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

Financial Statements and Supplemental Schedules

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

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

Table of Contents

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Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statements of net assets of the Department of Transportation, Airports Division, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Airports Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1 to the financial statements, the financial statements of the Airports Division are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Airports Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2012 and 2011, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Airports Division, State of Hawaii as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012 on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Airports Division's basic financial statements. The supplementary information listed as "supplementary information schedules" are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records to prepare the basic financial statements. The supplementary information schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The supplementary information schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

December 12, 2012

The following Management's Discussion and Analysis of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal years ended June 30, 2012 and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. It has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 59.4% and 59.9% of total passenger traffic in the airports system during fiscal years 2012 and 2011, respectively. The other four principal airports accommodated 39.5% and 38.9% of the total passenger traffic for fiscal years 2012 and 2011, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly, Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.2% of the total passenger traffic for both fiscal years 2012 and 2011, respectively.

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

Using the Financial Statements

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

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

Airports Division Activities and Highlights

The Airports Division ended fiscal year 2012 with increases in total passengers, revenue landed weights, revenue passenger landings, and deplaning international passengers by 2.1%, 3.0%, 10.0%, and 13.0%, respectively, as compared to fiscal year 2011. Aircraft operations decreased by 0.4% compared with fiscal year 2011. Increasing passenger traffic, in addition to airline carriers maximizing passenger load factors, are the reasons for such changes. Although oversea carriers account for a higher percentage, 59% of revenue landed weights, the overall carrier mix remains diverse.

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

For fiscal years 2012 and 2011, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 38% and 10% and 36% and 11% of the total landed weights, respectively. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 18%, 17%, and 13% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 66% and 7% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 45% of the revenue passenger landings and Japan Airlines International Company, Ltd. accounted for 24% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2012 and 2011: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., All Nippon Airways, Co., American Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Airlines, Inc., Hawaiian Airlines, Inc., JALways Co., Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways, Ltd., United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and Pacific Wings, LLC.

Activity for the airports system for the fiscal years ended June 30, 2012 and 2011 is as follows:

	2012	**2011**	**Percentage increase (decrease) from 2011**
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	18,556,491	18,338,140	1.2%
Kahului Airport	5,707,645	5,499,218	3.8
Kona International Airport at Keahole	2,738,937	2,438,089	12.3
Lihue Airport	2,567,325	2,702,460	(5.0)
Hilo International Airport	1,310,128	1,257,487	4.2
All others	351,631	355,133	(1.0)
Total passengers	31,232,157	30,590,527	2.1%
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	266,326	267,967	(0.6)%
Kahului Airport	124,519	123,041	1.2
Kona International Airport at Keahole	110,324	106,033	4.0
Lihue Airport	109,739	113,516	(3.3)
Hilo International Airport	75,367	82,499	(8.6)
All others	201,827	198,806	1.5
Total aircraft operations	888,102	891,862	(0.4)%
Revenue landed weights (1,000-pound units):			
Honolulu International Airport	13,750,155	13,372,682	2.8%
Kahului Airport	3,504,259	3,346,145	4.7
Kona International Airport at Keahole	1,739,600	1,737,357	0.1
Lihue Airport	1,474,648	1,344,415	9.7
Hilo International Airport	841,888	774,673	8.7
All others	161,683	49,114	229.2
Total signatory airlines	21,472,233	20,624,386	4.1
Nonsignatory airlines	2,401,724	2,547,399	(5.7)
Total revenue landed weights	23,873,957	23,171,785	3.0%

(Continued)

	2012	2011	Percentage increase (decrease) from 2011
Revenue passenger landings:			
Honolulu International Airport	82,252	65,374	25.8%
Kahului Airport	23,922	27,109	(11.8)
Kona International Airport at Keahole	12,742	11,615	9.7
Lihue Airport	13,035	16,320	(20.1)
Hilo International Airport	7,058	7,130	(1.0)
Other airports	7,535	5,778	30.4
Total signatory airlines	146,544	133,326	9.9
Nonsignatory airlines	676	512	32.0
Total revenue passenger landings	147,220	133,838	10.0%
Deplaning international passengers:			
Honolulu International Airport	2,034,658	1,832,257	11.0%
Kona International Airport at Keahole	671	5,612	(88.0)
Total signatory airlines	2,035,329	1,837,869	10.7
Nonsignatory airlines	105,556	56,961	85.3
Total deplaning international passengers	2,140,885	1,894,830	13.0%

Financial Operations Highlights

The financial results for fiscal years 2012 and 2011 reflected income (loss) before capital contributions of $(4.4) million and $59.2 million, respectively. Operating revenues and expenses increased by $0.1 million, or 0.0%, and $8.3 million, or 2.7%, respectively. Total nonoperating revenues decreased by $63.0 million, or 61.6%, mainly due to suspension of rental car CFCs of $44.5 million and the change in fair value relating to Airports Division investments held by State Treasury of a $1.4 million decrease in fiscal year 2012 as compared to a $13.1 million increase in fiscal year 2011.

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

Effective February 1, 2007, the FAA approved the Airports Division's PFC Application No. 2 to impose a $3.00 PFC at the airports mentioned above with the addition of Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 1, 2007 and July 1, 2011 (amended from November 30, 2008 to July 1, 2011) from the five principal airports was amended from $104,458,000 to $62,500,000 as of June 30, 2009. The maximum amount of $62,500,000 was further amended to $49,560,000 as of November 30, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and fire fighting facilities improvements, elevator improvements, loading bridge replacements, air conditioning system improvements, and PFC administration costs.

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

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

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

Since the inception of this program through June 30, 2012, the total PFC revenues, including interest earned, and expenditures were $200.8 million and $113.6 million, respectively.

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

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

Since September 1, 2009 through June 30, 2012, the total CFC revenues, including interest earned, and expenditures were $64.5 million and $19.1 million, respectively. However, on July 1, 2011, the collection of this fee was suspended by the State Legislature for one year, resulting in a decrease of $44.5 million in CFC revenues for the fiscal year ended June 30, 2012.

Operating expenses before depreciation for fiscal year 2012 increased by 5.7%, or $12.3 million, as compared to fiscal year 2011 mainly due to increases in salaries and wages, utilities, repairs and maintenance, State of Hawaii surcharge on gross receipts offset by decreases in other personnel services, and special maintenance.

Total nonoperating expenses for fiscal year 2012 decreased by 16.7%, or $7.5 million, as compared to fiscal year 2011 mainly due to decreased interest expense relating to airports system revenue bonds issued in fiscal years 2011 and 2012 offset by increased loss on disposal of capital assets and a loss on amounts held in the State Treasury.

As a result, net assets increased by $41.6 million and $87.9 million for fiscal years 2012 and 2011, respectively.

In summary, the Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenues from a diverse mix of sources. The Airports Division continues to monitor signatory airline requirements and adjust rates and charges accordingly to assure financial stability and bond certificate requirements are met on a semiannual and annual basis. In addition, the continued implementation of cost saving measures by management relating to personnel, security, and utility costs has sustained the Airports Division's financial position. However, such cost saving measures are being monitored to prevent compromising the Airports Division's main objective, which is to adequately serve the traveling public and airport tenants.

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A summary of operations and changes in net assets for the years ended June 30, 2012, 2011, and 2010 is as follows:

		2012	2011	2010
Operating revenues	$	312,093,960	311,952,386	284,730,618
Operating expenses, excluding depreciation		(227,678,657)	(215,377,393)	(212,917,814)
Operating income before depreciation		84,415,303	96,574,993	71,812,804
Depreciation		(90,754,951)	(94,738,701)	(92,860,543)
Operating income (loss)		(6,339,648)	1,836,292	(21,047,739)
Nonoperating revenues – net		1,898,282	57,394,520	54,575,714
Income (loss) before capital contributions		(4,441,366)	59,230,812	33,527,975
Capital contributions:				
Federal capital grants		36,869,413	16,873,585	27,494,010
Federal stimulus funds		9,191,233	11,787,177	14,735,504
Total capital contributions		46,060,646	28,660,762	42,229,514
Increase in net assets	$	41,619,280	87,891,574	75,757,489

- Operating revenues remained relatively stable comparing fiscal years 2012 and 2011.
- Operating expenses excluding depreciation increased by 5.7% from $215.4 million in fiscal year 2011 to $227.7 million in fiscal year 2012. The most recognized increase related to utilities and salaries and wages amounting to $10.6 million. Salaries and wages increased by $3.3 million as a result of filling previously frozen and vacated positions along with the State again ending the furlough program for special funds effective March 1, 2012. Security cost decreased by $1.8 million due to decreased guard services through further reevaluation of security requirements. These reductions were made in accordance with the Transportation Security Administration requirements and did not compromise airport security. Utility cost increased by $7.3 million reflective of rising fuel costs. Repairs and maintenance cost increased by $2.0 million mainly due to maintenance repairs to passenger loading bridges and baggage handling equipment.
- The net results of the above resulted in operating income before depreciation of $84.4 million and $96.6 million in fiscal years 2012 and 2011, respectively. Operating income before depreciation for fiscal year 2012 decreased by 12.6%, or $12.2 million. Depreciation expense decreased by 4.2% from $94.7 million in fiscal year 2011 to $90.8 million in fiscal year 2012 as a result of certain assets near or already fully depreciated. The operating loss before nonoperating revenues, net and capital contributions of $6.3 million in fiscal year 2012 represents a 445% change from the operating income before nonoperating revenues, net and capital contributions of $1.8 million in fiscal year 2011.

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- Nonoperating revenues, net decreased by 96.7%, or $55.5 million, in fiscal year 2012, primarily due to the change in fair value relating to Airports Division investments held by State Treasury and rental car CFC decreases of $14.5 million and $44.5 million, respectively, offset by decreased interest expense of $10.4 million relating to revenue bonds refunded in fiscal year 2012.
- Loss before capital contributions for fiscal year 2012 of $4.4 million as compared to income of $59.2 million for fiscal year 2011 was a result of a decrease in nonoperating revenues, net.
- Capital contributions increased by 60.7%, or $17.4 million, in fiscal year 2012, mainly due to the increase of federal capital grants received in fiscal year 2012 offset by a decrease in federal stimulus grants.

Financial Position Summary

A condensed summary of the Airports Division's net assets at June 30, 2012, 2011, and 2010 is shown below:

	2012	2011	2010
Assets:			
Current assets:			
Unrestricted assets	$ 575,899,575	535,972,293	481,448,998
Restricted assets	58,778,499	67,736,492	146,313,198
Noncurrent assets:			
Capital assets	1,753,785,470	1,712,801,627	1,693,932,983
Restricted assets	554,011,295	576,456,552	507,687,903
Other noncurrent assets	4,408,531	4,334,194	5,006,055
Total assets	2,946,883,370	2,897,301,158	2,834,389,137
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	56,812,085	43,819,049	55,097,084
Payable from restricted assets	63,632,304	68,105,008	63,687,384
Long-term liabilities, net of current portion			
Payable from unrestricted assets	79,512,117	45,184,736	36,276,716
Payable from restricted assets	970,383,105	1,005,267,886	1,032,295,048
Total liabilities	1,170,339,611	1,162,376,679	1,187,356,232
Net assets:			
Invested in capital assets – net of related debt	1,039,368,865	968,350,047	952,768,400
Restricted	314,491,493	315,271,730	333,247,989
Unrestricted	422,683,401	451,302,702	361,016,516
Total net assets	$ 1,776,543,759	1,734,924,479	1,647,032,905

(Continued)

The largest portion of the Airports Division's net assets (58.5% and 55.8% at June 30, 2012 and 2011, respectively) represents its investments in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net assets (17.7% and 18.2% at June 30, 2012 and 2011, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate), as well as PFCs that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $549.3 million and $494.7 million at June 30, 2012 and 2011, respectively. The $549.3 and $494.7 million cash balance at June 30, 2012 and 2011, respectively, provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by $1,776.5 million at June 30, 2012, representing an increase of $41.6 million from June 30, 2011.

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

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

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

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

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona, and Lihue. The program is currently estimated to cost $1.4 billion through 2016 and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

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

Revenues

A summary of revenues for the years ended June 30, 2012 and 2011 and the amount and percentage of change in relation to prior year amounts is as follows:

	2012		Increase (decrease) from 2011	
	Amount	Percentage of total	Amount	Percentage
Operating revenues:				
Concession fees:				
Duty free	$ 41,087,636	11.7%	$ 3,087,636	8.1%
Other concessions	102,485,066	29.2	8,318,909	8.8
Airport landing fees	59,639,904	17.0	(457,025)	(0.8)
Aeronautical rentals:				
Nonexclusive joint-use premise charge	47,052,075	11.9	(2,882,960)	29.6
Exclusive-use premise charge	41,663,309		(865,620)	7.5
Nonaeronautical rentals	13,416,559	3.8	66,904	0.5
Other	6,749,411	1.9	(7,126,270)	(51.4)
Total operating revenues	312,093,960	88.8	141,574	—
Nonoperating revenues:				
Interest income, investments	1,988,592	0.6	(3,986,976)	(66.7)
Interest income, passenger facility charges	339,915	0.1	(314,893)	(48.1)
Interest income, rental car customer facility charges	228,118	0.1	35,175	18.2
Interest income, direct financing leases	1,925,210	0.5	(93,211)	(4.6)
Federal operating grants	3,315,401	0.9	(1,718,308)	(34.1)
Passenger facility charges	31,390,921	8.9	671,237	2.2
Rental car customer facility charges	49,397	—	(44,482,378)	(99.9)
Gain on amounts held in State Treasury	—	—	(13,085,548)	(100.0)
Other	—	—	(124)	(100.0)
Total nonoperating revenues	39,237,554	11.2	(62,974,902)	(61.6)
Total revenues	$ 351,331,514	100.0%	$ (62,833,328)	(15.2)%

	2011		Increase (decrease) from 2010	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating revenues:				
Concession fees:				
Duty free	$ 38,000,000	9.2%	$ —	—%
Other concessions	94,166,157	22.7	4,623,879	5.2
Airport landing fees	60,096,929	14.5	4,149,086	7.4
Aeronautical rentals:				
Nonexclusive joint-use premise charge	49,935,035	10.3	11,390,866	29.6
Exclusive-use premise charge	42,528,929		2,952,872	7.5
Nonaeronautical rentals	13,349,655	3.2	(373,889)	(2.7)
Other	13,875,681	3.4	4,478,954	47.7
Total operating revenues	311,952,386	75.3	27,221,768	9.6
Nonoperating revenues:				
Interest income, investments	5,975,568	1.4	(263,633)	(4.2)
Interest income, passenger facility charges	654,808	0.2	(181,117)	(21.7)
Interest income, rental car customer facility charges	192,943	—	85,934	80.3
Interest income, direct financing leases	2,018,421	0.5	(140,858)	(6.5)
Federal operating grants	5,033,709	1.2	916,842	22.3
Passenger facility charges	30,719,684	7.4	2,233,871	7.8
Rental car customer facility charges	44,531,775	10.8	33,726,793	312.1
Gain on amounts held in State Treasury	13,085,548	3.2	(17,961,382)	(57.9)
Total nonoperating revenues	102,212,456	24.7	18,416,450	22.0
Total revenues	$ 414,164,842	100.0%	$ 45,638,218	12.4%

Expenses

A summary of expenses for the years ended June 30, 2012 and 2011 and the amount and percentage of change in relation to prior year amounts is as follows:

	2012		Increase (decrease) from 2011	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 75,670,437	21.3%	$ 3,345,318	4.6%
Other personnel services	48,682,998	13.7	(1,849,513)	(3.7)
Utilities	47,263,050	13.3	7,281,597	18.2
Repairs and maintenance	16,695,881	4.7	1,973,912	13.4
State of Hawaii surcharge on gross receipts	13,708,581	3.8	1,690,298	14.1
Special maintenance	9,109,360	2.5	(1,197,556)	(11.6)
Department of Transportation general administration expenses	5,181,543	1.5	345,553	7.1
Materials and supplies	5,040,236	1.4	897,012	21.7
Insurance	3,168,668	0.9	(41,102)	(1.3)
Other	3,157,903	0.9	(144,255)	(4.4)
Total operating expenses before depreciation	227,678,657	64.0	12,301,264	5.7
Depreciation	90,754,951	25.5	(3,983,750)	(4.2)
Total operating expenses	318,433,608	89.5	8,317,514	2.7
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	31,289,796	8.8	(10,425,905)	(25.0)
Special facility	1,925,210	0.6	(93,211)	(4.6)
Loss on disposal of capital assets	1,889,939	0.5	1,372,055	264.9
Loss on amounts held in State Treasury	1,408,718	0.4	1,408,718	100.0
Other	825,609	0.2	259,555	45.9
Total nonoperating expenses	37,339,272	10.5	(7,478,788)	(16.7)
Total expenses	$ 355,772,880	100.0%	$ 838,726	0.2%

(Continued)

	2011		Increase (decrease) from 2010	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 72,325,119	20.4%	$ 1,722,027	2.4%
Other personnel services	50,532,511	14.2	(2,720,952)	(5.1)
Utilities	39,981,453	11.3	5,109,154	14.7
Repairs and maintenance	14,721,969	4.1	(752,170)	(4.9)
State of Hawaii surcharge on gross receipts	12,018,283	3.4	(76,468)	(0.6)
Special maintenance	10,306,916	2.9	3,199,215	45.0
Department of Transportation general administration expenses	4,835,990	1.4	(358,893)	(6.9)
Materials and supplies	4,143,224	1.2	(550,310)	(11.7)
Insurance	3,209,770	0.9	(43,478)	(1.3)
Disbursements out of major maintenance, renewal, and replacement account	—	—	(1,256,988)	100.0
Bad debt expense	—	—	(2,066,244)	100.0
Other	3,302,158	0.9	254,686	8.4
Total operating expenses before depreciation	215,377,393	60.7	2,459,579	1.2
Depreciation	94,738,701	26.7	1,878,158	2.0
Total operating expenses	310,116,094	87.4	4,337,737	1.4
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	41,715,701	11.7	13,915,635	50.1
Special facility	2,018,421	0.6	(140,858)	(6.5)
Loss on disposal of capital assets	517,884	0.1	129,199	33.2
Other	566,054	0.2	177,647	45.7
Total nonoperating expenses	44,818,060	12.6	14,081,623	45.8
Total expenses	$ 354,934,154	100.0%	$ 18,419,360	5.5%

Capital Acquisitions and Construction Activities

In fiscal years 2012 and 2011, there were thirteen and four construction bid openings, respectively, totaling an estimated $40.9 million and $12.9 million, respectively, in potential construction contracts. Significant projects in fiscal year 2012 include Aircraft Rescue and Fire Fighting Station Relocation at Kona International Airport, Roadway and Miscellaneous Improvements at Honolulu International Airport, Taxiway Paving and Miscellaneous Improvements at Molokai Airport, and General Purpose Apron and Cargo Building, Phase II at Kahului Airport.

There were also several ongoing construction projects that were initiated prior to fiscal years 2012 and 2011, which were under construction during the fiscal year. Major projects include Hold Cargo Building/Light Industrial Facilities at Hilo International Airport, Aircraft Rescue and Fire Fighting Station at Lanai Airport, Taxiway RA Pavement Improvements at Honolulu International Airport, EDS Integration Improvements Phase II at Honolulu International Airport, and Emergency Power Facility at Honolulu International Airport.

Finally, there were fifteen projects that were substantially completed in fiscal year 2012 at a total cost of $54 million. These included planning, design, and construction projects at large and medium hub airports statewide to preserve, maintain, and modernize faculties.

The Airports Division continues its mission to modernize airport facilities to provide safety and efficiency to airport tenants and enhance the passenger experience. At Honolulu International Airport, the Third Level Sterile Corridor was completed in 2010, which provides a secured air conditioned moving sidewalk for arriving international passengers, replacing the shuttle bus transportation to the international arrivals building. A major ongoing project at Honolulu International Airport is the installation of an Explosive Detection System in which baggage security screening is to be conducted behind the scenes of the terminal lobby, thereby reducing overcrowding conditions in the check-in lobby areas. At Kona International Airport at Keahole, covered walkways were constructed between check-in counters and hold room areas to provide protection to passengers from the weather elements. Also, a third lane was added for security check-in at the north terminal to reduce wait time. At Kahului Airport, the Explosive Detection System project similar to the system currently being installed at the Honolulu International Airport as mentioned above was completed, providing more space and decreased congestion in the ticket lobby areas. At Lihue Airport, four baggage claim carousel devices were replaced with larger devices to accommodate both interisland as well as overseas flights. At Hilo International Airport, the air conditioning system was upgraded that now allows control of airflow, temperature changes, and humidity. At Molokai Airport, Lanai Airport, and Kona International Airport, new Aircraft Rescue and Fire Fighting stations are being constructed for safety. Such projects will improve safety as well as traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

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

Indebtedness

Airports System Revenue Bonds

As of June 30, 2012, $966.9 million of airports system revenue bonds were outstanding as compared to $998.7 million as of June 30, 2011. On April 7, 2010, the Airports Division issued $645 million in airports system revenue bonds of which $397 million is for Airport Modernization Projects. $191 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements, and issuance costs. Prior to this issuance, the last series of "new money" bonds used to fund capital improvement projects were issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. The Airports Division refinanced and restructured $300,855,000 on October 4, 2011 at an average interest rate of 3.61%. The refinancing and restructuring created a $19.5 million annual decrease in debt service, allowing the Airports Division the flexibility to proceed with its on-going capital improvements program and providing a financial insurance plan to provide stability should economic conditions worsen. At June 30, 2012 and 2011, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $110,835,922 and $706,677,844, respectively.

Special Obligation Bonds

The State Legislature has authorized $200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2012 and 2011, there were outstanding bond obligations of $31,005,000 and $31,840,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

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

Credit Rating and Bond Insurance

As of June 30, 2012, there were three series of airports system revenue bonds outstanding in the principal amount of $945,575,000. Payment of principal and interest on the bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The credit ratings of FGIC have been revised downward since the issuance of the bonds. Standard & Poor's Corporation upgraded the Hawaii Airports rating from A- to A. On October 4, 2011, the State issued airports system revenue bonds that were rated as follows:

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

Economic Factors and Current Known Facts

The Airports Division and current signatory airline carriers have agreed to an amended lease extension agreement effective January 1, 2008. The agreement is intended for the airline carriers to support the increase in operational expenses and financing of modernization projects through landing and terminal rate increases. In order to finance the modernization projects, the Airports Division issued bonds in April 2010 and is planning for another bond issue in fiscal year 2013. In addition, the Airports Division has refunded and restructured its Series 2001 Revenue Bonds, which decreased annual debt service requirements by an average of $19.5 million, allowing additional future debt capacity. The Airports Division has calculated the signatory airline contribution requirement based on the Amended Signatory Airline Lease Agreement replacing negotiated requirements implemented by the prior administration.

The Airports Division is anticipating favorable approval relating to the publicized environmental assessment study by the Federal Aviation Authority in January 2013, which will allow forward movement of the Honolulu International Airport Inter-Island Mauka Concourse and Consolidated Rental Car Facility projects.

Request for Information

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

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

Statements of Net Assets

June 30, 2012 and 2011

Assets	**2012**	**2011**
Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted (note 3)	$ 549,278,665	494,704,677
Receivables:		
Accounts, net of allowance of $610,091 and $927,247 for uncollectible accounts	18,164,294	24,281,975
Promissory note receivable, net of allowance of $120,608 and $130,589 for uncollectible notes (note 7)	5,224	6,768
Interest	1,072,144	3,819,381
Claims – federal grants	5,401,007	11,227,195
Aviation fuel tax	389,206	404,463
Due from State of Hawaii	1,376,189	1,302,066
Total receivables	26,408,064	41,041,848
Inventory of materials and supplies, at cost	212,846	225,768
Total unrestricted current assets	575,899,575	535,972,293
Restricted assets:		
Cash and cash equivalents (note 3):		
Revenue bond debt service (note 6)	50,322,366	51,430,711
Debt extinguishment (note 6)	3,881,947	12,223,861
Security deposits	4,574,186	4,081,920
Total restricted current assets	58,778,499	67,736,492
Total current assets	634,678,074	603,708,785
Noncurrent assets:		
Unrestricted assets:		
Bond issue costs, net of accumulated amortization of $5,523,041 and $4,951,634 (note 6)	4,408,531	4,334,194
Capital assets, net of accumulated depreciation of $1,738,636,543 and $1,665,735,422 for 2012 and 2011, respectively (notes 4 and 6)	1,753,785,470	1,712,801,627
Total unrestricted noncurrent assets	1,758,194,001	1,717,135,821
Restricted assets:		
Cash and cash equivalents (note 3):		
Major maintenance, renewal, and replacement account (note 6)	58,060,552	58,397,113
Debt extinguishment (note 6)	775,065	4,657,011
Passenger facility charges (note 8)	83,232,793	66,600,949
Rental car customer facility charges (note 9)	45,387,802	46,064,024
Customer advances	952,601	952,601
Revenue bond construction (note 6)	233,502,848	262,236,803
Total cash and cash equivalents – restricted	421,911,661	438,908,501
Investments – revenue bond debt service reserve (notes 3 and 6)	96,893,008	96,893,008
Passenger facility charges receivable (note 8)	3,972,831	3,278,937
Rental car customer facility charges receivable (note 9)	21,908	5,324,348
Net investments in direct financing leases (note 7)	31,211,887	32,051,758
Total restricted noncurrent assets	554,011,295	576,456,552
Total noncurrent assets	2,312,205,296	2,293,592,373
Total assets	$ 2,946,883,370	2,897,301,158

(Continued)

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

Statements of Net Assets

June 30, 2012 and 2011

Liabilities	**2012**	**2011**
Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	$ 12,094,777	10,582,214
Contracts payable, including retainage of $2,250,833 and $2,196,689	9,497,988	11,688,227
Current portion of workers’ compensation (notes 5 and 14)	922,927	1,010,111
Current portion of compensated absences (note 5)	2,963,803	2,941,951
Current portion of postemployment liability (notes 5 and 11)	3,981,000	3,474,000
Deferred income (note 7)	5,511,333	4,078,177
Accrued wages	5,683,842	5,381,750
Pollution remediation liability (note 15)	1,239,324	2,052,735
Prepaid airport use charge fund (notes 7 and 15)	14,890,000	2,500,000
Other	27,091	109,884
Total payable from unrestricted assets	56,812,085	43,819,049
Payable from restricted assets:		
Contracts payable, including retainage of $2,630,287 and $2,352,044	7,623,865	11,545,619
Current portion of airports system revenue bonds (notes 5 and 6)	27,545,000	25,370,000
Current portion of special facility revenue bonds (notes 5 and 7)	905,000	835,000
Accrued interest	22,984,253	26,272,469
Security deposits	4,574,186	4,081,920
Total payable from restricted assets	63,632,304	68,105,008
Total current liabilities	120,444,389	111,924,057
Long-term liabilities – net of current portion:		
Payable from unrestricted assets:		
Prepaid airport use charge fund (notes 7 and 15)	33,226,688	8,849,329
Compensated absences (note 5)	6,498,023	6,382,109
Workers’ compensation (notes 5 and 14)	3,077,073	2,989,889
Postemployment liability (notes 5 and 11)	36,710,333	26,963,409
Total payable from unrestricted assets	79,512,117	45,184,736
Payable from restricted assets:		
Airports system revenue bonds (notes 5 and 6)	939,330,504	973,310,285
Special facility revenue bonds (notes 5 and 7)	30,100,000	31,005,000
Customer advance (note 13)	952,601	952,601
Total payable from restricted assets	970,383,105	1,005,267,886
Total long-term liabilities – net of current portion	1,049,895,222	1,050,452,622
Total liabilities	$ 1,170,339,611	1,162,376,679
Net Assets		
Invested in capital assets – net of related debt	$ 1,039,368,865	968,350,047
Restricted:		
Debt service payment	27,545,000	25,370,000
Debt service reserve account	96,893,008	96,893,008
Debt extinguishment	4,657,012	16,880,872
Major maintenance, renewal, and replacement account	58,060,552	58,397,113
Passenger facility charges	85,073,724	66,461,869
Rental car customer facility charges	42,262,197	51,268,868
Total restricted	314,491,493	315,271,730
Unrestricted	422,683,401	451,302,702
Commitments and contingencies (notes 6, 7, 10, 11, 12, 13, 14, and 15)		
Total net assets	$ 1,776,543,759	1,734,924,479

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues (notes 6, 7, and 12):		
Concession fees	$ 143,572,702	132,166,157
Airport landing fees, net	59,639,904	60,096,929
Aeronautical rentals:		
Nonexclusive joint-use premise charges	47,052,075	49,935,035
Exclusive-use premise charges	41,663,309	42,528,929
Nonaeronautical rentals	13,416,559	13,349,655
Aviation fuel tax	4,337,860	4,140,882
Airports system support charges	420,531	711,319
Miscellaneous	1,991,020	9,023,480
Net operating revenues	312,093,960	311,952,386
Operating expenses (notes 4, 10, 11, 12, 14, and 15):		
Depreciation	90,754,951	94,738,701
Salaries and wages	75,670,437	72,325,119
Other personnel services	48,682,998	50,532,511
Utilities	47,263,050	39,981,453
Repairs and maintenance	16,695,881	14,721,969
State of Hawaii surcharge on gross receipts	13,708,581	12,018,283
Special maintenance	9,109,360	10,306,916
Department of Transportation general administration expenses	5,181,543	4,835,990
Materials and supplies	5,040,236	4,143,224
Insurance	3,168,668	3,209,770
Rent	1,233,391	1,219,600
Claims and benefits	848,551	895,504
Travel	390,223	340,123
Communication	368,885	353,645
Dues and subscriptions	169,329	146,561
Freight and delivery	16,079	16,963
Printing and advertising	14,852	21,392
Miscellaneous	116,593	308,370
Total operating expenses	318,433,608	310,116,094
Operating income (loss), carried forward	(6,339,648)	1,836,292

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating (loss) income, brought forward	$ (6,339,648)	1,836,292
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities (note 3)	1,988,592	5,975,568
Investments in direct financing leases (note 7)	1,925,210	2,018,421
Interest expense:		
Revenue bonds:		
Airports system (note 6)	(31,289,796)	(41,715,701)
Special facility (note 7)	(1,925,210)	(2,018,421)
Federal operating grants	3,315,401	5,033,709
Loss on disposal of capital assets (note 4)	(1,889,939)	(517,884)
Passenger facility charges (note 8)	31,730,836	31,374,492
Rental car customer facility charges (note 9)	277,515	44,724,718
Amortization of deferred bond issue costs	(571,407)	(566,054)
Gain (loss) on amounts held in State Treasury	(1,408,718)	13,085,548
Other	(254,202)	124
Total nonoperating revenues, net	1,898,282	57,394,520
Income (loss) before capital contributions	(4,441,366)	59,230,812
Capital contributions:		
Federal capital grants	36,869,413	16,873,585
Federal stimulus grants	9,191,233	11,787,177
Total capital contributions	46,060,646	28,660,762
Increase in net assets	41,619,280	87,891,574
Total net assets – beginning of year	1,734,924,479	1,647,032,905
Total net assets – end of year	$ 1,776,543,759	1,734,924,479

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from providing services	$ 356,838,430	300,871,501
Cash paid to suppliers	(147,824,928)	(144,263,201)
Cash paid to employees	(64,976,655)	(63,070,529)
Net cash provided by operating activities	144,036,847	93,537,771
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	4,877,678	6,047,311
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(111,553,019)	(62,874,502)
Proceeds from federal and other capital grants and contributions	50,324,557	30,782,577
Interest paid on airports system revenue bonds	(45,446,447)	(44,292,751)
Principal paid on airports system revenue bonds	(25,370,000)	(23,615,000)
Payments to refund airports system revenue bonds	(7,534,244)	—
Proceeds from issuance of refunding airport system revenue bonds	1,050	—
Payments from passenger facility charges program	(14,405,098)	(44,889,875)
Proceeds from passenger facility charges program	31,036,942	31,766,020
Payments from rental car customer facility charges program	(6,256,177)	(10,704,913)
Proceeds from rental car customer facility charges	5,579,955	40,634,257
Net cash used in capital and related financing activities	(123,622,481)	(83,194,187)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	193,786,016	193,786,016
Interest received on investments	4,735,829	7,659,909
Purchases of investments	(193,786,016)	(193,786,016)
Gain (loss) on amounts held in State Treasury	(1,408,718)	13,085,548
Net cash provided by investing activities	3,327,111	20,745,457
Net increase in cash and cash equivalents	28,619,155	37,136,352
Cash and cash equivalents – beginning of year	1,001,349,670	964,213,318
Cash and cash equivalents – end of year	$ 1,029,968,825	1,001,349,670

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$	(6,339,648)	1,836,292
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		90,754,951	94,738,701
Bad debt expense		(561,747)	(2,408,716)
Overpayment of airport use charge to be transferred to the PAUCF		39,526,162	5,047,486
Changes in operating assets and liabilities:			
Accounts receivable		6,680,972	(7,376,260)
Aviation fuel tax receivable		15,257	(95,497)
Due from State of Hawaii		(74,123)	(419,013)
Inventory of materials and supplies		12,922	1,602
Vouchers payable		1,512,563	1,677,574
Contracts payable		3,545,341	(2,932,944)
Deferred income		1,433,156	(2,249,435)
Accrued wages		439,858	1,544,987
Postemployment liability		10,253,924	7,709,603
Pollution remediation liability		(813,411)	461,854
Prepaid airport use charge fund		(2,758,803)	(4,054,510)
Security deposits		492,266	(17,135)
Other current liabilities		(82,793)	73,182
Net cash provided by operating activities	$	144,036,847	93,537,771
Supplemental information:			
Noncash investing, capital, and financing activities:			
The Airports Division’s noncash capital and financing activities related to bonds payable included the following:			
Principal payments on special facility revenue bonds	$	835,000	1,685,000
Interest payments on special facility revenue bonds		1,930,081	2,030,594
Amortization of revenue bond issue costs		571,407	572,861
Amortization of revenue bond premium		(5,605,518)	(3,373,378)
Amortization of deferred loss on refunding revenue bonds		1,558,743	2,551,216
Payments to refund airports system revenue bonds		(321,286,426)	—
Proceeds from issuance of refunding airport system revenue bonds		321,286,426	—

At June 30, 2012 and 2011, contracts payable included $7,968,649 and $17,625,983, respectively, for the acquisition of capital assets.

During fiscal year 2012 and 2011, interest of $11,327,025 and $9,583,565, respectively, was capitalized in property, plant, and equipment.

During fiscal year 2012 and 2011, property, plant, and equipment with a net book value of $1,635,123 and 8,709,631, respectively, were written off.

See accompanying notes to financial statements.

(1) Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Financial Statement Presentation

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

(c) Operating Revenues and Expenses

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

(d) Passenger Facility Charges

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

(e) Rental Car Customer Facility Charge

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of $1 a day on all u-drive rentals at a state airport, effective September 1, 2008. The net receipts from CFCs are restricted to be used for funding approved rental car facility capital projects. CFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets. Effective September 1, 2010, the CFC was raised to $4.50 a day on all u-drive rentals at a state airport. Effective July 1, 2011, the collection of this fee was suspended by the State Legislature for one year and will be reinstated effective July 1, 2012.

(f) Capital Contributions

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

(g) Cash and Cash Equivalents

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

(h) Receivables

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

An aging of the accounts receivable at June 30, 2012 was as follows: current – $17,685,549; 30 days – $585,495; 60 days – $393,977; and over 90 days – $109,364. An aging of the accounts receivable at June 30, 2011 was as follows: current – $23,212,601; 30 days – $263,837; 60 days – $153,706; and over 90 days – $1,579,078.

(i) Investments

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

(j) Restricted Assets

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

(k) Capital Assets

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

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

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

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

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

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

(m) Accrued Vacation and Compensatory Pay

The Airports Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences (such as employer payroll taxes and fringe benefits), in accordance with GASB Statement

No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of 168 or 240 hours per calendar year, depending upon job classification. Accumulation of such vacation credits is limited to 720 or 1,056 hours at calendar year-end and is convertible to pay upon termination of employment.

(n) Employees' Retirement System

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

(o) Risk Management

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

(p) Use of Estimates

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

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Petty cash	$ 4,765	17,805
Amounts held in State Treasury	1,029,964,060	1,001,331,865
Certificates of deposit	78,594,282	81,060,558
Repurchase agreements	18,298,726	15,832,450
	$ 1,126,861,833	1,098,242,678

Such amounts are reflected in the statements of net assets at June 30, 2012 and 2011 as follows:

	2012	2011
Cash and cash equivalents:		
Unrestricted	$ 549,278,665	494,704,677
Restricted	480,690,160	506,644,993
Total cash and cash equivalents	1,029,968,825	1,001,349,670
Investments – restricted	96,893,008	96,893,008
Total cash and cash equivalents and investments	$ 1,126,861,833	1,098,242,678

(a) Amounts Held in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2012 and 2011, the amount reported as amounts held in State Treasury reflects the Airports Division's relative position in the State's investment pool and amounted to $1,029,964,060 and $1,001,331,865, respectively. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by $(1,408,718) and $13,085,548 during the years ended June 30, 2012 and 2011, respectively.

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

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

The State's investment pool at June 30, 2011 is summarized in the table below (amounts in thousands):

			Maturity (in years)		
		Fair value	**Less than 1**	**1 – 5**	**>5**
Investments – primary government:					
Student loan auction rate securities	$	231,465	—	—	231,465
Certificates of deposit		169,148	169,148	—	—
U.S. government securities		382,808	298,590	76,562	7,656
Repurchase agreements		106,830	106,830	—	—
	$	890,251	574,568	76,562	239,121
Investments – fiduciary funds:					
Student loan auction rate securities	$	28,668	—	—	28,668
Certificates of deposit		20,950	20,950	—	—
U.S. government securities		47,412	36,982	9,482	948
Repurchase agreements		13,231	13,231	—	—
	$	110,261	71,163	9,482	29,616

Information relating to the State's investment pool at June 30, 2012 will be included in the comprehensive annual financial report of the State when issued.

(b) Investments

At June 30, 2012 and 2011, the Airports Division's investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

(Continued)

(4) Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 consist of the following:

	Balance, June 30, 2011	Increases	Decreases	Transfers	Balance, June 30, 2012
Capital assets not being depreciated:					
Land	$ 300,248,125	—	—	—	300,248,125
Land improvements	26,681,609	—	—	—	26,681,609
Construction in progress	301,020,830	132,998,496	(26,732)	(68,082,166)	365,910,428
Total capital assets not being depreciated	627,950,564	132,998,496	(26,732)	(68,082,166)	692,840,162
Capital assets being depreciated:					
Land improvements	895,468,260	—	(1,916,579)	31,144,759	924,696,440
Buildings and improvements	1,628,786,364	—	(8,896,587)	34,866,243	1,654,756,020
Machinery and equipment	226,331,861	666,391	(7,763,575)	894,714	220,129,391
Total capital assets being depreciated	2,750,586,485	666,391	(18,576,741)	66,905,716	2,799,581,851
Less accumulated depreciation:					
Land improvements	(658,583,697)	(28,242,092)	1,916,579	—	(684,909,210)
Buildings and improvements	(850,905,930)	(51,923,822)	7,263,046	—	(895,566,706)
Machinery and equipment	(156,245,795)	(10,589,037)	7,761,993	912,212	(158,160,627)
Total depreciation	(1,665,735,422)	(90,754,951)	16,941,618	912,212	(1,738,636,543)
Capital assets being depreciated, net	1,084,851,063				1,060,945,308
Total capital assets	$ 1,712,801,627				1,753,785,470

	Balance, June 30, 2010	Increases	Decreases	Transfers	Balance, June 30, 2011
Capital assets not being depreciated:					
Land	$ 308,438,655	—	(8,190,530)	—	300,248,125
Land improvements	26,481,609	200,000	—	—	26,681,609
Construction in progress	229,546,967	122,162,073	(5,019)	(50,683,191)	301,020,830
Total capital assets not being depreciated	564,467,231	122,362,073	(8,195,549)	(50,683,191)	627,950,564
Capital assets being depreciated:					
Land improvements	881,502,325	—	(1,065,193)	15,031,128	895,468,260
Buildings and improvements	1,608,378,584	—	(1,348,802)	21,756,582	1,628,786,364
Machinery and equipment	216,834,267	158,703	(4,356,593)	13,695,484	226,331,861
Total capital assets being depreciated	2,706,715,176	158,703	(6,770,588)	50,483,194	2,750,586,485
Less accumulated depreciation:					
Land improvements	(628,500,282)	(30,083,415)	—	—	(658,583,697)
Buildings and improvements	(796,343,117)	(54,562,813)	—	—	(850,905,930)
Machinery and equipment	(152,406,025)	(10,092,473)	6,258,392	(5,689)	(156,245,795)
Total depreciation	(1,577,249,424)	(94,738,701)	6,258,392	(5,689)	(1,665,735,422)
Capital assets being depreciated, net	1,129,465,752				1,084,851,063
Total capital assets	$ 1,693,932,983				1,712,801,627

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2012 and 2011 is as follows:

	Balance, June 30, 2011	Increases	Decreases	Balance, June 30, 2012	Current	Noncurrent
Workers' compensation (note 14)	$ 4,000,000	802,755	(802,755)	4,000,000	922,927	3,077,073
Compensated absences	9,324,060	4,453,385	(4,315,619)	9,461,826	2,963,803	6,498,023
Prepaid airport use charge fund (notes 7 and 15)	11,349,329	39,526,162	(2,758,803)	48,116,688	14,890,000	33,226,688
Postemployment liability (note 10)	30,437,409	14,039,274	(3,785,350)	40,691,333	3,981,000	36,710,333
Airports system revenue bonds (note 6)	998,680,285	327,884,541	(359,689,322)	966,875,504	27,545,000	939,330,504
Special facility revenue bonds (note 7)	31,840,000	—	(835,000)	31,005,000	905,000	30,100,000
	$ 1,085,631,083	386,706,117	(372,186,849)	1,100,150,351	51,207,730	1,048,942,621

	Balance, June 30, 2010	Increases	Decreases	Balance, June 30, 2011	Current	Noncurrent
Workers' compensation (note 14)	$ 4,000,000	846,016	(846,016)	4,000,000	1,010,111	2,989,889
Compensated absences	8,532,708	5,089,450	(4,298,098)	9,324,060	2,941,951	6,382,109
Prepaid airport use charge fund (notes 7 and 15)	10,356,353	5,047,486	(4,054,510)	11,349,329	2,500,000	8,849,329
Postemployment liability (note 10)	22,727,806	11,026,195	(3,316,592)	30,437,409	3,474,000	26,963,409
Airports system revenue bonds (note 6)	1,023,117,447	2,551,216	(26,988,378)	998,680,285	25,370,000	973,310,285
Special facility revenue bonds (note 7)	33,525,000	—	(1,685,000)	31,840,000	835,000	31,005,000
	$ 1,102,259,314	24,560,363	(41,188,594)	1,085,631,083	36,131,062	1,049,500,021

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

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

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

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

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

   1. Interest account

   2. Serial bond principal account

   3. Sinking fund account

   4. Debt service reserve account

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

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

e. To provide for betterments and improvements to the airports

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

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

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

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal, and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2012 and 2011, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

(Continued)

At June 30, 2012 and 2011, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net assets) consisted of the following:

	2012	2011
Debt service reserve account	$ 96,893,008	96,893,008
RHB Debt extinguishment	4,657,012	16,880,872
Major maintenance, renewal, and replacement account	58,060,552	58,397,113
	159,610,572	172,170,993
Principal and interest due July 1	50,322,366	51,430,711
	$ 209,932,938	223,601,704

At June 30, 2012 and 2011, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $110,835,922 and $706,677,844, respectively.

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

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2012 and 2011:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount 2012	Outstanding amount 2011
2000B, refunding	5.00% – 6.00%	2020	$ 261,465,000	—	13,550,000
2001, refunding	4.00% – 5.75%	2021	423,255,000	—	334,250,000
2010A, refunding	2.00% – 5.25%	2039	478,980,000	478,690,000	478,980,000
2010B, refunding	3.00% – 5.00%	2020	166,000,000	166,000,000	166,000,000
2011, refunding	2.00% – 5.00%	2024	300,885,000	300,885,000	—
			$ 1,369,120,000	945,575,000	992,780,000
Add unamortized premium				28,858,402	15,921,617
Less deferred loss on refunding				(7,557,898)	(10,021,332)
Less current portion				(27,545,000)	(25,370,000)
Noncurrent portion				$ 939,330,504	973,310,285

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

	Principal	Interest	Total
Year(s) ending June 30:			
2013	$ 40,305,000	44,587,338	84,892,338
2014	34,210,000	43,033,988	77,243,988
2015	35,725,000	41,515,725	77,240,725
2016	37,290,000	39,955,020	77,245,020
2017	38,935,000	38,309,470	77,244,470
2018 – 2022	224,010,000	162,207,963	386,217,963
2023 – 2027	164,010,000	106,930,780	270,940,780
2028 – 2032	119,050,000	75,008,275	194,058,275
2033 – 2037	152,345,000	41,725,165	194,070,165
2038 – 2039	72,150,000	5,475,180	77,625,180
	$ 918,030,000	598,748,904	1,516,778,904

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2012 of $27,545,000 and $22,777,366, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2012 and 2011 and the allocation thereof:

	2012	2011
Expensed as incurred	$ 31,289,796	41,715,701
Capitalized in capital assets	11,327,025	9,583,565
	$ 42,616,821	51,299,266

On October 4, 2011, the Airports Division issued $300,885,000 of airports system revenue bonds (Refunding Series of 2011 (AMT)) at interest rates ranging from 2% to 5% to refund its outstanding Refunding Series of 2001 bonds. The average interest rates of the refunded bonds were 5.5782%. Of the net proceeds of $321,287,476 (after payment of $1,664,354 in underwriting fees, insurance, and other costs), along with an additional $7,534,244 from the debt service reserve account, $328,821,720 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of Refunding Series of 2001 bonds on November 3, 2011. As a result, the refunded portion of the Refunding Series on 2001 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The 2011 refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $2,834,351. This difference, reported in the accompanying financial statements as a deduction from airports system revenue bonds, is being charged to operations over the next 10 years.

At June 30, 2012 and 2011, the aggregate outstanding defeased bonds amounted to $0 and $16,845,000, respectively.

(7) Leases

(a) Airport-Airline Lease Agreement

Airports Division

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

Under the lease extension agreement, the airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of $100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on appraisal and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (5) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Effective January 1, 2008, under the first amended lease extension agreement, the airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a

(Continued)

cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (the PAUCF). Net excess payments for fiscal years 1996 through 2012 have been transferred to the PAUCF (note 15).

Aviation Fuel Tax

The aviation fuel tax amounted to $4,337,860 and $4,140,882 for fiscal years 2012 and 2011, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

Airport landing fees amounted to $63,400,869 and $63,829,502 for fiscal years 2012 and 2011. Airport landing fees are shown net of aviation fuel tax credits of $3,760,965 and $3,732,573 for fiscal years 2012 and 2011, respectively, on the statements of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $59,639,904 and $60,096,929 for fiscal years 2012 and 2011, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines are set at 40% and 39% of the airport landing fees for overseas flights for fiscal years 2012 and 2011, respectively, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to $47,052,075 and $49,935,035 for fiscal years 2012 and 2011.

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

(Continued)

to recover from signatory airlines airports system costs allocable to the baggage claim, baggage tug drive, and joint-use baggage makeup areas based on terminal rental rates and is recovered based on a computed rate per revenue passenger landing in accordance with the lease extension agreement. Effective March 1, 1997, a blended overseas joint-use premise charge was established to recover costs allocable to Hawaiian Airlines, Inc.'s interisland terminal operations at the Honolulu International Airport.

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

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

Exclusive-use premise charges amounted to $41,663,309 and $42,528,929 for fiscal years 2012 and 2011, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $24,043,673 and $25,795,075 for fiscal years 2012 and 2011, respectively.

Airports system support charges amounted to $420,531 and $711,319 for fiscal years 2012 and 2011, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

(b) Special Facility Leases and Revenue Bonds

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

$25,255,000 Issue

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

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2012:

	Principal	Interest	Total
Year(s) ending June 30:			
2013	$ —	1,222,031	1,222,031
2014	—	1,222,031	1,222,031
2015	—	1,222,031	1,222,031
2016	—	1,222,031	1,222,031
2017	—	1,222,031	1,222,031
2018 – 2022	—	6,110,156	6,110,156
2023 – 2027	—	6,110,156	6,110,156
2028	21,725,000	611,016	22,336,016
	$ 21,725,000	18,941,483	40,666,483

$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, 2012:

		Principal	Interest	Total
Year(s) ending June 30:				
2013	$	905,000	649,600	1,554,600
2014		970,000	586,250	1,556,250
2015		1,030,000	518,350	1,548,350
2016		1,110,000	446,250	1,556,250
2017		1,185,000	368,550	1,553,550
2018 – 2020		4,080,000	582,400	4,662,400
	$	9,280,000	3,151,400	12,431,400

$6,600,000 Issue

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds were subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

Special facility revenue bonds payable at June 30, 2012 and 2011 consisted of the following:

		Continental		Total
2012:				
Current portion	$	905,000	—	905,000
Noncurrent portion		8,375,000	21,725,000	30,100,000
	$	9,280,000	21,725,000	31,005,000

		Continental		Total
2011:				
Current portion	$	835,000	—	835,000
Noncurrent portion		9,280,000	21,725,000	31,005,000
	$	10,115,000	21,725,000	31,840,000

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

(Continued)

Net investments in direct financing leases at June 30, 2012 and 2011 consisted of the following:

		2012	2011
Cash with bond fund trustee	$	3,203,600	3,203,600
Receivable from lessees, net of unearned interest of $21,885,997 and $23,811,208		27,801,400	28,636,400
Interest receivable		206,887	211,758
	$	31,211,887	32,051,758

(c) Other Operating Leases

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

The future minimum rentals from these operating leases at June 30, 2012 and 2011 are as follows:

Year(s) ending June 30:		
2013	$	114,894,014
2014		117,459,573
2015		109,424,752
2016		74,899,265
2017		61,741,689
2018 – 2022		109,021,250
2023 – 2027		21,019,408
2028 – 2032		13,291,200
2033 – 2037		8,770,459
Thereafter		16,940,270
	$	647,461,880

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 2012 and 2011 were $42,034,204 and $32,448,156, respectively.

In fiscal year 2006, the Airports Division converted certain past-due amounts from two lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 0 months to 9 years. The balance of $5,224 at June 30, 2012 is due as follows: 2013 – $125,832; 2014 – $34,608; 2015 – $34,608; and thereafter – $23,563.

Concession fee revenues from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 29% and 28% of total concession fee revenues for fiscal years 2012 and 2011, respectively.

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

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

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

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

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

(8) Passenger Facility Charges

Passenger facility charge activity for the years ended June 30, 2012 and 2011 is as follows:

		2012	2011
Restricted assets – passenger facility charges, beginning of year	$	69,879,886	83,395,269
Passenger facility charges during the year		31,390,921	30,719,684
Interest earned on passenger facility charges during the year		339,915	654,808
Capital expenditures during the year		(14,405,098)	(44,889,875)
Restricted assets – passenger facility charges, end of year	$	87,205,624	69,879,886

Restricted assets – passenger facility charges are presented on the statements of net assets as of June 30, 2012 and 2011 as follows:

		2012	2011
Cash and cash equivalents	$	83,232,793	66,600,949
Receivable		3,972,831	3,278,937
Total restricted assets – passenger facility charges	$	87,205,624	69,879,886

(9) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the years ended June 30, 2012 and 2011 is as follows:

		2012	2011
Restricted assets – rental car customer facility charge, beginning of year	$	51,388,372	17,368,567
Rental car customer facility charges during the year		49,397	44,531,775
Interest earned on rental car customer facility charges during the year		228,118	192,943
Capital expenditures during the year		(6,256,177)	(10,704,913)
Restricted assets – rental car customer facility charges, end of year	$	45,409,710	51,388,372

Restricted assets – rental car customer facility charges are presented on the statements of net assets as of June 30, 2012 and 2011 as follows:

		2012	2011
Cash and cash equivalents	$	45,387,802	46,064,024
Receivable		21,908	5,324,348
Total restricted assets – rental car customer facility charges	$	45,409,710	51,388,372

(10) Pension Information

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

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

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

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.).

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

(a) Contributory Plan

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

(b) Hybrid Plan

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

(c) Noncontributory Plan

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

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

The required pension contributions by the Airports Division for the years ended June 30, 2012, 2011, and 2010 were $7,683,738, $7,552,624, and $7,472,099, respectively, which represented 16.25% of covered payroll for each of the years then ended and were equal to the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

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

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

(11) Postretirement Healthcare and Life Insurance Benefits

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

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

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

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

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

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Airports Division's contribution for the years ended June 30, 2012 and 2011 was $3,785,350 and $3,316,592, respectively, which represented 30%, of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $14,039,274 and $11,026,195.

The following is a summary of changes in postemployment liability during the fiscal years ended June 30, 2012 and 2011:

Balance at June 30, 2011	$	30,437,409
Additions		14,039,274
Deletions		(3,785,350)
Balance at June 30, 2012		40,691,333
Less current portion		(3,981,000)
	$	36,710,333

Balance at June 30, 2010	$	22,727,806
Additions		11,026,195
Deletions		(3,316,592)
Balance at June 30, 2011		30,437,409
Less current portion		(3,474,000)
	$	26,963,409

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

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

(12) Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $13,708,581 and $12,018,283 in fiscal years 2012 and 2011, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $5,181,543 and $4,835,990 in fiscal years 2012 and 2011, respectively. During fiscal years 2012 and 2011, the Airports Division received assessment refunds from the DOT amounting to $1,237,294 and $1,130,004, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

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During fiscal years 2012 and 2011, revenues received from other state agencies totaled $1,472,637 and $3,165,719, and expenditures to other state agencies totaled $7,456,876 and $8,157,982, respectively.

(13) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2012 and 2011 was $19,504,025 and $19,106,081, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee’s job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

(b) Deferred Compensation Plan

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

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

(c) Pledged Future Revenues

In accordance with the Certificate, the Airports Division has pledged future revenues net of operation, maintenance and repair expenses, and certain adjustments (net revenues and taxes available for debt service) to repay $945,865,000 in revenue bonds issued in 2010 and 2011, and are payable through 2039. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $1,516,778,904. In fiscal year 2012, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were $67,533,102 and $108,628,777, respectively. See also note 6 for further discussion on the revenue bonds.

(d) Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next

5 – 10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net assets at June 30, 2012 and 2011.

At June 30, 2012, the Airports Division had commitments totaling approximately $284,648,864 for construction and service contracts.

(14) Risk Management

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

(a) Torts

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

(b) Property and Liability Insurance

The Airports Division is covered by commercial general liability policies with a $750 million limit per occurrence. These commercial general liability policies have no deductible and cover bodily injuries and property damage for occurrences arising out of the ownership, operation, and maintenance of state airports.

(c) Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2012 and 2011, the workers' compensation reserve was $4,000,000, of which $922,927 and $1,010,111 is included in current liabilities (payable from unrestricted net assets) and $3,077,073 and $2,989,889, respectively, is included in long-term liabilities in the accompanying statements of net assets at June 30, 2012 and 2011. In the opinion of management, the Airports Division has adequately reserved for such claims.

(15) Contingent Liabilities and Other

(a) Litigation

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

(b) Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2012 and 2011, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

(c) Asserted Claims

Prepaid Airport Use Charge Fund

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

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

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

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

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

In fiscal year 2011, the PAUCF was decreased by a payment of $2,500,000 for the 2010 overpayment as well as the use of $1,554,510 from the PAUCF to settle a dispute with a signatory airline over baggage joint-use charges. The PAUCF was increased by $5,047,486 due to an overpayment for fiscal year 2011. The payable balance of the PAUCF at June 30, 2011 was $11,349,329.

In fiscal year 2012, the PAUCF was decreased by a payment of $2,500,000 to ACH members for the 2010 overpayment as well as $156,801 and $102,002 paid to non-ACH members for 2010 and 2011 overpayments, respectively. The PAUCF was increased by $39,526,162 due to an overpayment for fiscal year 2012. The PAUCF liability at June 30, 2012 was $48,116,688.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the DOT was required to pay a $1 million fine. The Airports Division's allocated share of the fine was $400,000, which was paid in February 2006. In addition, the Department is expected to expend an additional $1,239,234 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(16) Subsequent Events

The Airports Division has evaluated subsequent events from the balance sheet date through December 12, 2012, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

Schedule 1

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

Operating Revenues and Operating Expenses Other than Depreciation

Year ended June 30, 2012

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 143,572,702	—	89,119,646	2,836,910	12,106,368	26,434,108	12,846,060	229,610
Airport landing fees	59,639,904	—	40,293,575	1,485,856	4,266,004	9,532,948	3,583,678	477,843
Aeronautical rentals:								
Nonexclusive joint-use premise charges	47,052,075	—	35,592,274	968,441	1,613,159	6,678,290	2,199,911	—
Exclusive-use premise charges	41,663,309	—	32,685,738	969,070	1,277,515	4,606,075	1,690,379	434,532
Nonaeronautical rentals	13,416,559	—	8,002,808	346,338	1,138,197	2,846,196	1,012,563	70,457
Aviation fuel tax	4,337,860	—	2,270,570	127,334	365,585	1,129,873	392,216	52,282
Airports system support charges	420,531	—	258,087	18,984	31,023	40,444	29,896	42,097
Miscellaneous	4,134,915	406,373	1,944,917	103,693	643,579	537,716	456,570	42,067
	314,237,855	406,373	210,167,615	6,856,626	21,441,430	51,805,650	22,211,273	1,348,888
Allocation of statewide miscellaneous revenues (note 1)	—	(406,373)	211,976	11,301	70,144	58,606	49,761	4,585
Total operating revenues for net revenues and taxes	314,237,855	—	210,379,591	6,867,927	21,511,574	51,864,256	22,261,034	1,353,473
Major maintenance, renewal, and replacement account not included above	(2,143,895)	—	(623,421)	—	—	—	(1,500,000)	(20,474)
Total operating revenues for statement of revenues, expenses, and changes in net assets	$ 312,093,960	—	209,756,170	6,867,927	21,511,574	51,864,256	20,761,034	1,332,999
Operating expenses other than depreciation:								
Salaries and wages	$ 75,670,437	17,692,536	29,210,731	4,677,939	4,654,618	8,391,364	5,516,696	5,526,553
Other personnel services	48,682,998	2,523,573	27,906,022	3,273,376	4,023,185	5,254,223	3,541,209	2,161,410
Utilities	47,263,050	3,884	35,522,151	1,393,363	2,482,273	5,032,760	2,064,440	764,179
Repairs and maintenance	16,695,881	4,544,535	8,027,813	963,850	863,357	1,437,390	608,881	250,055
State of Hawaii surcharge on gross receipts (note 2)	13,708,581	13,708,581	—	—	—	—	—	—
Special maintenance	9,109,360	2,030,137	5,429,181	121,481	535,904	204,764	279,203	508,690
Department of Transportation general administration expenses	5,181,543	5,181,543	—	—	—	—	—	—
Materials and supplies	5,040,236	85,746	2,634,225	427,029	360,122	739,960	441,308	351,846
Insurance	3,168,668	3,158,112	3,594	1,500	582	1,625	3,250	5
Rent	1,233,391	974,100	162,169	11,085	18,752	31,497	18,016	17,772
Claims and benefits	848,551	67,927	312,862	46,765	131,168	207,434	34,755	47,640
Travel	390,223	113,709	67,388	35,985	36,098	49,121	34,252	53,670
Communication	368,885	78,961	69,699	50,202	23,831	53,652	37,677	54,863
Dues and subscriptions	169,329	166,666	1,278	—	275	165	786	159
Freight and delivery	16,079	335	4,776	101	199	10,067	50	551
Printing and advertising	14,852	14,852	—	—	—	—	—	—
Miscellaneous	116,593	44,637	(11,729)	24,515	31,911	8,503	7,152	11,604
	227,678,657	50,389,834	109,340,160	11,027,191	13,162,275	21,422,525	12,587,675	9,748,997
Allocation of statewide expenses (note 3)	—	(50,389,834)	31,077,157	3,134,198	3,741,042	6,088,807	3,577,726	2,770,904
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets	$ 227,678,657	—	140,417,317	14,161,389	16,903,317	27,511,332	16,165,401	12,519,901

Notes:

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

See accompanying independent auditors' report.

Schedule 2

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

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2012

Revenues and taxes:	
Concession fees	$ 143,572,702
Airport landing fees	59,639,904
Aeronautical rentals:	
Nonexclusive joint-use premise charges	47,052,075
Exclusive-use premise charges	41,663,309
Nonaeronautical rentals	13,416,559
Aviation fuel tax	4,337,860
Airports system support charges	420,531
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $262,608 on capital improvement projects	1,988,592
Federal operating grants	3,315,401
Miscellaneous	4,134,915
Total revenues and taxes	319,541,848
Deductions:	
Operating expenses other than depreciation for net revenues and taxes (schedule 1)	227,678,657
Annual reserve required on major maintenance, renewal, and replacement account	2,545,000
Total deductions	230,223,657
Net revenues and taxes	89,318,191
Add funded coverage per bond certificate	19,310,586
Adjusted net revenues and taxes	108,628,777
Debt service requirement:	
Airports system revenue bonds:	
Principal	30,578,750
Interest (note 1)	34,439,736
Total debt service requirement	65,018,486
Debt service coverage percentage	125%
Total debt service with coverage requirement	81,273,108
Excess of net revenues and taxes over debt service requirement	$ 27,355,669

Notes:

(1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes, and amounts from the Series 2010 bond proceeds used to pay interest on the Series 2010 bonds until the projects funded by the Series 2010 bonds are in service.

See accompanying independent auditors' report.

Schedule 3

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

Summary of Debt Service Requirements to Maturity

June 30, 2012

	Annual principal and interest requirements		
	Airports system revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2013	$ 40,305,000	44,587,338	84,892,338
2014	34,210,000	43,033,988	77,243,988
2015	35,725,000	41,515,725	77,240,725
2016	37,290,000	39,955,020	77,245,020
2017	38,935,000	38,309,470	77,244,470
2018	40,755,000	36,489,520	77,244,520
2019	42,585,000	34,658,670	77,243,670
2020	44,690,000	32,555,070	77,245,070
2021	46,805,000	30,439,145	77,244,145
2022	49,175,000	28,065,558	77,240,558
2023	51,580,000	25,664,558	77,244,558
2024	54,195,000	23,045,658	77,240,658
2025	18,440,000	20,379,107	38,819,107
2026	19,395,000	19,428,487	38,823,487
2027	20,400,000	18,412,970	38,812,970
2028	21,460,000	17,356,370	38,816,370
2029	22,570,000	16,233,945	38,803,945
2030	23,755,000	15,053,750	38,808,750
2031	25,010,000	13,807,355	38,817,355
2032	26,255,000	12,556,855	38,811,855
2033	27,575,000	11,244,105	38,819,105
2034	28,945,000	9,865,355	38,810,355
2035	30,395,000	8,418,105	38,813,105
2036	31,910,000	6,898,355	38,808,355
2037	33,520,000	5,299,245	38,819,245
2038	35,195,000	3,619,455	38,814,455
2039	36,955,000	1,855,725	38,810,725
Total	$ 918,030,000	598,748,904	1,516,778,904

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2012.

See accompanying independent auditors' report.

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2012

	Refunding series of 2010A, 2.00% to 5.25%	Refunding series of 2010B, 3.00% to 5.00%	Refunding series of 2011, 2.00% to 5.00%	Total	Interest	Total requirements
Year ending June 30:						
2013	$ 305,000	15,000,000	25,000,000	40,305,000	44,587,338	84,892,338
2014	310,000	13,800,000	20,100,000	34,210,000	43,033,988	77,243,988
2015	320,000	18,150,000	17,255,000	35,725,000	41,515,725	77,240,725
2016	335,000	19,030,000	17,925,000	37,290,000	39,955,020	77,245,020
2017	340,000	19,975,000	18,620,000	38,935,000	38,309,470	77,244,470
2018	355,000	20,980,000	19,420,000	40,755,000	36,489,520	77,244,520
2019	255,000	22,165,000	20,165,000	42,585,000	34,658,670	77,243,670
2020	7,720,000	21,650,000	15,320,000	44,690,000	32,555,070	77,245,070
2021	14,510,000	—	32,295,000	46,805,000	30,439,145	77,244,145
2022	18,005,000	—	31,170,000	49,175,000	28,065,558	77,240,558
2023	16,650,000	—	34,930,000	51,580,000	25,664,558	77,244,558
2024	17,510,000	—	36,685,000	54,195,000	23,045,658	77,240,658
2025	18,440,000	—	—	18,440,000	20,379,107	38,819,107
2026	19,395,000	—	—	19,395,000	19,428,487	38,823,487
2027	20,400,000	—	—	20,400,000	18,412,970	38,812,970
2028	21,460,000	—	—	21,460,000	17,356,370	38,816,370
2029	22,570,000	—	—	22,570,000	16,233,945	38,803,945
2030	23,755,000	—	—	23,755,000	15,053,750	38,808,750
2031	25,010,000	—	—	25,010,000	13,807,355	38,817,355
2032	26,255,000	—	—	26,255,000	12,556,855	38,811,855
2033	27,575,000	—	—	27,575,000	11,244,105	38,819,105
2034	28,945,000	—	—	28,945,000	9,865,355	38,810,355
2035	30,395,000	—	—	30,395,000	8,418,105	38,813,105
2036	31,910,000	—	—	31,910,000	6,898,355	38,808,355
2037	33,520,000	—	—	33,520,000	5,299,245	38,819,245
2038	35,195,000	—	—	35,195,000	3,619,455	38,814,455
2039	36,955,000	—	—	36,955,000	1,855,725	38,810,725
Total	$ 478,395,000	150,750,000	288,885,000	918,030,000	598,748,904	1,516,778,904

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2012.

See accompanying independent auditors' report.

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

Airports System Charges – Fiscal Year 2008 Lease Extension

Year ended June 30, 2012

	Airline activity			Airports system charges												
						Nonexclusive joint-use premise charges										
	Approved maximum revenue landing weights (1,000-pound units)	Revenue passenger landings	Deplaning international passengers	Airports landing fees	Airports system support charges	Joint-use charges – overseas baggage	Joint-use charges – overseas holdroom	Joint-use charges – overseas	Joint-use charges – interisland baggage	Joint-use charges – interisland holdroom	Joint-use charges – commuter baggage	Joint-use charges – commuter holdroom	International arrivals building charges	Preferential use	Exclusive-use premise charges – terminal space	Total
Signatory airlines:																
Aeko Kula, Inc.	127,426	—	—	$ 215,349	—	—	—	—	—	—	—	—	—	—	18,622	233,971
Air Canada	200,640	627	—	848,707	—	278,575	339,745	—	—	—	—	—	—	—	678,196	2,145,223
Air New Zealand, Ltd.	40,930	124	24,278	173,134	—	—	51,230	—	—	—	—	—	250,306	—	—	474,670
Air Pacific, Ltd.	21,776	157	15,830	92,210	—	—	26,279	—	—	—	—	—	163,380	—	—	281,869
Alaska Air, Inc.	965,664	6,706	—	4,084,759	—	1,939,514	2,343,334	—	—	—	—	—	—	—	362,977	8,730,584
All Nippon Airways, Inc.	244,140	738	149,461	1,032,712	—	—	277,532	—	—	—	—	—	1,540,943	—	4,880	2,856,067
Allegiant Air LLC	396	2	—	1,675	—	1,346	616	—	—	—	—	—	—	—	—	3,637
American Airlines, Inc.	976,450	4,126	—	4,130,384	—	1,770,478	1,720,052	—	—	—	—	—	—	—	2,124,658	9,745,572
Asiana Airlines, Inc.	3,298	8	1,664	13,951	—	—	3,164	—	—	—	—	—	17,156	—	—	34,271
China Airlines, Ltd.	209,698	356	115,893	887,021	—	—	208,936	—	—	—	—	—	1,194,857	—	46,970	2,337,784
Continental Airlines, Inc.	706,115	2,632	50,337	2,986,866	—	1,296,461	1,195,375	—	—	—	—	—	518,974	—	350,043	6,347,719
Continental Micronesia, Inc.	—	—	—		—	—	—	—	—	—	—	—	—	—	999,980	999,980
Delta Airlines, Inc.	1,762,399	5,709	414,982	7,454,948	—	2,121,972	2,450,208	—	—	—	—	—	4,278,464	—	3,288,524	19,594,116
Evergreen International Airlines, Inc.	35,280	—	—	149,234	—	—	—	—	—	—	—	—	—	—	—	149,234
Federal Express Corporation	733,107	—	—	2,671,085	—	—	—	—	—	—	—	—	—	—	7,611	2,678,696
Hawaii Island Air, Inc.	288,317	8,662	—	487,256	—	—	—	—	48,087	42,933	63,836	83,913	—	—	87,001	813,026
Hawaiian Airlines, Inc.	9,005,830	66,498	372,947	21,559,317	—	—	2,889,724	—	11,221,052	—	—	—	3,845,084	3,878,954	8,582,503	51,976,634
JALways Co, Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Japan Airlines Company, Ltd.	770,265	2,266	510,564	3,258,221	—	—	953,905	—	—	—	—	—	5,263,915	—	2,500,429	11,976,470
Kalitta Air, LLC	154,394	—	—	608,281	—	—	—	—	—	—	—	—	—	—	—	608,281
Korean Airlines Company, Ltd.	376,986	784	183,120	1,594,651	—	—	337,902	—	—	—	—	—	1,887,967	—	283,041	4,103,561
Mesa Airlines, Inc.	676,800	14,400	—	1,143,792	—	—	—	—	275,718	310,451	204,288	276,773	—	—	362,021	2,573,043
Mokulele Flight Service, Inc.	130,620	15,367	—	220,747	—	—	—	—	—	—	15,302	19,889	—	—	35,226	291,164
North American Airlines, Inc.	630	3	—	2,665	—	—	—	—	—	—	—	—	—	—	—	2,665
Pacific Wings LLC	51,264	6,031	—	86,636	—	—	—	—	—	—	—	4,430	—	—	8,732	99,798
Philippine Airlines, Inc.	100,491	158	35,140	425,077	—	—	62,500	—	—	—	—	—	362,293	—	149,307	999,177
Qantas Airways, Ltd.	203,104	164	33,474	859,348	—	—	66,119	—	—	—	—	—	345,117	—	524,598	1,795,182
United Airlines, Inc.	2,333,376	7,752	125,825	9,859,573	—	3,428,992	3,673,674	—	—	—	—	—	1,297,256	—	8,022,500	26,281,995
United Parcel Service Co.	766,787	—	—	2,810,290	—	—	—	—	—	—	—	—	—	—	43,152	2,853,442
US Airways, Inc.	386,892	1,954	—	1,636,553	—	678,579	703,820	—	—	—	—	—	—	—	569,172	3,588,124
WestJet	199,158	1,320	1,814	842,437	—	381,453	484,328	—	—	—	—	—	18,702	—	118,045	1,844,965
Nonsignatory airlines	2,401,724	676	105,556	4,870,250	420,531	128,462	206,383	150,009	—	—	—	—	908,374	—	1,338,381	8,022,390
Total airports system charges billed	23,873,957	147,220	2,140,885	75,007,129	420,531	12,025,832	17,994,826	150,009	11,544,857	353,384	283,426	385,005	21,892,788	3,878,954	30,506,569	174,443,310
Signatory airlines requirements				58,530,619	—	8,905,842	11,673,809	—	8,703,093	252,331	283,426	385,005	12,435,860	3,019,481	22,705,292	126,894,758
Nonsignatory airlines requirements				4,870,250	420,531	128,462	206,383	150,009	—	—	—	—	908,374	—	1,338,381	8,022,390
Fiscal year 2012 overpayment (underpayment)				$ 11,606,260	—	2,991,528	6,114,634	—	2,841,764	101,053	—	—	8,548,554	859,473	6,462,896	39,526,162

See accompanying independent auditors’ report.

Schedule 6

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

Summary of Billed Airport Landing Fees

Year ended June 30, 2012

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	70,136,879	4,870,250	75,007,129
Less aviation fuel tax credit		(3,509,446)	(251,519)	(3,760,965)
Net airport landing fees billed	$	66,627,433	4,618,731	71,246,164

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport					All other airports			
					Gross airport landing fees								
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees	Total adjusted airport landing fees
Aeko Kula, Inc.	74,932	13,368	39,126	127,426	$ 126,636	22,591	149,227	(87,822)	61,405	66,122	—	66,122	127,527
Air Canada	104,640	—	96,000	200,640	442,627	—	442,627	—	442,627	406,080	(6,664)	399,416	842,043
Air New Zealand, Ltd.	40,930	—	—	40,930	173,134	—	173,134	—	173,134	—	—	—	173,134
Air Pacific, Ltd.	21,776	—	—	21,776	92,210	—	92,210	—	92,210	—	—	—	92,210
Alaska Airlines, Inc.	331,344	—	634,320	965,664	1,401,585	—	1,401,585	(661,520)	740,065	2,683,174	—	2,683,174	3,423,239
All Nippon Airways	244,140	—	—	244,140	1,032,712	—	1,032,712	—	1,032,712	—	—	—	1,032,712
Allegiant Air LLC	396	—	—	396	1,675	—	1,675	—	1,675	—	—	—	1,675
American Airlines, Inc.	518,588	—	457,862	976,450	2,193,627	—	2,193,627	(281,710)	1,911,917	1,936,756	—	1,936,756	3,848,673
Asiana Airlines, Inc.	3,298	—	—	3,298	13,951	—	13,951	—	13,951	—	—	—	13,951
China Airlines, Ltd.	209,698	—	—	209,698	887,021	—	887,021	—	887,021	—	—	—	887,021
Continental Airlines, Inc.	634,315	61,175	10,624	706,114	2,683,154	258,772	2,941,926	—	2,941,926	44,940	—	44,940	2,986,866
Continental Micronesia, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—
Delta Airlines, Inc.	1,470,484	—	291,915	1,762,399	6,220,147	—	6,220,147	(97,840)	6,122,307	1,234,800	—	1,234,800	7,357,107
Evergreen International Airlines, Inc.	35,280	—	—	35,280	149,234	—	149,234		149,234	—	—	—	149,234
Federal Express Corporation	636,422	96,685		733,107	2,506,439	164,645	2,671,084	(186,924)	2,484,160	—	—	—	2,484,160
Hawaii Island Air, Inc.	108,540	203	179,574	288,317	183,433	344	183,777	(15,645)	168,132	303,480	—	303,480	471,612
Hawaiian Airlines, Inc.	5,285,641	626,230	3,093,960	9,005,831	14,561,123	1,058,329	15,619,452	(1,344,584)	14,274,868	5,939,865	—	5,939,865	20,214,733
JALways Co., Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—
Japan Airlines International Co., Ltd.	769,365	—	900	770,265	3,254,414	—	3,254,414	—	3,254,414	3,807	(159)	3,648	3,258,062
Kalitta Air, LLC	136,754	—	17,640	154,394	578,469	—	578,469	—	578,469	29,812	—	29,812	608,281
Korean Airlines Company, Ltd.	376,986	—	—	376,986	1,594,651	—	1,594,651	—	1,594,651	—	—	—	1,594,651
Mesa Airlines, Inc.	322,091	44,227	310,482	676,800	544,334	74,744	619,078	(67,745)	551,333	524,715	—	524,715	1,076,048
Mokulele Flight Service, Inc.	23,545	—	107,075	130,620	39,791	—	39,791	(8,287)	31,504	180,956	—	180,956	212,460
North American Airlines, Inc.	210	—	420	630	888	—	888	—	888	1,777	—	1,777	2,665
Pacific Wings LLC	5,797	—	45,467	51,264	9,797	—	9,797	(3,470)	6,327	76,839	—	76,839	83,166
Philippine Airlines, Inc.	100,491	—	—	100,491	425,077	—	425,077	—	425,077	—	—	—	425,077
Qantas Airways, Ltd.	203,104	—	—	203,104	859,348	—	859,348	—	859,348	—	—	—	859,348
United Airlines, Inc.	1,264,761	—	1,068,615	2,333,376	5,339,835	—	5,339,835	(492,288)	4,847,547	4,519,739	(93,870)	4,425,869	9,273,416
United Parcel Service Co.	596,720	—	170,067	766,787	2,309,129	—	2,309,129	(7,154)	2,301,975	501,161	—	501,161	2,803,136
US Airways, Inc.	150,282	—	236,610	386,892	635,693	—	635,693	(153,764)	481,929	1,000,860	—	1,000,860	1,482,789
WestJet	79,625	—	119,533	199,158	336,814	—	336,814	—	336,814	505,623	—	505,623	842,437
Total	13,750,155	841,888	6,880,190	21,472,233	$ 48,596,948	1,579,425	50,176,373	(3,408,753)	46,767,620	19,960,506	(100,693)	19,859,813	66,627,433

Summary of revenue landing weights:

Overseas	13,326,178
Interisland	8,146,055
	21,472,233

Aviation fuel tax of $4,337,860 was paid by the users for the year ended June 30, 2012. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,760,965 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,509,446
Nonsignatory airlines	251,519
	$ 3,760,965

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2012.

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport: Gross airport landing fees					All other airports			Total
	Honolulu International Airport	**Hilo International Airport**	**All other airports**	**Total**	**Honolulu International Airport**	**Hilo International Airport**	**Total**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Gross airport landing fees**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**adjusted airport landing fees**
Above It All, Inc.	536	826	2,239	3,601	$ 512	884	1,396	(107)	1,289	2,222	(100)	2,122	3,411
Aeko Kula, Inc.	388,496	75,701	213,618	677,815	542,225	104,064	646,289	—	646,289	304,221	—	304,221	950,510
Aero Micronesia dba Asia Pacific	30,996	—	—	30,996	127,979	—	127,979	—	127,979	—	—	—	127,979
Air Transport International LLC	37,411	—	—	37,411	154,014	—	154,014	—	154,014	—	—	—	154,014
Air Ventures Hawaii, LLC	—	—	5,164	5,164	—	—	—	—	—	5,507	(157)	5,350	5,350
Alika Aviation Inc.	—	—	9,141	9,141	—	—	—	—	—	9,622	—	9,622	9,622
Aris Inc.	—	—	19,886	19,886	—	—	—	—	—	20,938	(3,481)	17,457	17,457
Atlas Air Inc.	41,806	—	—	41,806	136,497	—	136,497	—	136,497	—	—	—	136,497
Big Island Air Incorporation	16	—	5,468	5,484	16	—	16	—	16	5,718	—	5,718	5,734
Bradley Pacific Aviation Inc.	38,414	924	67,990	107,328	115,968	1,826	117,794	—	117,794	192,271	—	192,271	310,065
Castle & Cooke Homes Hawaii, Inc.	14,845	—	696	15,541	46,328	—	46,328	—	46,328	1,580	—	1,580	47,908
Corporate Air	53,054	77	62,720	115,851	81,247	102	81,349	—	81,349	96,172	—	96,172	177,521
Delta Air Lines, Inc.	27,816	—	—	27,816	132,630	—	132,630	—	132,630	—	—	—	132,630
Fly Kauai, Inc.	—	—	372	372	—	—	—	—	—	390	—	390	390
George’s Aviation Service, Inc.	511	70	672	1,253	539	68	607	(560)	47	713	(172)	541	588
Hale O’Lele Corporation	29,242	—	—	29,242	30,860	—	30,860	—	30,860	—	—	—	30,860
Harter, Jack Helicopters, Inc.	—	—	5,724	5,724	—	—	—	—	—	6,016	—	6,016	6,016
Hawaii Air Ambulance, Inc.	112,311	203	188,450	300,964	107,144	194	107,338	(16,083)	91,255	179,781	—	179,781	271,036
Hawaii Helicopters, Inc.	25,567	—	—	25,567	115,250	—	115,250	—	115,250	—	—	—	115,250
Hawaii Island Air, Inc.	13,023	51,850	70,094	134,967	13,887	54,624	68,511	(16,156)	52,355	73,966	(11,078)	62,888	115,243
Helicopter Consultations of Maui, Inc.	—	—	1,846	1,846	—	—	—	—	—	1,934	(236)	1,698	1,698
Honolulu Soaring Club Inc.	—	—	14,558	14,558	—	—	—	—	—	15,214	(2,120)	13,094	13,094
Island Helicopters Kauai, Inc.	—	—	12,955	12,955	—	—	—	—	—	13,551	(3,561)	9,990	9,990
Jetstar Airways PTY Limited	110,319	—	—	110,319	462,587	—	462,587	—	462,587	—	—	—	462,587
K&S Helicopters, Inc.	741	16,145	9,043	25,929	801	16,907	17,708	(4,459)	13,249	9,455	(1,345)	8,110	21,359
Kamaka Air, Inc.	9,203	—	13,760	22,963	9,713	—	9,713	(300)	9,413	14,522	—	14,522	23,935
Makani Kai Helicopters Ltd.	9,901	14	12,134	22,049	10,627	15	10,642	—	10,642	13,669	(77)	13,592	24,234
Marjet, Inc.	58	—	58	116	56	—	56	—	56	56	—	56	112
Maui Island Air Inc.	14	—	2,450	2,464	15	—	15	—	15	2,578	—	2,578	2,593
Miscellaneous	146,377	392	2,416	149,185	678,087	1,306	679,393	(50)	679,343	4,267	(1,172)	3,095	682,438
Niihau Helicopters Inc.	—	—	1,163	1,163	—	—	—	—	—	1,221	—	1,221	1,221
Omni Air International, Inc.	78,929	—	510	79,439	326,222	—	326,222	(36,674)	289,548	2,698	—	2,698	292,246
Pacific Air Charters, Incorporated	169	7	1,334	1,510	168	7	175	—	175	1,372	(220)	1,152	1,327
Pacific Helicopter Tours, Inc.	1,527	4	1,141	2,672	1,617	5	1,622	(569)	1,053	1,227	(337)	890	1,943
Paragon Air Inc.	—	—	668	668	—	—	—	—	—	667	—	667	667
Pofolk Aviation Hawaii, Inc.	—	—	44,130	44,130	—	—	—	—	—	42,654	—	42,654	42,654
Safari Aviation Inc.	—	8,568	16,446	25,014	—	8,881	8,881	—	8,881	17,166	—	17,166	26,047
Sky-Med Inc.	—	—	26,342	26,342	—	—	—	—	—	27,499	—	27,499	27,499
Skyview Soaring, LLC	—	—	497	497	—	—	—	—	—	520	—	520	520
Smoky Mountain Helicopters	—	—	5,122	5,122	—	—	—	—	—	5,403	—	5,403	5,403
Squyres, Will Helicopter, Inc.	—	—	14,566	14,566	—	—	—	—	—	15,366	—	15,366	15,366
Sunshine Helicopters Inc.	—	552	17,885	18,437	—	586	586	—	586	18,747	(8,329)	10,418	11,004
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	32,913	11,554	47,515	91,982	34,652	12,345	46,997	(15,456)	31,541	50,350	—	50,350	81,891
Universal Enterprises, Inc.	66,415	431	62,175	129,021	199,600	1,137	200,737	(119,347)	81,390	175,844	(9,373)	166,471	247,861
Wings Over Kauai, LLC	—	—	2,848	2,848	—	—	—	—	—	2,961	—	2,961	2,961
Total	1,270,610	167,318	963,796	2,401,724	$ 3,329,241	202,951	3,532,192	(209,761)	3,322,431	1,338,058	(41,758)	1,296,300	4,618,731
Summary of revenue landing weights:													
Overseas				711,981									
Interisland				1,689,743									
				2,401,724									

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2012.

See accompanying independent auditors’ report.