulu International Airport	Hilo International Airport	All Other Airports	Total	Honolulu International Airport	Hilo International Airport	Total			Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	
Aero Micronesia dba Asia Pacific	34,276		328	34,604	\$ 101,478		\$ 101,478		\$ 101,478	\$ 313		\$ 313	\$ 101,791
Air Japan	116,800			116,800	348,064		348,064		348,064				348,064
Air Nevada Airlines, Inc.	20,025	1,573	47,980	69,578	19,104	\$ 1,500	20,604		20,604	45,773		45,773	66,377
Air Service Corporation	45,221	1,018	29,727	75,966	127,684	2,242	129,926		129,926	73,057		73,057	202,983
Air Transat A.T., Inc.	3,968		5,988	9,956	11,825		11,825		11,825	16,235		16,235	28,060
Air Transport International	67,382	275		67,657	200,798	820	201,618		201,618				201,618
Aloha Airlines, Inc.-Supplemental	45,095			45,095	133,956		133,956		133,956				133,956
Atlas Air, Inc.	76,374			76,374	227,595		227,595	\$ (2,096)	225,499				225,499
Bradley Aviation	17,027	521	47,140	64,688	42,587	753	43,340	(30,950)	12,390	114,919		114,919	127,309
Century Aviation, Inc.	8,796	121	7,254	16,171	23,464	115	23,579	(1,587)	21,992	17,512		17,512	39,504
Commercial Flyers, Inc.	5,348	63	13,359	18,770	5,102	60	5,162	(360)	4,802	12,745		12,745	17,547
Corporate Air	45,050	16,319	16,484	77,853	42,978	15,568	58,546		58,546	15,726		15,726	74,272
Helicopter Consultants of Maui		36,061	45,164	81,225		34,402	34,402	(2,428)	31,974	43,087	\$ (1,385)	41,702	73,676
Island Helicopters Kauai			19,248	19,248						18,362	(1,218)	17,144	17,144
Kalitta Air LLC	179,538			179,538	535,023		535,023		535,023				535,023
Kamaka Air, Inc.	2,557	28	13,827	16,412	2,439	27	2,466		2,466	13,191		13,191	15,657
Lufthansa Cargo AG	63,210			63,210	188,366		188,366		188,366				188,366
Molokai-Lanai Air Shuttle, Inc.	21,157		24,700	45,857	20,184		20,184		20,184	23,563		23,563	43,747
North American Airlines	21,000		28,350	49,350	45,987		45,987		45,987	81,505		81,505	127,492
Oahu Northshore Aviation, Ltd.			17,583	17,583						16,774		16,774	16,774
Omni International Airlines, Inc.	153,211		2,877	156,088	451,571		451,571		451,571	3,577		3,577	455,148
Philippine Airlines, Inc. (Note 1)	121,174			121,174	361,098		361,098		361,098				361,098
Polynesian, Limited	7,738			7,738	23,058		23,058		23,058				23,058
Ryan International Airlines	52,344		48,709	101,053	69,084		69,084		69,084	139,261		139,261	208,345
Safari Aviation, Inc.	10	6,171	14,591	20,772	9	5,887	5,896		5,896	13,919	(1,072)	12,847	18,743
Skyservice Airlines, Inc.	7,009		7,399	14,408	20,887		20,887		20,887	22,048		22,048	42,935
Sunshine Helicopters Inc.		8,850	21,730	30,580		8,443	8,443		8,443	20,731	(4,147)	16,584	25,027
Trans Air	9,408		21,889	31,297	8,975		8,975	(2,917)	6,058	20,882	(991)	19,891	25,949
Universal Enterprise	13,241	228	16,882	30,351	35,809	679	36,488		36,488	43,491		43,491	79,979
Will Squyres Helicopters, Inc.			25,868	25,868						24,678		24,678	24,678
Miscellaneous	108,283	10,307	141,014	259,604	275,551	10,180	285,731	(3,408)	282,323	135,803	(13,316)	122,487	404,810
Total	1,245,242	81,535	618,091	1,944,868	\$3,322,676	\$80,676	\$3,403,352	\$ (43,746)	\$3,359,606	\$917,152	\$ (22,129)	\$895,023	\$4,254,629
Summary of revenue landing weights:													
Overseas				1,216,970									
Interisland				727,898									
				<u>1,944,868</u>									

NOTE 1: Philippine Airlines, Inc. became a signatory airline on December 1, 2002.

See accompanying independent auditors' report.