DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII

(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplemental Schedules

June 30, 2013 and 2012

(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:

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Airports Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012, 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.

Emphasis of Matter

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, 2013 and 2012, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 20 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 inquires, 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.

Other Information

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.

The supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records to prepare the basic financial statements. Such information has 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 basic 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 have 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013 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* in considering the Airports Division's internal control over financial reporting and compliance.

KPMG LLP

December 10, 2013
Honolulu, Hawaii

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, 2013 and 2012. 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 among 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 59.6% and 59.4% of total passenger traffic in the airports system during fiscal years 2013 and 2012, respectively. The other four principal airports accommodated 39.3% and 39.5% of the total passenger traffic for fiscal years 2013 and 2012, 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 1.1% of the total passenger traffic for both fiscal years 2013 and 2012, 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 position, the statements of revenues, expenses, and changes in net position, 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 2013 with increases in total passengers, aircraft operations, revenue landed weights, revenue passenger landings, and deplaning international passengers by 6.2%, 7.5%, 5.6%, 2.3%, and 13.8%, respectively, as compared to fiscal year 2012. 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, 60% 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 2013 and 2012, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 39% and 8% and 38% and 10% of the total landed weights, respectively. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 20%, 13%, and 13% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 67% and 7% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 42% of the revenue passenger landings and Japan Airlines International Company, Ltd. accounted for 20% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2013 and 2012: Air Canada, Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., Allegiant Air, L.L.C., Asiana Airlines, Inc., All Nippon Airways Co., Ltd., American Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Company, Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, 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, L.L.C.

Activity for the airports system for the fiscal years ended June 30, 2013 and 2012 is as follows:

	2013	2012	Percentage increase (decrease) from 2012
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	19,778,282	18,556,491	6.6%
Kahului Airport	6,077,000	5,707,645	6.5
Kona International Airport at Keahole	2,886,734	2,738,937	5.4
Lihue Airport	2,716,541	2,567,325	5.8
Hilo International Airport	1,362,597	1,310,128	4.0
All others	351,705	351,631	—
Total passengers	33,172,859	31,232,157	6.2%
Aircraft operations (landing and takeoff combined reported by Air Traffic Control Tower):			
Honolulu International Airport	284,532	266,326	6.8%
Kahului Airport	130,620	124,519	4.9
Kona International Airport at Keahole	119,098	110,324	8.0
Lihue Airport	122,240	109,739	11.4
Hilo International Airport	88,100	75,367	16.9
All others	210,106	201,827	4.1
Total aircraft operations	954,696	888,102	7.5%
Revenue landed weights (1,000-pound units):			
Honolulu International Airport	15,261,346	13,750,155	11.0%
Kahului Airport	3,791,705	3,504,259	8.2
Kona International Airport at Keahole	1,815,451	1,739,600	4.4
Lihue Airport	1,618,053	1,474,648	9.7
Hilo International Airport	926,125	841,888	10.0
All others	255,349	161,683	57.9
Total signatory airlines	23,668,029	21,472,233	10.2
Nonsignatory airlines	1,543,705	2,401,724	(35.7)
Total revenue landed weights	25,211,734	23,873,957	5.6%

(Continued)

	2013	2012	Percentage increase (decrease) from 2012
Revenue passenger landings:			
Honolulu International Airport	84,004	82,252	2.1%
Kahului Airport	23,507	23,922	(1.7)
Kona International Airport at Keahole	12,087	12,742	(5.1)
Lihue Airport	12,469	13,035	(4.3)
Hilo International Airport	6,654	7,058	(5.7)
Other airports	11,194	7,535	48.6
Total signatory airlines	149,915	146,544	2.3
Nonsignatory airlines	740	676	9.5
Total revenue passenger landings	150,655	147,220	2.3%
Deplaning international passengers:			
Honolulu International Airport	2,310,745	2,034,658	13.6%
Kona International Airport at Keahole	—	671	(100.0)
Total signatory airlines	2,310,745	2,035,329	13.5
Nonsignatory airlines	125,238	105,556	18.6
Total deplaning international passengers	2,435,983	2,140,885	13.8%

Financial Operations Highlights

The financial results for fiscal years 2013 and 2012 reflected income (loss) before capital contributions of \$96.5 million and \$(4.4) million, respectively. Operating revenues and expenses increased by \$24.3 million, or 7.7%, and \$16.0 million, or 5.0%, respectively, resulting from increased revenue from airlines and concessions. Total nonoperating revenues increased by \$67.1 million, or 170.9%, mainly due to the reinstatement of the Rental Car Customer Facility Charge fee on July 1, 2012, amounting to an increase of \$55.5 million and the increase in fair value relating to Airports Division investments in auction rate securities held by State Treasury amounting to \$3.8 million. Further, the Airports Division received a business interruption insurance settlement relating to the events of September 11th amounting to \$19.0 million.

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, Act 147 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.

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On July 30, 2013, the Airports Division submitted PFC Application No. 5 to impose a $4.50 PFC at Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo Airport. The application will be approved for a collection of approximately $449.4 million including interest earned during the collection period tentatively from February 1, 2014 to July 1, 2026. The PFC collections will be utilized to fund airfield improvements, roadway, and terminal improvements including the wiki-wiki shuttle stations improvements, loading bridge replacement, the Mauka terminal extension, aircraft rescue and fire fighting facility improvements, access control and CCTV systems, land acquisition, and PFC administrative costs. As part of this PFC application, the Airports Division is applying for authority to use PFC revenues for eligible construction and financing costs related to PFC eligible projects. Such projects costs are to be funded by a portion of proceeds from the Series 2010 Bonds and the Future Revenue Bonds. The Airports Division anticipates the application will be approved by December 31, 2013 and implement the collection in February 2014.

Since the inception of this program through June 30, 2013, the total PFC revenues, including interest earned, and expenditures were $236.1 million and $130.3 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 pickup 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, 2013, the total CFC revenues, including interest earned, and expenditures were $120.2 million and $36.8 million, respectively. On July 1, 2011, the collection of this fee was suspended by the State Legislature for one year and on July 1, 2012, the collection of this fee was reinstated by the State Legislature.

Operating expenses before depreciation for fiscal year 2013 increased by 6.3%, or $14.5 million, as compared to fiscal year 2012 mainly due to increases in salaries and wages, other personnel services, utilities and repairs, and maintenance offset by decreases in State of Hawaii surcharge on gross receipts and special maintenance.

Total nonoperating expenses for fiscal year 2013 decreased by 17.3%, or $6.5 million, as compared to fiscal year 2012 mainly due to decreases in interest expense relating to airports system revenue bonds issued in fiscal years 2012 and 2013, loss on disposal of capital assets and loss on amounts held in the State Treasury.

As a result, net assets increased by $122.1 million and $41.6 million for fiscal years 2013 and 2012, respectively.

(Continued)

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.

A summary of operations and changes in net position for the years ended June 30, 2013, 2012, and 2011 is as follows:

		2013	2012	2011
Operating revenues	$	338,587,587	314,237,855	311,952,386
Business interruption insurance recovery		19,000,000	—	—
Operating expenses, excluding depreciation		(244,308,245)	(229,822,552)	(215,377,393)
Operating income before depreciation		113,279,342	84,415,303	96,574,993
Depreciation		(92,231,177)	(90,754,951)	(94,738,701)
Operating income (loss)		21,048,165	(6,339,648)	1,836,292
Nonoperating revenues – net		75,438,747	1,898,282	57,394,520
Income (loss) before capital contributions		96,486,912	(4,441,366)	59,230,812
Capital contributions:				
Federal capital grants		23,996,113	36,869,413	16,873,585
Federal stimulus funds		1,584,267	9,191,233	11,787,177
Total capital contributions		25,580,380	46,060,646	28,660,762
Increase in net position	$	122,067,292	41,619,280	87,891,574

- Operating revenues increased by $24.3 million due to a $14.6 million increase in aeronautical revenues due to an increase in passenger traffic and a $7.8 million in concession revenues from car rentals, restaurants, retail stores, parking, and in-flight catering.

(Continued)

- Operating expenses excluding depreciation increased by 6.3% from $229.8 million in fiscal year 2012 to $244.3 million in fiscal year 2013. The most recognized increases related to salaries and wages, other personnel services, utilities, and repairs and maintenance amounting to $18.8 million. Salaries and wages increased by $8.3 million as a result of filling previously frozen and vacated positions along with retroactive pay adjustments relating to labor union agreement settlements for special funded programs. Other personnel services cost increased by $3.9 million primarily due to a $3.4 million two year bird control services bill paid to the United States Department of Agriculture. Utility cost increased by $3.1 million due to a $3.0 million increase in electricity. Repairs and maintenance cost increased by $3.5 million mainly due to maintenance repairs to taxiway, runway, machinery, and equipment.
- The net results of the above resulted in operating income before depreciation of $113.3 million and $84.4 million in fiscal years 2013 and 2012, respectively. Operating income before depreciation for fiscal year 2013 increased by 34.2%, or $28.9 million. Depreciation expense increased by 1.6% from $90.8 million in fiscal year 2012 to $92.2 million in fiscal year 2013 due to an increase in capital assets. The operating income before nonoperating revenues, net and capital contributions is $21.0 million in fiscal year 2013 as compared to an operating loss before nonoperating revenues, net and capital contributions of $6.3 million in fiscal year 2012.
- Nonoperating revenues, net increased by 3,874.1%, or $73.5 million, in fiscal year 2013, primarily due to the reinstatement of the Rental Car Customer Facility Charge fee on July 1, 2012, amounting to an increase of $55.5 million, the change in fair value relating to Airports Division investments in auction rate securities held by State Treasury from a loss of $1.4 million to a gain of $3.8 million, increase in passenger facility charge fees amounting to $3.8 million, increase in federal operating grants received amounting to $1.7 million, decrease in interest expense relating to revenue bonds amounting to $2.8 million and decrease in loss on disposal of capital assets amounting to $1.9 million.
- Income before capital contributions for fiscal year 2013 of $96.5 million as compared to loss of $4.4 million for fiscal year 2012 was a result of an increase in nonoperating revenues, net.
- Capital contributions decreased by 44.5%, or $20.5 million, in fiscal year 2013, mainly due to decreases of federal capital and federal stimulus grants received in fiscal year 2013.

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Financial Position Summary

A condensed summary of the Airports Division's net position at June 30, 2013, 2012, and 2011 is shown below:

	2013	2012	2011
Assets:			
Current assets:			
Unrestricted assets	$ 598,449,594	575,899,575	535,972,293
Restricted assets	68,757,160	58,778,499	67,736,492
Noncurrent assets:			
Capital assets	1,788,606,407	1,753,785,470	1,712,801,627
Restricted assets	590,662,461	554,011,295	576,456,552
Other noncurrent assets	3,926,086	4,408,531	4,334,194
Total assets	3,050,401,708	2,946,883,370	2,897,301,158
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	43,321,875	52,831,085	40,345,049
Payable from restricted assets	81,185,649	63,632,304	68,105,008
Long-term liabilities, net of current portion:			
Payable from unrestricted assets	102,010,648	83,493,117	48,658,736
Payable from restricted assets	925,272,485	970,383,105	1,005,267,886
Total liabilities	1,151,790,657	1,170,339,611	1,162,376,679
Net position:			
Invested in capital assets	1,077,045,343	1,039,368,865	968,350,047
Restricted	381,987,432	314,491,493	315,271,730
Unrestricted	439,578,276	422,683,401	451,302,702
Total net position	$ 1,898,611,051	1,776,543,759	1,734,924,479

The largest portion of the Airports Division's net position (56.7% and 58.5% at June 30, 2013 and 2012, 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 position (20.1% and 17.7% at June 30, 2013 and 2012, 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 position represents unrestricted cash and cash equivalents in the amount of $571.2 million and $549.3 million at June 30, 2013 and 2012, respectively. The $571.2 million and $549.3 million cash balance at June 30, 2013 and 2012, 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 position is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net position may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by $1,898.6 million at June 30, 2013, representing an increase of $122.1 million from June 30, 2012.

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, 2013 and 2012 and the amount and percentage of change in relation to prior year amounts is as follows:

	2013		Increase (decrease) from 2012	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating revenues:				
Concession fees:				
Duty free	$ 41,337,960	8.9%	$ 250,324	0.6%
Other concessions	110,052,766	23.7	7,567,700	7.4
Airport landing fees	59,873,968	12.9	234,064	0.4
Aeronautical rentals:				
Nonexclusive joint-use premise charge	54,838,168	10.5	7,786,093	16.5
Exclusive-use premise charge	48,521,342	10.5	6,858,033	16.5
Nonaeronautical rentals	14,240,830	3.1	824,271	6.1
Other	9,722,553	2.1	829,247	9.3
Total operating revenues	338,587,587	73.0	24,349,732	7.7
Business interruption insurance recovery	19,000,000	4.1	19,000,000	100.0
Nonoperating revenues:				
Interest income, investments	1,991,423	0.4	2,831	0.1
Interest income, passenger facility charges	190,698	—	(149,217)	(43.9)
Interest income, rental car customer facility charges	132,324	—	(95,794)	(42.0)
Interest income, direct financing leases	1,866,352	0.4	(58,858)	(3.1)
Federal operating grants	5,038,564	1.1	1,723,163	52.0
Passenger facility charges	35,142,089	7.6	3,751,168	11.9
Rental car customer facility charges	55,578,560	12.0	55,529,163	112,414.0
Gain on amounts held in State Treasury	3,804,400	0.8	3,804,400	100.0
Other	2,559,316	0.6	2,559,316	100.0
Total nonoperating revenues	106,303,726	22.9	67,066,172	170.9
Total revenues	$ 463,891,313	100.0%	$ 110,415,904	31.2%

	2012		Increase (decrease) from 2011	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating revenues:				
Concession fees:				
Duty free	$ 41,087,636	11.6%	$ 3,087,636	8.1%
Other concessions	102,485,066	29.0	8,318,909	8.8
Airport landing fees	59,639,904	16.9	(457,025)	(0.8)
Aeronautical rentals:				
Nonexclusive joint-use premise charge	47,052,075	13.3	(2,882,960)	29.6
Exclusive-use premise charge	41,663,309	11.8	(865,620)	7.5
Nonaeronautical rentals	13,416,559	3.8	66,904	0.5
Other	8,893,306	2.5	(4,982,375)	(35.9)
Total operating revenues	314,237,855	88.9	2,285,469	0.7
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	11.1	(62,975,026)	(61.6)
Total revenues	$ 353,475,409	100.0%	$ (60,689,557)	(14.7)%

Expenses

A summary of expenses for the years ended June 30, 2013 and 2012 and the amount and percentage of change in relation to prior year amounts is as follows:

	2013		Increase (decrease) from 2012	
	Amount	Percentage of total	Amount	Percentage
Operating expenses:				
Salaries and wages	$ 83,988,652	22.9%	$ 8,318,215	11.0%
Other personnel services	52,601,916	14.3	3,918,918	8.0
Utilities	50,359,918	13.7	3,096,868	6.6
Repairs and maintenance	20,180,808	5.5	3,484,927	20.9
State of Hawaii surcharge on gross receipts	12,473,628	3.4	(1,234,953)	(9.0)
Special maintenance	6,549,580	1.8	(2,559,780)	(28.1)
Department of Transportation general administration expenses	5,445,497	1.5	263,954	5.1
Materials and supplies	5,557,405	1.5	517,169	10.3
Insurance	3,188,862	0.9	20,194	0.6
Bad debt expense	580,495	0.2	580,495	100.0
Disbursements out of major maintenance renewal and replacement account	276,782	0.1	(1,867,113)	(87.1)
Other	3,104,702	0.8	(53,201)	(1.7)
Total operating expenses before depreciation	244,308,245	66.5	14,485,693	6.3
Depreciation	92,231,177	25.1	1,476,226	1.6
Total operating expenses	336,539,422	91.6	15,961,919	5.0
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	28,516,182	7.8	(2,773,614)	(8.9)
Special facility	1,866,352	0.5	(58,858)	(3.1)
Loss on disposal of capital assets	—	—	(1,889,939)	(100.0)
Loss on amounts held in State Treasury	—	—	(1,408,718)	(100.0)
Other	482,445	0.1	(343,164)	(41.6)
Total nonoperating expenses	30,864,979	8.4	(6,474,293)	(17.3)
Total expenses	$ 367,404,401	100.0%	$ 9,487,626	2.7%

(Continued)

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

Management's Discussion and Analysis

June 30, 2013 and 2012

	2012		Increase (decrease) from 2011	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 75,670,437	21.1%	$ 3,345,318	4.6%
Other personnel services	48,682,998	13.6	(1,849,513)	(3.7)
Utilities	47,263,050	13.2	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	1.4	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)
Disbursements out of major maintenance renewal and replacement account	2,143,895	0.6	886,907	70.6
Other	3,157,903	0.9	(144,255)	(4.4)
Total operating expenses before depreciation	229,822,552	64.2	13,188,171	6.1
Depreciation	90,754,951	25.4	(3,983,750)	(4.2)
Total operating expenses	320,577,503	89.6	9,204,421	3.0
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	31,289,796	8.7	(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	10.4	(7,478,788)	(16.7)
Total expenses	$ 357,916,775	100.0%	$ 1,725,633	0.5%

Capital Acquisitions and Construction Activities

In fiscal year 2013, there were 10 construction bid openings totaling an estimated $65 million in potential construction contracts. Significant projects that opened bids in fiscal year 2013 include Runway 26L Pavement Improvements at Honolulu International Airport, Runway 4R Pavement Repairs at Honolulu International Airport, Ewa Concourse Loading Bridge Replacement at Honolulu International Airport, and New Day Work Project Elliott Street New Employee Parking Lot at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2013, which were under construction during the fiscal year. Major projects include Emergency Power Facility at Honolulu International Airport, Explosive Detection System Integration Improvements Phase 2 at Honolulu International Airport, Roadway Improvements and Consolidated Rental Car Facility at Honolulu International Airport, Runway 3-21 Pavement Improvements at Hilo International Airport, and Aircraft Rescue and Fire Fighting Station Relocation at Kona International Airport at Keahole.

Finally, there were 13 projects that were substantially completed in fiscal year 2013 at a total cost of approximately $88 million. These projects include planning, design, and construction projects at large, medium, and small hub airports statewide to preserve, maintain, and modernize facilities.

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 Overseas Terminal Chiller Plant was completed, which replaces the chiller plant that was originally installed at the airport. Also at Honolulu International Airport, the New Day Works Projects are starting construction, which will lead the way for a new Mauka Concourse that will add wide body gates to the airport. At Kahului Airport, a new Passenger Information System project will start construction, which will install new Public Address System and Gate Management System. At Kona International Airport at Keahole, a new Aircraft Rescue and Fire Fighting (ARFF) building is under construction, which will enable faster response time to the airfield as well as accommodate the new larger ARFF vehicles that were purchased. At Hilo International Airport, several runway, taxiway, and apron pavement projects are ongoing to improve the condition of the airfield pavement. At Lihue Airport, a runway safety area project was just completed to bring the runway into full compliance with FAA regulations. These are examples of the projects that are being completed to 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, 2013, $935.5 million of airports system revenue bonds were outstanding as compared to $966.9 million as of June 30, 2012. 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 ongoing capital improvements program and providing a financial insurance plan to provide stability should economic conditions worsen. At June 30, 2013 and 2012, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,310,792,291 and $110,835,922, 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, 2013 and 2012, there were outstanding bond obligations of $30,100,000 and $31,005,000, 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, 2013, there were three Series of airports system revenue bonds outstanding in the principal amount of $918,030,000. 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 airports system revenue bonds are 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. In addition, in November 2011, the Airports Division 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 is planning to issue bonds amounting to approximately $175 million in December 2013 to finance its energy savings performance project estimated to decrease utility cost by $20 million annually. Effective July 1, 2011, 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.

In February 2013, the Airports Division received a favorable approval from the Federal Aviation Authority relating to an environmental assessment study requirement, which allows the Airports Division to move forward with 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 Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Unrestricted assets:			
Cash and cash equivalents – unrestricted	$	571,171,775	549,278,665
Receivables:			
Accounts, net of allowance of $1,198,336 and $610,091 for uncollectible accounts		16,398,865	18,164,294
Promissory note receivable, net of allowance of $123,008 and $120,608 for uncollectible notes		5,208	5,224
Interest		172,128	1,072,144
Claims – federal grants		8,763,713	5,401,007
Aviation fuel tax		355,967	389,206
Due from State of Hawaii		1,416,180	1,376,189
Total receivables		27,112,061	26,408,064
Inventory of materials and supplies, at cost		165,758	212,846
Total unrestricted current assets		598,449,594	575,899,575
Restricted assets:			
Cash and cash equivalents:			
Revenue bond debt service		62,598,666	50,322,366
Debt extinguishment		620,050	3,881,947
Security deposits		5,538,444	4,574,186
Total restricted current assets		68,757,160	58,778,499
Total current assets		667,206,754	634,678,074
Noncurrent assets:			
Unrestricted assets:			
Bond issue costs, net of accumulated amortization of $6,005,486 and $5,523,041		3,926,086	4,408,531
Capital assets, net of accumulated depreciation of $1,829,500,300 and $1,738,636,543 for 2013 and 2012, respectively		1,788,606,407	1,753,785,470
Total unrestricted noncurrent assets		1,792,532,493	1,758,194,001
Restricted assets:			
Cash and cash equivalents:			
Major maintenance, renewal, and replacement account		59,980,198	58,060,552
Debt extinguishment		155,015	775,065
Passenger facility charges		102,109,478	83,232,793
Rental car customer facility charges		78,164,592	45,387,802
Customer advances		952,601	952,601
Revenue bond construction		213,141,262	233,502,848
Total cash and cash equivalents – restricted		454,503,146	421,911,661
Investments – revenue bond debt service reserve		96,893,008	96,893,008
Passenger facility charges receivable		3,726,504	3,972,831
Rental car customer facility charges receivable		5,238,195	21,908
Net investments in direct financing leases		30,301,608	31,211,887
Total restricted noncurrent assets		590,662,461	554,011,295
Total noncurrent assets		2,383,194,954	2,312,205,296
Total assets	$	3,050,401,708	2,946,883,370

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

Statements of Net Position

June 30, 2013 and 2012

Liabilities		**2013**	**2012**
Current liabilities:			
Payable from unrestricted assets:			
Vouchers payable	$	12,343,403	12,094,777
Contracts payable, including retainage of $1,791,806 and $2,250,833		11,203,376	9,497,988
Current portion of workers' compensation		869,295	922,927
Current portion of compensated absences		2,986,263	2,963,803
Deferred income		6,670,707	5,511,333
Accrued wages		5,406,053	5,683,842
Pollution remediation liability		950,145	1,239,324
Prepaid airport use charge fund		2,865,353	14,890,000
Other		27,280	27,091
Total payable from unrestricted assets		43,321,875	52,831,085
Payable from restricted assets:			
Contracts payable, including retainage of $3,316,164 and $2,630,287		11,876,931	7,623,865
Current portion of airports system revenue bonds		40,305,000	27,545,000
Current portion of special facility revenue bonds		970,000	905,000
Accrued interest		22,495,274	22,984,253
Security deposits		5,538,444	4,574,186
Total payable from restricted assets		81,185,649	63,632,304
Total current liabilities		124,507,524	116,463,389
Long-term liabilities – net of current portion:			
Payable from unrestricted assets:			
Prepaid airport use charge fund		37,932,188	33,226,688
Compensated absences		6,604,156	6,498,023
Workers' compensation		3,130,705	3,077,073
Postemployment liability		54,343,599	40,691,333
Total payable from unrestricted assets		102,010,648	83,493,117
Payable from restricted assets:			
Airports system revenue bonds		895,189,884	939,330,504
Special facility revenue bonds		29,130,000	30,100,000
Customer advance		952,601	952,601
Total payable from restricted assets		925,272,485	970,383,105
Total long-term liabilities – net of current portion		1,027,283,133	1,053,876,222
Total liabilities	$	1,151,790,657	1,170,339,611
Net Position			
Invested in capital assets	$	1,077,045,343	1,039,368,865
Restricted:			
Debt service payment		40,305,000	27,545,000
Debt service reserve account		96,893,008	96,893,008
Debt extinguishment		775,065	4,657,012
Major maintenance, renewal, and replacement account		59,980,198	58,060,552
Passenger facility charges		102,938,167	85,073,724
Rental car customer facility charges		81,095,994	42,262,197
Total restricted		381,987,432	314,491,493
Unrestricted		439,578,276	422,683,401
Commitments and contingencies			
Total net position	$	1,898,611,051	1,776,543,759

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 Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Concession fees	$ 151,390,726	143,572,702
Airport landing fees, net	59,873,968	59,639,904
Aeronautical rentals:		
Nonexclusive joint-use premise charges	54,838,168	47,052,075
Exclusive-use premise charges	48,521,342	41,663,309
Nonaeronautical rentals	14,240,830	13,416,559
Aviation fuel tax	4,673,766	4,337,860
Airports system support charges	1,468	420,531
Miscellaneous	5,047,319	4,134,915
Net operating revenues	338,587,587	314,237,855
Operating expenses:		
Depreciation	92,231,177	90,754,951
Salaries and wages	83,988,652	75,670,437
Other personnel services	52,601,916	48,682,998
Utilities	50,359,918	47,263,050
Repairs and maintenance	20,180,808	16,695,881
State of Hawaii surcharge on gross receipts	12,473,628	13,708,581
Special maintenance	6,549,580	9,109,360
Materials and supplies	5,557,405	5,040,236
Department of Transportation general administration expenses	5,445,497	5,181,543
Insurance	3,188,862	3,168,668
Claims and benefits	1,064,193	848,551
Rent	691,786	1,233,391
Bad debt expense	580,495	—
Travel	405,740	390,223
Communication	381,274	368,885
Disbursements out of major maintenance, renewal, and replacement account	276,782	2,143,895
Dues and subscriptions	239,205	169,329
Printing and advertising	21,057	14,852
Freight and delivery	8,260	16,079
Miscellaneous	293,187	116,593
Total operating expenses	336,539,422	320,577,503
Business interruption insurance recovery	19,000,000	—
Operating income (loss), carried forward	21,048,165	(6,339,648)

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating (loss) income, brought forward	$ 21,048,165	(6,339,648)
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities	1,991,423	1,988,592
Investments in direct financing leases	1,866,352	1,925,210
Interest expense:		
Revenue bonds:		
Airports system	(28,516,182)	(31,289,796)
Special facility	(1,866,352)	(1,925,210)
Federal operating grants	5,038,564	3,315,401
Loss on disposal of capital assets	—	(1,889,939)
Passenger facility charges	35,332,787	31,730,836
Rental car customer facility charges	55,710,884	277,515
Amortization of deferred bond issue costs	(482,445)	(571,407)
Gain (loss) on amounts held in State Treasury	3,804,400	(1,408,718)
Other	2,559,316	(254,202)
Total nonoperating revenues, net	75,438,747	1,898,282
Income (loss) before capital contributions	96,486,912	(4,441,366)
Capital contributions:		
Federal capital grants	23,996,113	36,869,413
Federal stimulus grants	1,584,267	9,191,233
Total capital contributions	25,580,380	46,060,646
Increase in net position	122,067,292	41,619,280
Total net position – beginning of year	1,776,543,759	1,734,924,479
Total net position – end of year	$ 1,898,611,051	1,776,543,759

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from providing services	$ 354,190,942	356,838,430
Cash paid to suppliers	(160,056,937)	(147,824,928)
Cash paid to employees	(70,485,582)	(64,976,655)
Net cash provided by operating activities	123,648,423	144,036,847
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	4,638,598	4,877,678
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(72,174,681)	(111,553,019)
Proceeds from federal and other capital grants and contributions	22,617,640	50,324,557
Interest paid on airports system revenue bonds	(45,071,038)	(45,446,447)
Principal paid on airports system revenue bonds	(27,545,000)	(25,370,000)
Payments from passenger facility charges program	(16,702,429)	(14,405,098)
Proceeds from passenger facility charges program	35,579,114	31,036,942
Payments from rental car customer facility charges program	(17,717,807)	(6,256,177)
Proceeds from rental car customer facility charges	50,494,597	5,579,955
Payments to refund airports system revenue bonds	—	(7,534,244)
Proceeds from issuance of refunding airport system revenue bonds	—	1,050
Net cash used in capital and related financing activities	(70,519,604)	(123,622,481)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	193,786,016	193,786,016
Interest received on investments	2,891,439	4,735,829
Purchases of investments	(193,786,016)	(193,786,016)
Gain (loss) on amounts held in State Treasury	3,804,400	(1,408,718)
Net cash provided by investing activities	6,695,839	3,327,111
Net increase in cash and cash equivalents	64,463,256	28,619,155
Cash and cash equivalents – beginning of year	1,029,968,825	1,001,349,670
Cash and cash equivalents – end of year	$ 1,094,432,081	1,029,968,825

(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, 2013 and 2012

		2013	2012
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$	21,048,165	(6,339,648)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		92,231,177	90,754,951
Bad debt expense (recovery)		580,495	(561,747)
Overpayment of airport use charge to be transferred to the PAUCF		125,854	39,526,162
Changes in operating assets and liabilities:			
Accounts receivable		1,184,950	6,680,972
Aviation fuel tax receivable		33,239	15,257
Due from State of Hawaii		(39,991)	(74,123)
Inventory of materials and supplies		47,088	12,922
Vouchers payable		248,626	1,512,563
Contracts payable		296,112	3,545,341
Deferred income		1,159,374	1,433,156
Accrued wages		(149,196)	439,858
Postemployment liability		13,652,266	10,253,924
Pollution remediation liability		(289,179)	(813,411)
Prepaid airport use charge fund		(7,445,001)	(2,758,803)
Security deposits		964,258	492,266
Other current liabilities		186	(82,793)
Net cash provided by operating activities	$	123,648,423	144,036,847
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 by trustee	$	905,000	835,000
Interest payments on special facility revenue bonds by trustee		1,871,631	1,930,081
Amortization of revenue bond issue costs		482,445	571,407
Amortization of revenue bond premium		(5,186,101)	(5,605,518)
Amortization of deferred loss on refunding revenue bonds		1,350,481	1,558,743
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, 2013 and 2012, contracts payable included $17,477,688 and $11,815,346, respectively, for the acquisition of capital assets.

During fiscal year 2013 and 2012, interest of $12,235,536 and $11,327,025, respectively, was capitalized in property, plant, and equipment.

During fiscal year 2013 and 2012, property, plant, and equipment with a net book value of $0 and 1,635,123, respectively, were written off.

During fiscal year 2013, buildings with a value of $2,408,000 were recorded for buildings acquired upon the termination of land lease agreements.

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).

(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 position.

(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 position. 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 was 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 position 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, 2013 was as follows: current – $16,688,589; 30 days – $650,711; 60 days – $5,412; and over 90 days – $252,489. 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.

(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 position 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 position.

(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.

(Continued)

(n) Employees' Retirement System

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

(o) Risk Management

The Airports Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division is self-insured for workers' compensation claims as discussed in note 15. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

(p) Use of Estimates

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

(q) Reclassifications

Certain 2012 amounts were reclassified to conform to the 2013 presentation. Such reclassifications had no effect on previously reported changes in net position.

(r) Recently Issued Accounting Standards

Effective July 1, 2012, the Airports Division implemented the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The implementation of GASB Statement No. 60 does not have a significant impact on the financial statements for the fiscal year ended June 30, 2013.

Effective July 1, 2012, the Airports Division implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. However, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only applies to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. The adoption of GASB Statement No. 63 resulted in a change in the presentation of the statement of net assets to the statement of net position and the term net assets is changed to net

(Continued)

position throughout the financial statements. The implementation of GASB Statement No. 63 did not have a significant impact on the financial statements for the fiscal year ended June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will become effective for financial statements for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Airports Division is currently evaluating the impact that GASB Statement No. 65 will have on its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement No. 68 establishes new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in the Statements and addresses accounting and financial reporting issues of certain nonemployer entities that contribute to such plans. Statement No. 68 will be effective for periods beginning after June 30, 2014. The Airports Division has not yet determined the impact of this standard on its financial statements and disclosures.

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Petty cash	$ 4,765	4,765
Amounts held in State Treasury	1,094,427,316	1,029,964,060
Certificates of deposit	78,594,282	78,594,282
Repurchase agreements	18,298,726	18,298,726
	$ 1,191,325,089	1,126,861,833

Such amounts are reflected in the statements of net position at June 30, 2013 and 2012 as follows:

	2013	2012
Cash and cash equivalents:		
Unrestricted	$ 571,171,775	549,278,665
Restricted	523,260,306	480,690,160
Total cash and cash equivalents	1,094,432,081	1,029,968,825
Investments – restricted	96,893,008	96,893,008
Total cash and cash equivalents and investments	$ 1,191,325,089	1,126,861,833

(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, 2013 and 2012, 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 $1,094,427,316 and $1,029,964,060, respectively. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by $3,804,400 and $(1,408,718) during the years ended June 30, 2013 and 2012, 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 (the Director) 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, 2012 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	$	225,936	—	—	225,936
Certificates of deposit		263,592	263,592	—	—
U.S. government securities		348,319	168,642	133,821	45,856
Repurchase agreements		103,554	85,950	17,604	—
	$	941,401	518,184	151,425	271,792
Investments – fiduciary funds:					
Student loan auction rate securities	$	22,208	—	—	22,208
Certificates of deposit		25,909	25,909	—	—
U.S. government securities		34,237	16,576	13,153	4,508
Repurchase agreements		10,178	8,448	1,730	—
	$	92,532	50,933	14,883	26,716

Information relating to the State's investment pool at June 30, 2013 will be included in the comprehensive annual financial report of the State when issued.

(b) Investments

At June 30, 2013 and 2012, 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, 2013 and 2012 consist of the following:

	Balance, June 30, 2012	Increases	Decreases	Transfers	Balance, June 30, 2013
Capital assets not being depreciated:					
Land	$ 300,248,125	—	—	—	300,248,125
Land improvements	26,681,609	—	—	—	26,681,609
Construction in progress	365,910,428	123,284,939	(11,677)	(112,097,277)	377,086,413
Total capital assets not being depreciated	692,840,162	123,284,939	(11,677)	(112,097,277)	704,016,147
Capital assets being depreciated:					
Land improvements	924,696,440	—	—	12,298,910	936,995,350
Buildings and improvements	1,654,756,020	2,408,000	—	40,056,851	1,697,220,871
Machinery and equipment	220,129,391	1,370,852	(1,301,567)	59,675,663	279,874,339
Total capital assets being depreciated	2,799,581,851	3,778,852	(1,301,567)	112,031,424	2,914,090,560
Less accumulated depreciation:					
Land improvements	(684,909,210)	(24,927,867)	—	—	(709,837,077)
Buildings and improvements	(895,566,706)	(44,892,230)	—	—	(940,458,936)
Machinery and equipment	(158,160,627)	(22,411,080)	1,301,567	65,853	(179,204,287)
Total depreciation	(1,738,636,543)	(92,231,177)	1,301,567	65,853	(1,829,500,300)
Capital assets being depreciated, net	1,060,945,308				1,084,590,260
Total capital assets	$ 1,753,785,470				1,788,606,407

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

Notes to Financial Statements

June 30, 2013 and 2012

	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

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2013 and 2012 is as follows:

	Balance, June 30, 2012	Increases	Decreases	Balance, June 30, 2013	Current	Noncurrent
Workers' compensation (note 14)	$ 4,000,000	1,008,372	(1,008,372)	4,000,000	869,295	3,130,705
Compensated absences	9,461,826	4,465,182	(4,336,589)	9,590,419	2,986,263	6,604,156
Prepaid airport use charge fund (notes 7 and 15)	48,116,688	125,854	(7,445,001)	40,797,541	2,865,353	37,932,188
Postemployment liability (note 10)	40,691,333	18,789,218	(5,136,952)	54,343,599	—	54,343,599
Airports system revenue bonds (note 6)	966,875,504	1,350,481	(32,731,101)	935,494,884	40,305,000	895,189,884
Special facility revenue bonds (note 7)	31,005,000	—	(905,000)	30,100,000	970,000	29,130,000
	$ 1,100,150,351	25,739,107	(51,563,015)	1,074,326,443	47,995,911	1,026,330,532

	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	—	40,691,333
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	47,226,730	1,052,923,621

(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, 2013 and 2012, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

(Continued)

At June 30, 2013 and 2012, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net position) consisted of the following:

		2013	2012
Debt service reserve account	$	96,893,008	96,893,008
RHB Debt extinguishment		775,065	4,657,012
Major maintenance, renewal, and replacement account		59,980,198	58,060,552
		157,648,271	159,610,572
Principal and interest due July 1		62,598,666	50,322,366
	$	220,246,937	209,932,938

At June 30, 2013 and 2012, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,310,792,291 and $110,835,922, 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, 2013 and 2012:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount 2013	Outstanding amount 2012
2010A, refunding	2.00%–5.25%	2039	$ 478,980,000	478,395,000	478,690,000
2010B, refunding	3.00%–5.00%	2020	166,000,000	150,750,000	166,000,000
2011, refunding	2.00%–5.00%	2024	300,885,000	288,885,000	300,885,000
			$ 945,865,000	918,030,000	945,575,000
Add unamortized premium				23,672,301	28,858,402
Less deferred loss on refunding				(6,207,417)	(7,557,898)
Less current portion				(40,305,000)	(27,545,000)
Noncurrent portion				$ 895,189,884	939,330,504

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

		Principal	Interest	Total
Year(s) ending June 30:				
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
2019–2023		234,835,000	151,383,001	386,218,001
2024–2028		133,890,000	98,622,591	232,512,591
2029–2033		125,165,000	68,896,010	194,061,010
2034–2038		159,965,000	34,100,515	194,065,515
2039		36,955,000	1,855,725	38,810,725
	$	877,725,000	554,161,565	1,431,886,565

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, 2013 of $40,305,000 and $22,293,669, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2013 and 2012 and the allocation thereof:

		2013	2012
Expensed as incurred	$	28,516,182	31,289,796
Capitalized in capital assets		12,235,536	11,327,025
	$	40,751,718	42,616,821

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 is 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.

(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 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 $4,673,766 and $4,337,860 for fiscal years 2013 and 2012, 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 $63,800,325 and $63,400,869 for fiscal years 2013 and 2012. Airport landing fees are shown net of aviation fuel tax credits of $3,926,357 and $3,760,965 for fiscal years 2013 and 2012, respectively, on the statements of revenues, expenses, and changes in net position, which resulted in net airport landing fees of $59,873,968 and $59,639,904 for fiscal years 2013 and 2012, 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 41% and 40% of the airport landing fees for overseas flights for fiscal years 2013 and 2012, 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 $54,838,168 and $47,052,075 for fiscal years 2013 and 2012, respectively.

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

(Continued)

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 $48,521,342 and $41,663,309 for fiscal years 2013 and 2012, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $29,323,427 and $24,043,673 for fiscal years 2013 and 2012, respectively.

Airports system support charges amounted to $1,468 and $420,531 for fiscal years 2013 and 2012, 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, 2013:

	Principal	Interest	Total
Year(s) ending June 30:			
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	—	1,222,031	1,222,031
2019–2023	—	6,110,156	6,110,156
2024–2028	21,725,000	5,499,141	27,224,141
	$ 21,725,000	17,719,452	39,444,452

$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, 2013:

	Principal	Interest	Total
Year(s) ending June 30:			
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	1,280,000	285,600	1,565,600
2019–2020	2,800,000	296,800	3,096,800
	$ 8,375,000	2,501,800	10,876,800

Special facility revenue bonds payable at June 30, 2013 and 2012 consisted of the following:

	Continental		**Total**
2013:			
Current portion	$ 970,000	—	970,000
Noncurrent portion	7,405,000	21,725,000	29,130,000
	$ 8,375,000	21,725,000	30,100,000

	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

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 position.

Net investments in direct financing leases at June 30, 2013 and 2012 consisted of the following:

	2013	**2012**
Cash with bond fund trustee	$ 3,203,609	3,203,600
Receivable from lessees, net of unearned interest of $20,001,390 and $21,885,997	26,896,391	27,801,400
Interest receivable	201,608	206,887
	$ 30,301,608	31,211,887

(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, 2013 are as follows:

Year(s) ending June 30:	
2014	$ 116,024,540
2015	65,622,237
2016	53,048,427
2017	47,149,346
2018	14,518,868
2019–2023	38,514,345
2024–2028	12,282,023
2029–2033	3,414,206
2034–2038	1,661,243
Thereafter	697,345
	$ 352,932,580

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 2013 and 2012 were $47,311,605 and $42,034,204, respectively.

In fiscal years 2006 and 2013, the Airports Division converted certain past-due amounts from two lessees and a lessee, respectively, 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 $206,002 at June 30, 2013 is due as follows: 2014 – $128,216; 2015 – $37,008; 2016 – $32,137; and thereafter – $8,641.

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 Kahului retail concession, accounted for approximately 27% and 29% of total concession fee revenues for fiscal years 2013 and 2012, 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 pastdue 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 $155 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 (85% of the actual annual fee paid for the preceeding year).

(8) Passenger Facility Charges

Passenger facility charge activity for the years ended June 30, 2013 and 2012 is as follows:

		2013	2012
Restricted assets – passenger facility charges, beginning of year	$	87,205,624	69,879,886
Passenger facility charges during the year		35,142,089	31,390,921
Interest earned on passenger facility charges during the year		190,698	339,915
Capital expenditures during the year		(16,702,429)	(14,405,098)
Restricted assets – passenger facility charges, end of year	$	105,835,982	87,205,624

Restricted assets – passenger facility charges are presented on the statements of net position as of June 30, 2013 and 2012 as follows:

		2013	2012
Cash and cash equivalents	$	102,109,478	83,232,793
Receivable		3,726,504	3,972,831
Total restricted assets – passenger facility charges	$	105,835,982	87,205,624

(9) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the years ended June 30, 2013 and 2012 is as follows:

		2013	2012
Restricted assets – rental car customer facility charge, beginning of year	$	45,409,710	51,388,372
Rental car customer facility charges during the year		55,578,560	49,397
Interest earned on rental car customer facility charges during the year		132,324	228,118
Capital expenditures during the year		(17,717,807)	(6,256,177)
Restricted assets – rental car customer facility charges, end of year	$	83,402,787	45,409,710

Restricted assets – rental car customer facility charges are presented on the statements of net position as of June 30, 2013 and 2012 as follows:

		2013	2012
Cash and cash equivalents	$	78,164,592	45,387,802
Receivable		5,238,195	21,908
Total restricted assets – rental car customer facility charges	$	83,402,787	45,409,710

(10) Business Interruption Insurance Recovery

During the year ended June 30, 2013, the Airports Division received a business interruption insurance recovery relating to the events of September 11th amounting to $19,000,000. This amount is reflected on a separate line item between total operating expenses and operating income in the accompanying statements of revenues, expenses, and changes in net position.

(Continued)

(11) 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 benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. 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 new members hired after June 30, 2012, the AFC is based on the five 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.). For new members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

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.

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% 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%.

New employees in the hybrid plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

(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 and 10 years of credited service or age 55 and 30 years of credited service or age 55 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. The rates further increased, as of July 1, 2012 to 22.00% for police officers and firefighters, and 15.50% for all other employees. Each year thereafter the rates will gradually increase to 25.00% for police officers and firefighters, and to 17.00% 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, 2013, 2012, and 2011 were $8,647,308, $7,683,738, and $7,552,624, 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

(12) Postretirement Healthcare and Life Insurance Benefits

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

The State pays the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with ten or more years of credited service.

The State pays the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than ten years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution if the employee retired with twenty-five or more years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 2001: (a) one-half of the base monthly contribution for a self-only plan if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution for a self-only plan if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution for a self-only plan if the employee retired with twenty-five or more years of credited service.

(Continued)

The State pays the EUTF a base monthly contribution (currently $4.16) for each retired employee enrolled in the EUTF group life insurance plan.

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, 2013 and 2012 was $5,136,952 and $3,785,350, respectively, which represented 30%, of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $18,789,218 and $14,039,274.

The following is a summary of changes in postemployment liability during the fiscal years ended June 30, 2013 and 2012:

Balance at June 30, 2012	$	40,691,333
Additions		18,789,218
Deletions		(5,136,952)
Balance at June 30, 2013	$	54,343,599
Balance at June 30, 2011	$	30,437,409
Additions		14,039,274
Deletions		(3,785,350)
Balance at June 30, 2012	$	40,691,333

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

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

(13) Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $12,473,628 and $13,708,581 in fiscal years 2013 and 2012, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $5,445,497 and $5,181,543 in fiscal years 2013 and 2012, respectively. During fiscal years 2013 and 2012, the Airports Division received assessment refunds from the DOT amounting to $1,382,000 and $1,237,294, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

During fiscal years 2013 and 2012, revenues received from other state agencies totaled $1,604,614 and $1,472,637, and expenditures to other state agencies totaled $8,221,702 and $7,456,876, respectively.

(14) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2013 and 2012 was $19,720,758 and $19,504,025, 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 $1,431,886,565. In fiscal year 2013, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were $72,132,338 and $141,512,611, 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 two – five years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net position at June 30, 2013 and 2012.

At June 30, 2013, the Airports Division had commitments totaling approximately $303,678,591 for construction and service contracts.

(15) Risk Management

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

(a) Torts

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

(b) Property and Liability Insurance

The Airports Division is covered by commercial general liability policies with a $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, 2013 and 2012, the workers' compensation reserve was $4,000,000, of which $869,295 and $922,927 is included in current liabilities (payable from unrestricted net assets) and $3,130,705 and $3,077,073, respectively, is included in long-term liabilities in the accompanying statements of net position at June 30, 2013 and 2012. In the opinion of management, the Airports Division has adequately reserved for such claims.

(16) Contingent Liabilities and Other

(a) Litigation

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

(b) Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2013 and 2012, 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.

In fiscal year 2013, the PAUCF was decreased by a payment of $4,945,000 to ACH members for the 2011 overpayment as well as $2,500,000 paid to ACH members for 2010 overpayments, respectively. The PAUCF was increased by $125,853 due to an overpayment for fiscal year 2013. The PAUCF liability at June 30, 2013 was $40,797,541.

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 $950,145 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(17) Subsequent Events

The Airports Division has evaluated subsequent events from the balance sheet date through December 10, 2013, 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, 2013

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 151,390,726	—	93,035,821	3,054,260	13,303,762	28,239,658	13,485,788	271,437
Airport landing fees	59,873,968	—	41,294,775	1,420,128	4,003,190	9,021,044	3,588,531	546,300
Aeronautical rentals:								
Nonexclusive joint-use premise charges	54,838,168	—	41,437,412	914,345	1,954,544	8,007,876	2,523,991	—
Exclusive-use premise charges	48,521,342	—	36,390,015	1,276,662	1,526,359	6,604,819	2,255,446	468,041
Nonaeronautical rentals	14,240,830	—	8,692,671	437,840	1,139,000	2,884,488	1,020,889	65,942
Aviation fuel tax	4,673,766	—	3,223,474	110,855	312,489	704,183	280,121	42,644
Airports system support charges	1,468	—	1,468	—	—	—	—	—
Miscellaneous	5,047,319	190,293	3,108,070	110,303	555,783	585,763	467,442	29,665
	338,587,587	190,293	227,183,706	7,324,393	22,795,127	56,047,831	23,622,208	1,424,029
Allocation of statewide miscellaneous revenues (note 1)	—	(190,293)	121,770	4,322	21,775	22,950	18,314	1,162
Net operating revenues	$ 338,587,587	—	227,305,476	7,328,715	22,816,902	56,070,781	23,640,522	1,425,191
Operating expenses other than depreciation:								
Salaries and wages	$ 83,988,652	20,850,160	31,073,288	5,125,488	5,333,748	8,522,248	6,269,806	6,813,914
Other personnel services	52,601,916	3,496,978	28,703,201	3,365,458	4,377,210	5,162,199	5,073,252	2,423,618
Utilities	50,359,918	4,920	37,989,557	1,379,492	2,394,464	5,305,466	2,503,910	782,109
Repairs and maintenance	20,180,808	4,536,712	11,766,430	573,599	974,495	1,348,567	633,825	347,180
State of Hawaii surcharge on gross receipts (note 2)	12,473,628	12,473,628	—	—	—	—	—	—
Special maintenance	6,549,580	2,167,207	618,922	(968)	2,304,925	222,969	562,786	673,739
Materials and supplies	5,557,405	192,218	3,010,289	450,797	368,114	733,288	397,464	405,235
Department of Transportation general administration expenses	5,445,497	5,445,497	—	—	—	—	—	—
Insurance	3,188,862	3,188,871	—	—	—	—	—	(9)
Claims and benefits	1,064,193	739	445,550	76,393	164,184	306,622	28,648	42,057
Rent	691,786	454,306	142,614	9,850	17,660	21,635	31,347	14,374
Bad debt expense (note 3)	580,495	580,495	—	—	—	—	—	—
Travel	405,740	112,285	72,625	38,044	38,130	52,520	42,541	49,595
Communication	381,274	81,269	69,777	44,076	25,452	51,628	50,262	58,810
Dues and subscriptions	239,205	230,765	7,599	—	—	256	464	121
Printing and advertising	21,057	20,532	525	—	—	—	—	—
Freight and delivery	8,260	456	770	923	880	4,598	420	213
Miscellaneous	293,187	117,677	94,666	25,265	15,717	2,120	24,472	13,270
	244,031,463	53,954,715	113,995,813	11,088,417	16,014,979	21,734,116	15,619,197	11,624,226
Allocation of statewide expenses (note 4)	—	(53,954,715)	32,358,569	3,147,530	4,545,972	6,169,393	4,433,627	3,299,624
Total operating expenses other than depreciation for net revenues and taxes								
Disbursements out of major maintenance, renewal, and replacement account not included above	276,782	—	254,922	—	—	—	21,860	—
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net position.	$ 244,308,245	—	146,609,304	14,235,947	20,560,951	27,903,509	20,074,684	14,923,850

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) Bad debt expense is allocated primarily by individually identifiable bad debts with the remainder allocated to the airports based upon their respective current year revenues to total current year revenues for all airports.
(4) Statewide expenses are allocated to the airports based upon their respective current year operating expenses to total current year operating expenses for all airports.

See accompanying independent auditors’ report.

Schedule 2

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

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2013

Revenues and taxes:		
Concession fees	$	151,390,726
Airport landing fees		59,873,968
Aeronautical rentals:		
Nonexclusive joint-use premise charges		54,838,168
Exclusive-use premise charges		48,521,342
Nonaeronautical rentals		14,240,830
Aviation fuel tax		4,673,766
Airports system support charges		1,468
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $167,706 on capital improvement projects		1,991,423
Federal operating grants		5,038,564
Miscellaneous		5,047,319
Business interruption insurance recovery		19,000,000
Total revenues and taxes		364,617,574
Deductions:		
Operating expenses other than depreciation for net revenues and taxes (schedule 1)		244,308,245
Annual reserve required on major maintenance, renewal, and replacement account		19,802
Total deductions		244,328,047
Net revenues and taxes		120,289,527
Add funded coverage per bond certificate		21,223,084
Adjusted net revenues and taxes		141,512,611
Debt service requirement:		
Airports system revenue bonds:		
Principal		40,305,000
Interest (note 1)		40,705,391
Total debt service requirement		81,010,391
Debt service coverage percentage		125%
Total debt service with coverage requirement		101,262,989
Excess of net revenues and taxes over debt service requirement	$	40,249,622

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, 2013

		Annual principal and interest requirements		
		Airports system revenue bonds		
		Principal	Interest	Total
Year ending June 30:				
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	23,045,657	77,240,657
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	$	877,725,000	554,161,565	1,431,886,565

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, 2013.

See accompanying independent auditors’ report.

Schedule 4

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2013

		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:							
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	23,045,657	77,240,657
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	$	478,090,000	135,750,000	263,885,000	877,725,000	554,161,565	1,431,886,565

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, 2013.

See accompanying independent auditors' report.

Schedule 5

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, 2013

	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.	802,579	—	—	$ 1,055,534	—	—	—	—	—	—	—	—	—	—	118,284	1,173,818
Air Canada	181,120	544	—	567,322	—	236,103	226,828	—	—	—	—	—	—	—	576,430	1,606,683
Air New Zealand, Ltd.	52,125	137	30,046	169,605	—	—	39,799	—	—	—	—	—	190,231	—	—	399,635
Air Pacific, Ltd.	21,648	142	15,680	69,679	—	—	17,548	—	—	—	—	—	99,704	—	—	186,931
Alaska Air, Inc.	1,215,373	7,758	—	3,903,323	—	2,141,881	1,052,411	—	—	—	—	—	—	510,059	636,326	8,244,000
All Nippon Airways Co., Ltd.	219,580	594	134,866	718,125	—	—	164,943	—	—	—	—	—	871,141	—	4,216	1,758,425
Allegiant Air LLC	112,266	550	—	346,350	—	251,647	133,752	—	—	—	—	—	—	—	255,553	987,302
American Airlines, Inc.	980,788	3,983	—	3,169,901	—	1,574,252	1,288,409	—	—	—	—	—	—	—	1,889,797	7,922,359
Asiana Airlines, Inc.	138,933	312	68,376	446,944	—	—	77,442	—	—	—	—	—	429,728	—	166,052	1,120,166
China Airlines, Ltd.	219,858	345	117,887	707,013	—	—	141,233	—	—	—	—	—	749,018	—	40,575	1,637,839
Continental Airlines, Inc.	880,206	3,249	15,402	2,853,540	—	1,646,933	1,067,870	—	—	—	—	—	93,978	—	166,325	5,828,646
Continental Micronesia, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	480,615	480,615
Delta Air Lines, Inc.	1,898,870	5,429	469,329	6,132,781	—	1,735,420	1,715,357	—	—	—	—	—	2,979,755	—	3,106,709	15,670,022
Evergreen International Airlines, Inc.	7,326	—	—	21,099	—	—	—	—	—	—	—	—	—	—	—	21,099
Federal Express Corporation	747,947	1	—	2,090,072	—	—	—	—	—	—	—	—	—	—	7,611	2,097,683
Hawaii Island Air, Inc.	480,327	12,083	—	640,025	—	—	—	—	68,575	52,157	125,360	168,337	—	—	41,761	1,096,215
Hawaiian Airlines, Inc.	9,772,907	63,427	483,782	18,708,717	—	42,260	1,817,865	—	10,037,483	—	—	—	3,021,853	3,467,374	9,239,072	46,334,624
Japan Airlines International Co., Ltd.	719,597	1,984	490,863	2,321,163	—	—	592,043	—	—	—	—	—	3,097,740	—	2,124,715	8,135,661
Kalitta Air, LLC	177,252	—	—	537,754	—	—	—	—	—	—	—	—	—	—	—	537,754
Korean Airlines Company, Ltd.	441,009	844	214,562	1,416,213	—	—	252,552	—	—	—	—	—	1,343,821	—	246,588	3,259,174
Mesa Airlines, Inc.	676,283	13,056	—	896,174	—	—	—	—	258,790	278,693	214,045	299,300	—	—	348,040	2,295,042
Mokulele Flight Service, Inc.	192,712	21,013	—	253,183	—	—	—	—	—	—	15,581	20,189	—	—	40,905	329,858
North American Airlines, Inc.	1,600		—	5,526	—	—	—	—	—	—	—	—	—	—	—	5,526
Pacific Wings LLC	43,894	4,658	—	58,131	—	—	—	—	—	—	—	4,059	—	—	8,379	70,569
Philippine Airlines, Inc.	68,128	143	33,437	219,616	—	—	39,125	—	—	—	—	—	205,702	—	124,835	589,278
Polar Air Cargo, LLC	10,281		—	29,609	—	—	—	—	—	—	—	—	—	—	—	29,609
Qantas Airways, Ltd.	224,320	167	35,549	724,462	—	—	44,659	—	—	—	—	—	225,579	—	451,754	1,446,454
United Airlines, Inc.	1,999,497	6,358	199,666	6,432,432	—	2,298,448	2,450,399	—	3,172	—	—	—	1,260,030	—	7,242,542	19,687,023
United Parcel Service Co.	768,419	—	—	2,156,825	—	—	—	—	—	—	—	—	—	—	45,643	2,202,468
US Airways, Inc.	395,208	1,777	—	1,269,338	—	629,577	563,237	—	—	—	—	—	—	—	538,397	3,000,549
WestJet	217,976	1,361	1,300	683,756	—	355,006	396,544	—	—	—	—	—	6,565	—	117,302	1,559,173
Nonsignatory airlines	1,543,705	740	125,238	4,866,180	1,468	227,261	408,299	—	—	—	—	—	1,614,318	—	1,257,515	8,375,041
Total airports system charges billed	25,211,734	150,655	2,435,983	63,470,392	1,468	11,138,788	12,490,315	—	10,368,020	330,850	354,986	491,885	16,189,163	3,977,433	29,275,941	148,089,241
Signatory airlines requirements				58,934,145	—	10,976,834	11,686,838	—	10,409,539	336,095	354,986	491,885	14,347,939	3,984,174	28,065,912	139,588,347
Nonsignatory airlines requirements				4,866,180	1,468	227,261	408,299	—	—	—	—	—	1,614,318	—	1,257,515	8,375,041
Fiscal year 2013 overpayment (underpayment)				$ (329,933)	—	(65,307)	395,178	—	(41,519)	(5,245)	—	—	226,906	(6,741)	(47,486)	125,853

See accompanying independent auditors' report.

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

Summary of Billed Airport Landing Fees

Year ended June 30, 2013

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	58,604,212	4,866,180	63,470,392
Less aviation fuel tax credit		(3,683,395)	(242,962)	(3,926,357)
Net airport landing fees billed	$	54,920,817	4,623,218	59,544,035

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, 2013

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport: Gross airport landing fees					All other airports			Total
	Honolulu International Airport	**Hilo International Airport**	**All other airports**	**Total**	**Honolulu International Airport**	**Hilo International Airport**	**Total**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Gross airport landing fees**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Total adjusted airport landing fees**
Aeko Kula, Inc	471,182	79,324	252,072	802,578	$ 619,883	104,570	724,453	(95,412)	629,041	331,081	—	331,081	960,122
Air Canada	92,800	—	88,320	181,120	295,987	—	295,987	—	295,987	271,334	—	271,334	567,321
Air New Zealand Ltd.	52,125	—	—	52,125	169,605	—	169,605	—	169,605	—	—	—	169,605
Air Pacific, Ltd.	21,648	—	—	21,648	69,679	—	69,679	—	69,679	—	—	—	69,679
Alaska Airlines, Inc.	439,632	—	775,741	1,215,373	1,405,382	—	1,405,382	(682,055)	723,327	2,497,941	—	2,497,941	3,221,268
All Nippon Airways Co., Ltd.	219,580	—	—	219,580	718,125	—	718,125	—	718,125	—	—	—	718,125
Allegiant Air Llc	98,604	—	13,662	112,266	305,522	—	305,522	(57,026)	248,496	40,828	—	40,828	289,324
American Airlines, Inc.	525,136	—	455,652	980,788	1,698,102	—	1,698,102	(275,766)	1,422,336	1,471,799	—	1,471,799	2,894,135
Asiana Airlines, Inc	138,933	—	—	138,933	446,944	—	446,944	—	446,944	—	—	—	446,944
China Airlines, Ltd.	219,858	—	—	219,858	707,013	—	707,013	—	707,013	—	—	—	707,013
Continental Airlines, Inc.	833,244	46,962	—	880,206	2,701,774	151,766	2,853,540	(50,197)	2,803,343	—	—	—	2,803,343
Delta Air Lines. Inc.	1,607,345	—	291,525	1,898,870	5,193,322	—	5,193,322	(212,458)	4,980,864	939,460	—	939,460	5,920,324
Evergreen International Airlines, Inc.	7,326	—	—	7,326	21,099	—	21,099	—	21,099	—	—	—	21,099
Federal Express Corporation	651,670	96,277	—	747,947	1,962,179	127,893	2,090,072	(174,879)	1,915,193	—	—	—	1,915,193
Hawaii Island Air, Inc.	203,582	454	276,291	480,327	269,083	592	269,675	(25,439)	244,236	370,349	—	370,349	614,585
Hawaiian Airlines, Inc.	5,739,626	657,470	3,375,811	9,772,907	12,649,325	869,354	13,518,679	(1,510,114)	12,008,565	5,190,038	(45,468)	5,144,570	17,153,135
Japan Airlines International Co., Ltd.	719,597	—	—	719,597	2,321,163	—	2,321,163	—	2,321,163	—	—	—	2,321,163
Kalitta Air, L.L.C.	160,198	—	17,054	177,252	513,297	—	513,297	—	513,297	24,457	—	24,457	537,754
Korean Airlines Company, Ltd.	441,009	—	—	441,009	1,416,213	—	1,416,213	—	1,416,213	—	—	—	1,416,213
Mesa Airlines, Inc.	330,974	45,637	299,672	676,283	437,702	60,050	497,752	(70,032)	427,720	398,423	—	398,423	826,143
Mokulele Flight Service, Inc.	36,066	—	156,647	192,713	47,220	—	47,220	(2,799)	44,421	205,963	(5,096)	200,867	245,288
North American Airlines, Inc.	1,600	—	—	1,600	5,526	—	5,526	—	5,526	—	—	—	5,526
Pacific Wings, L.L.C.	4,514	—	39,381	43,895	6,157	—	6,157	(282)	5,875	51,974	(2,426)	49,548	55,423
Philippine Airlines, Inc.	68,128	—	—	68,128	219,616	—	219,616	—	219,616	—	—	—	219,616
Polar Air Inc	10,281	—	—	10,281	29,609	—	29,609	—	29,609	—	—	—	29,609
Qantas Airways Limited	224,320	—	—	224,320	724,462	—	724,462	—	724,462	—	—	—	724,462
United Airlines, Inc.	1,097,989	—	901,508	1,999,497	3,529,887	—	3,529,887	(275,786)	3,254,101	2,902,545	(29,618)	2,872,927	6,127,028
United Parcel Service Co.	599,330	—	169,089	768,419	1,784,180	—	1,784,180	(3,724)	1,780,456	372,645	—	372,645	2,153,101
Us Airways, Inc.	162,954	—	232,254	395,208	526,260	—	526,260	(160,691)	365,569	743,078	(4,127)	738,951	1,104,520
Westjet	82,096	—	135,879	217,975	258,807	—	258,807	—	258,807	424,949	—	424,949	683,756
Total	15,261,347	926,124	7,480,558	23,668,029	$ 41,053,123	1,314,225	42,367,348	(3,596,660)	38,770,688	16,236,864	(86,735)	16,150,129	54,920,817

Summary of revenue landing weights:	
Overseas	14,374,695
Interisland	9,293,334
	23,668,029

Aviation fuel tax of $4,673,766 was paid by the users for the year ended June 30, 2013. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,926,357 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,683,395
Nonsignatory airlines	242,962
	$ 3,926,357

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2013.

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, 2013

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport					All other airports			Total
					Gross airport landing fees								
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees	Total adjusted airport landing fees
Above It All, Inc.	26	1,310	1,567	2,903	$ 30	1,509	1,539	(251)	1,288	1,805	(253)	1,552	2,840
Aero Micronesia, Inc.	32,308	—	—	32,308	170,909	—	170,909	—	170,909	—	—	—	170,909
Air Japan Co Ltd	25,920	—	—	25,920	137,117	—	137,117	—	137,117	—	—	—	137,117
Air Transport Internationl LLC	33,632	—	250	33,882	177,913	—	177,913	—	177,913	528	—	528	178,441
Air Ventures Hawaii, LLC	—	—	6,012	6,012	—	—	—	—	—	6,926	(342)	6,584	6,584
Alika Aviation, Inc.	—	—	8,360	8,360	—	—	—	—	—	9,631	—	9,631	9,631
Aris, Inc.	—	—	19,969	19,969	—	—	—	—	—	23,005	(3,004)	20,001	20,001
Atlas Air Inc.	32,102	—	—	32,102	169,820	—	169,820	—	169,820	—	—	—	169,820
Big Island Air, Inc.	16	—	3,744	3,760	18	—	18	—	18	4,313	—	4,313	4,331
Bradley Pacific Aviation, Inc.	36,751	1,641	65,233	103,625	112,701	3,675	116,376	—	116,376	204,718	—	204,718	321,094
Castle & Cooke Homes Hawaii, Inc.	22,423	—	266	22,689	77,245	—	77,245	—	77,245	572	—	572	77,817
Corporate Air	48,015	77	59,273	107,365	101,313	161	101,474	—	101,474	125,066	—	125,066	226,540
Delta Air Lines, Inc.	53,397	—	—	53,397	282,471	—	282,471	—	282,471	—	—	—	282,471
George's Aviation Services, Inc.	532	14	1,008	1,554	613	16	629	(441)	188	1,161	(435)	726	914
Hawaii Air Ambulance, Inc.	29,050	—	—	29,050	33,465	—	33,465	(403)	33,062	—	—	—	33,062
Hawaii Helicopters, Inc.	—	—	7,118	7,118	—	—	—	—	—	8,200	—	8,200	8,200
Helicopter Consultants Of Maui, Inc.	18,206	59,277	82,277	159,760	20,974	68,287	89,261	(25,964)	63,297	94,785	(2,941)	91,844	155,141
Honolulu Soaring Club, Inc.	—	—	2,174	2,174	—	—	—	—	—	2,504	—	2,504	2,504
Island Helicopters Kauai, Inc.	—	—	15,892	15,892	—	—	—	—	—	18,307	(2,306)	16,001	16,001
Jack Harter Helicopters, Inc.	—	—	13,060	13,060	—	—	—	—	—	15,045	(2,900)	12,145	12,145
Jetstar Airways Pty Limited	138,890	—	—	138,890	734,733	—	734,733	—	734,733	—	—	—	734,733
K & S Helicopters, Inc.	1,056	18,416	9,526	28,998	1,217	21,215	22,432	(6,197)	16,235	10,974	—	10,974	27,209
Kamaka Air, Inc.	8,737	—	14,378	23,115	10,065	—	10,065	—	10,065	16,563	—	16,563	26,628
Makani Kai Helicopters, Ltd.	11,536	28	21,512	33,076	13,289	32	13,321	(23)	13,298	24,781	(272)	24,509	37,807
Marjet Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—
Maui Island Air, Inc.	28	—	2,072	2,100	32	—	32	—	32	2,387	—	2,387	2,419
Miami Air International	144	—	288	432	762	—	762	—	762	1,524	—	1,524	2,286
Miscellaneous	43,265	623	936	44,824	231,799	2,193	233,992	(324)	233,668	2,270	(96)	2,174	235,842
Niihau Helicopters, Inc.	—	—	825	825	—	—	—	—	—	951	—	951	951
Omni Air International, Inc.	72,409	—	(300)	72,109	383,048	—	383,048	(38,983)	344,065	(1,587)	—	(1,587)	342,478
Pacific Air Charters, Incorporated	293	15	1,662	1,970	338	17	355	(73)	282	1,915	(334)	1,581	1,863
Pacific Helicopter Tours, Inc.	1,579	58	1,362	2,999	1,819	67	1,886	(389)	1,497	1,569	(96)	1,473	2,970
Paragon Air Inc.	—	—	447	447	—	—	—	—	—	515	—	515	515
Polar Air Cargo, LLC	22,069	—	—	22,069	116,745	—	116,745	—	116,745	—	—	—	116,745
Pofolk Aviation Hawaii, Inc.	—	—	18,078	18,078	—	—	—	—	—	20,826	—	20,826	20,826
Resort Air, LLC	279	—	2,172	2,451	322	—	322	(139)	183	2,502	(1,436)	1,066	1,249
Safari Aviation, Inc.	729	8,672	14,222	23,623	840	9,990	10,830	—	10,830	16,384	—	16,384	27,214
Sky-med, Inc.	—	—	26,019	26,019	—	—	—	—	—	29,973	—	29,973	29,973
Skyview Soaring Lcc	—	—	338	338	—	—	—	—	—	390	—	390	390
Smoky Mountain Helicopters, Inc.	—	—	6,346	6,346	—	—	—	—	—	7,310	—	7,310	7,310
Southern Air	98,027	—	—	98,027	518,567	—	518,567	—	518,567	—	—	—	518,567
Will Squyres Hilicopters Service, Inc.	—	—	15,136	15,136	—	—	—	—	—	17,436	—	17,436	17,436
Strategic Air	9,504	—	—	9,504	44,788	—	44,788	—	44,788	—	—	—	44,788
Sunshine Helicopters, Inc.	—	534	15,787	16,321	—	615	615	—	615	18,186	(10,994)	7,192	7,807
Trans Executive Airlines Of Hawaii, Inc.	36,169	20,759	56,038	112,966	41,666	23,914	65,580	(18,196)	47,384	64,557	(1,883)	62,674	110,058
dba Trans Air	—	—	—	—	—	—	—	—	—	—	—	—	—
Universal Enterprises, Inc.	60,229	1,339	59,588	121,156	198,148	4,000	202,148	(124,287)	77,861	187,430	—	187,430	265,291
World Airways	37,962	—	—	37,962	200,816	—	200,816	—	200,816	—	—	—	200,816
Wings Over Kauai LLC	—	—	3,024	3,024	—	—	—	—	—	3,484	—	3,484	3,484
Total	875,283	112,763	555,659	1,543,705	$ 3,783,583	135,691	3,919,274	(215,670)	3,703,604	946,906	(27,292)	919,614	4,623,218

Summary of revenue landing weights:	
Overseas	806,051
Interisland	737,654
	1,543,705

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2013.

See accompanying independent auditors' report.