



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

Financial Statements and Supplemental Schedules

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

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

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Independent Auditors' Report

The Auditor
State of Hawaii:

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 and for the years ended June 30, 2014 and 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014 and 2013, 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, 2014 and 2013, 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.

As discussed in note 2 to the financial statements, the Airports Division adopted Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Application of this statement was effective as of July 1, 2013.

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 inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion 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.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 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

Honolulu, Hawaii
December 15, 2014

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Management's Discussion and Analysis

June 30, 2014 and 2013

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, 2014 and 2013. 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 59.3% and 59.6% of total passenger traffic in the airports system during fiscal years 2014 and 2013, respectively. The other four principal airports accommodated 39.6% and 39.3% of the total passenger traffic for fiscal years 2014 and 2013, 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% of the total passenger traffic for both fiscal years 2014 and 2013, 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,

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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 2014 with a decrease in total passengers, and increases in aircraft operations, revenue landed weights, revenue passenger landings, and deplaning international passengers by (1.8)%, 2.4%, 0.2%, 9.2%, and 2.7%, respectively, as compared to fiscal year 2013. 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 2014 and 2013, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 39% and 8% of the total landed weights. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 21%, 13%, and 11% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 67% and 4% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 43% of the revenue passenger landings and Japan Airlines International Company, Ltd. accounted for 21% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2014 and 2013: Air Canada, Air China Ltd., Air Japan Co., 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., 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.

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Activity for the airports system for the fiscal years ended June 30, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> | Percentage increase (decrease) from 2013 |
|---|-------------------|-------------------|---|
| Passengers (enplaning and deplaning passengers activity): | | | |
| Honolulu International Airport | 19,384,312 | 19,778,282 | (2.0)% |
| Kahului Airport | 6,028,325 | 6,077,000 | (0.8) |
| Kona International Airport at Keahole | 2,824,237 | 2,886,734 | (2.2) |
| Lihue Airport | 2,701,825 | 2,716,541 | (0.5) |
| Hilo International Airport | 1,301,618 | 1,362,597 | (4.5) |
| All others | 350,161 | 351,705 | (0.4) |
| Total passengers | <u>32,590,478</u> | <u>33,172,859</u> | <u>(1.8)%</u> |
| Aircraft operations (landing and takeoff combined reported by Air Traffic Control Tower): | | | |
| Honolulu International Airport | 300,976 | 284,532 | 5.8% |
| Kahului Airport | 127,143 | 130,620 | (2.7) |
| Kona International Airport at Keahole | 117,075 | 119,098 | (1.7) |
| Lihue Airport | 125,569 | 122,240 | 2.7 |
| Hilo International Airport | 90,733 | 88,100 | 3.0 |
| All others | 215,830 | 210,106 | 2.7 |
| Total aircraft operations | <u>977,326</u> | <u>954,696</u> | <u>2.4%</u> |
| Revenue landed weights (1,000-pound units): | | | |
| Honolulu International Airport | 15,431,098 | 15,261,346 | 1.1% |
| Kahului Airport | 3,836,915 | 3,791,705 | 1.2 |
| Kona International Airport at Keahole | 1,707,668 | 1,815,451 | (5.9) |
| Lihue Airport | 1,627,074 | 1,618,053 | 0.6 |
| Hilo International Airport | 913,267 | 926,125 | (1.4) |
| All others | 239,080 | 255,349 | (6.4) |
| Total signatory airlines | <u>23,755,102</u> | <u>23,668,029</u> | <u>0.4</u> |
| Nonsignatory airlines | <u>1,504,289</u> | <u>1,543,705</u> | <u>(2.6)</u> |
| Total revenue landed weights | <u>25,259,391</u> | <u>25,211,734</u> | <u>0.2%</u> |

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| | <u>2014</u> | <u>2013</u> | Percentage increase (decrease) from 2013 |
|---|-------------------------|-------------------------|---|
| Revenue passenger landings: | | | |
| Honolulu International Airport | 75,226 | 84,004 | (10.4)% |
| Kahului Airport | 35,308 | 23,507 | 50.2 |
| Kona International Airport at Keahole | 18,471 | 12,087 | 52.8 |
| Lihue Airport | 13,463 | 12,469 | 8.0 |
| Hilo International Airport | 6,774 | 6,654 | 1.8 |
| Other airports | <u>14,204</u> | <u>11,194</u> | <u>26.9</u> |
| Total signatory airlines | 163,446 | 149,915 | 9.0 |
| Nonsignatory airlines | <u>1,110</u> | <u>740</u> | <u>50.0</u> |
| Total revenue passenger landings | <u><u>164,556</u></u> | <u><u>150,655</u></u> | <u><u>9.2%</u></u> |
| Deplaning international passengers: | | | |
| Honolulu International Airport | <u>2,324,056</u> | <u>2,310,745</u> | <u>0.6%</u> |
| Total signatory airlines | 2,324,056 | 2,310,745 | 0.6 |
| Nonsignatory airlines | <u>178,382</u> | <u>125,238</u> | <u>42.4</u> |
| Total deplaning international passengers | <u><u>2,502,438</u></u> | <u><u>2,435,983</u></u> | <u><u>2.7%</u></u> |

Financial Operations Highlights

The financial results for fiscal years 2014 and 2013 reflected income before capital contributions of \$64.3 million and \$97.0 million, respectively. Operating revenues and expenses decreased by \$21.5 million, or 6.3%, and \$2.4 million, or 0.7%, respectively, resulting from decreased revenue from airlines and concession and decreases in depreciation. Total nonoperating revenues increased by \$8.2 million, or 7.7%, mainly due to the increase in debt service support charges of \$19.0 million offset by decreases in federal operating grants, rental car customer facility charges and gain on amounts held in State Treasury. Further, the Airports division received a business interruption insurance settlement relating to the events of September 11th amounting to \$19.0 million in fiscal year 2013.

Effective October 1, 2014, 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, Lihue Airport and Hilo International Airport. Effective June 30, 2013, all projects have been completed and PFC Application No. 1 has been closed. Effective February 1, 2007, the FAA approved the Airports Division's PFC Application No. 2 to impose a \$3.00 PFC at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 1, 2007 and July 1, 2011

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(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 May 14, 2008. The maximum amount of \$62,500,000 was further amended to \$49,560,000 as of September 4, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and firefighting 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. Due to the delays in environmental assessment approvals, the "Use" application for the Taxilanes G & L Widening project is removed from this application. Upon completion of all projects in this application, a final amendment will reconcile Impose & Use Authority then move any over collections to PFC Application No. 5.

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. An amendment was approved to extend the collection date and increased the authorized collections to \$174,126,250. Collections were completed on June 1, 2014.

Effective June 1, 2014, the FAA approved the Airports Division's PFC Application No. 5 to impose a \$4.50 PFC at Honolulu International Airport, Hilo International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport. The application was approved for a collection of \$449,395,430 including interest earned during the collection period from June 1, 2014 through July 1, 2028. 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 firefighting 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.

Since the inception of this program through June 30, 2014, the total PFC revenues, including interest earned, and expenditures were \$270.8 million and \$137.7 million, respectively.

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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, 2014, the total CFC revenues, including interest earned, and expenditures were \$174.4 million and \$42.5 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 2014 increased by 1.1%, or \$2.6 million, as compared to fiscal year 2013 mainly due to increases in repairs & maintenance offset by decreases in salaries & wages, other personnel services, utilities and special maintenance.

Total nonoperating expenses for fiscal year 2014 increased by 9.5%, or \$2.9 million, as compared to fiscal year 2013 mainly due to increases in interest expense relating to lease revenue certificates of participation issued in fiscal year 2014.

As a result, net assets increased by \$125.9 million and \$122.5 million for fiscal years 2014 and 2013, respectively.

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

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A summary of operations and changes in net position for the years ended June 30, 2014, 2013, and 2012 is as follows:

| | <u>2014</u> | <u>2013 As restated</u> | <u>2012 As restated</u> |
|--|-----------------------|-----------------------------|-----------------------------|
| Operating revenues | \$ 317,123,319 | 338,587,587 | 314,237,855 |
| Business interruption insurance recovery | — | 19,000,000 | — |
| Operating expenses, excluding depreciation | <u>(246,881,076)</u> | <u>(244,308,245)</u> | <u>(229,822,552)</u> |
| Operating income before depreciation | 70,242,243 | 113,279,342 | 84,415,303 |
| Depreciation | <u>(87,233,189)</u> | <u>(92,231,177)</u> | <u>(90,754,951)</u> |
| Operating (loss) income | (16,990,946) | 21,048,165 | (6,339,648) |
| Nonoperating revenues – net | <u>81,258,226</u> | <u>75,921,192</u> | <u>(2,510,249)</u> |
| Income (loss) before capital contributions | <u>64,267,280</u> | <u>96,969,357</u> | <u>(8,849,897)</u> |
| Capital contributions: | | | |
| Federal capital grants | 61,316,805 | 23,996,113 | 36,869,413 |
| Federal stimulus funds | <u>330,460</u> | <u>1,584,267</u> | <u>9,191,233</u> |
| Total capital contributions | <u>61,647,265</u> | <u>25,580,380</u> | <u>46,060,646</u> |
| Increase in net position | <u>\$ 125,914,545</u> | <u>122,549,737</u> | <u>37,210,749</u> |

- Operating revenues decreased by \$21.5 million due to a \$6.9 million decrease in landing fees, a net \$9.5 million decrease in aeronautical revenues, and a \$7.8 million decrease in concession revenues from car rentals, restaurants, retail stores, parking, and in-flight catering. The decreases in landing fees, aeronautical revenues and concession revenues are due to a decrease in passenger traffic.
- Operating expenses excluding depreciation increased by 1.1% from \$244.3 million in fiscal year 2013 to \$246.9 million in fiscal year 2014. The increase in operating expenses is due increase in repairs and maintenance expense of \$9.1 million offset by decreases in salaries and wages, other personal services, utilities and special maintenance totaling \$6.8 million. The increase in repairs and maintenance expense is due to more repair and maintenance activity at the Honolulu and Kahului airports. Salaries and wages decreased by \$1.2 million due to a decrease in the fiscal year 2014 annual required contribution for postemployment healthcare and life insurance benefits offset by bargaining unit wage increases. Other personnel services expenses decreased by \$2.0 million due to decreases in the Robert's Hawaii Wiki Wiki bus contract, legal fees related to the September 11th insurance recovery claim, and bird control services paid to the United States Department of Agriculture offset by increases in security costs. Utilities expenses decreased by \$1.5 million due to savings from the Energy Savings Performance Contract project with

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Johnson Controls that started in January 2014. Special maintenance expense decreased by \$2.1 million due to an increase in capitalized costs included in construction in progress for fiscal year 2014.

- The net results of the above resulted in operating income before depreciation of \$70.2 million and \$113.2 million in fiscal years 2014 and 2013, respectively. Operating income before depreciation for fiscal year 2014 decreased by 38.0%, or \$43.0 million. Depreciation expense decreased by 5.4% from \$92.2 million in fiscal year 2013 to \$87.2 million in fiscal year 2014 due to an increase in asset disposals. The operating loss before nonoperating revenues, net and capital contributions is \$17.0 million in fiscal year 2014 as compared to an operating income before nonoperating revenues, net and capital contributions of \$21.0 million in fiscal year 2013.
- Nonoperating revenues, net increased by 7.0%, or \$5.3 million, in fiscal year 2014, primarily due to an increase in debt service support charges of \$19.0 million offset by increases in loss on disposal of capital assets and bond issue costs of \$1.5 million and \$1.7 million, respectively, and decreases in federal operating grants and gain on amounts held in State Treasury of \$2.4 million and \$3.8 million, respectively. The \$19.0 million of debt service support charges represents a transfer from the prepaid airport use charge fund to the Airports Division for debt service payments to offset the signatory airline requirement for fiscal year 2014. This transfer was approved by the Airlines Committee of Hawaii.
- Income before capital contributions for fiscal year 2014 of \$64.3 million as compared to income of \$97.0 million for fiscal year 2013 was a result of a decrease in operating income.
- Capital contributions increased by 141.0%, or \$36.1 million, in fiscal year 2014, mainly due to increase of federal capital and federal stimulus grants received in fiscal year 2014.

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Financial Position Summary

A condensed summary of the Airports Division's net position at June 30, 2014, 2013, and 2012 is shown below:

| | 2014 | 2013 As restated | 2012 As restated |
|--|------------------|-----------------------------|-----------------------------|
| Assets: | | | |
| Current assets: | | | |
| Unrestricted assets | \$ 599,124,616 | 598,449,594 | 575,899,575 |
| Restricted assets | 61,768,230 | 68,757,160 | 58,778,499 |
| Noncurrent assets: | | | |
| Capital assets | 1,922,444,323 | 1,788,606,407 | 1,753,785,470 |
| Restricted assets | 745,975,489 | 590,662,461 | 554,011,295 |
| Total assets | \$ 3,329,312,658 | 3,046,475,622 | 2,942,474,839 |
| Deferred outflows of resources | \$ 5,023,253 | 6,207,417 | 7,557,898 |
| Liabilities: | | | |
| Current liabilities: | | | |
| Payable from unrestricted assets | \$ 50,198,293 | 43,321,875 | 52,831,085 |
| Payable from restricted assets | 97,063,995 | 81,185,649 | 63,632,304 |
| Long-term liabilities, net of current portion: | | | |
| Payable from unrestricted assets | 101,854,977 | 102,010,648 | 83,493,117 |
| Payable from restricted assets | 1,064,619,136 | 931,479,902 | 977,941,003 |
| Total liabilities | \$ 1,313,736,401 | 1,157,998,074 | 1,177,897,509 |
| Net position: | | | |
| Net investment in capital assets | \$ 1,139,337,028 | 1,077,045,343 | 1,039,368,865 |
| Restricted | 448,211,006 | 381,987,432 | 314,491,493 |
| Unrestricted | 433,051,476 | 435,652,190 | 418,274,870 |
| Total net position | \$ 2,020,599,510 | 1,894,684,965 | 1,772,135,228 |

The largest portion of the Airports Division's net position (56.4% and 56.8% at June 30, 2014 and 2013, 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 (22.2% and 20.2% at June 30, 2014 and 2013, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under

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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 \$569.9 million and \$571.2 million at June 30, 2014 and 2013, respectively. The \$569.9 million and \$571.2 million cash balance at June 30, 2014 and 2013, 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 and deferred outflows of resources exceeded liabilities by \$2,021.0 million at June 30, 2014, representing an increase of \$125.9 million from June 30, 2013.

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.

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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, 2014 and 2013 and the amount and percentage of change in relation to prior year amounts is as follows:

| | <u>2014</u> | | <u>Increase (decrease) from 2013</u> | |
|---|-----------------------|--------------------------------|--|-------------------|
| | <u>Amount</u> | <u>Percentage of total</u> | <u>Amount</u> | <u>Percentage</u> |
| Operating revenues: | | | | |
| Concession fees: | | | | |
| Duty free | \$ 34,511,678 | 8.0% | \$ (6,826,282) | (16.5)% |
| Other concessions | 109,057,855 | 25.3 | (994,911) | (0.9) |
| Airport landing fees | 52,929,865 | 12.3 | (6,944,103) | (11.6) |
| Aeronautical rentals: | | | | |
| Nonexclusive joint-use premise charge | 53,857,054 | 12.5 | (981,114) | (1.8) |
| Exclusive-use premise charge | 40,038,747 | 9.3 | (8,482,595) | (17.5) |
| Nonaeronautical rentals | 14,467,101 | 3.3 | 226,271 | 1.6 |
| Other | 12,261,019 | 2.8 | 2,538,466 | 26.1 |
| Total operating revenues | <u>317,123,319</u> | <u>73.5</u> | <u>(21,464,268)</u> | <u>(6.3)</u> |
| Business interruption insurance recovery | — | — | (19,000,000) | (100.0) |
| Nonoperating revenues: | | | | |
| Interest income, investments | 2,055,453 | 0.5 | 64,030 | 3.2 |
| Interest income, passenger facility charges | 306,153 | 0.1 | 115,455 | 60.5 |
| Interest income, rental car customer facility charges | 261,133 | 0.1 | 128,809 | 97.3 |
| Interest income, direct financing leases | 1,802,623 | 0.4 | (63,729) | (3.4) |
| Interest income, other loans and investment | 8,686 | — | 8,686 | 100.0 |
| Federal operating grants | 2,656,113 | 0.6 | (2,382,451) | (47.3) |
| Passenger facility charges | 34,371,317 | 7.9 | (770,772) | (2.2) |
| Rental car customer facility charges | 53,923,545 | 12.5 | (1,655,015) | (3.0) |
| Debt service support charges | 19,000,000 | 4.4 | 19,000,000 | 100.0 |
| Gain on amounts held in State Treasury | — | — | (3,804,400) | (100.0) |
| Other | 130,226 | — | (2,429,090) | (94.9) |
| Total nonoperating revenues | <u>114,515,249</u> | <u>26.5</u> | <u>8,211,523</u> | <u>7.7</u> |
| Total revenues | <u>\$ 431,638,568</u> | <u>100.0%</u> | <u>\$ (32,252,745)</u> | <u>(7.0)%</u> |

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| | 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 | 11.8 | 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 | <u>338,587,587</u> | <u>73.0</u> | <u>24,349,732</u> | <u>7.7</u> |
| 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 | <u>106,303,726</u> | <u>22.9</u> | <u>67,066,172</u> | <u>170.9</u> |
| Total revenues | <u>\$ 463,891,313</u> | <u>100.0%</u> | <u>\$ 110,415,904</u> | <u>31.2%</u> |

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Expenses

A summary of expenses for the years ended June 30, 2014 and 2013 and the amount and percentage of change in relation to prior year amounts is as follows:

| | <u>2014</u> | | <u>Increase (decrease) from 2013</u> | |
|---|----------------|--------------------------------|--|-------------------|
| | <u>Amount</u> | <u>Percentage of total</u> | <u>Amount</u> | <u>Percentage</u> |
| Operating expenses: | | | | |
| Salaries and wages | \$ 82,780,481 | 22.5% | \$ (1,208,171) | (1.4)% |
| Other personnel services | 50,588,123 | 13.8 | (2,013,793) | (3.8) |
| Utilities | 48,882,258 | 13.3 | (1,477,660) | (2.9) |
| Repairs and maintenance | 29,270,148 | 8.0 | 9,089,340 | 45.0 |
| State of Hawaii surcharge on gross receipts | 12,260,909 | 3.3 | (212,719) | (1.7) |
| Special maintenance | 4,458,960 | 1.2 | (2,090,620) | (31.9) |
| Department of transportation general administration expenses | 6,554,622 | 1.8 | 1,109,125 | 20.4 |
| Materials and supplies | 6,304,085 | 1.7 | 746,680 | 13.4 |
| Insurance | 2,411,856 | 0.7 | (777,006) | (24.4) |
| Bad debt expense | — | — | (580,495) | (100.0) |
| Disbursements out of major maintenance renewal and replacement account | — | — | (276,782) | (100.0) |
| Other | 3,369,634 | 0.9 | 264,932 | 8.5 |
| Total operating expenses before depreciation | 246,881,076 | 67.2 | 2,572,831 | 1.1 |
| Depreciation | 87,233,189 | 23.7 | (4,997,988) | (5.4) |
| Total operating expenses | 334,114,265 | 90.9 | (2,425,157) | (0.7) |
| Nonoperating expenses: | | | | |
| Interest expense: | | | | |
| Revenue bonds: | | | | |
| Airports system | 24,855,268 | 6.8 | (3,660,914) | (12.8) |
| Special facility | 1,802,623 | 0.5 | (63,729) | (3.4) |
| Lease revenue certificates of participation | 3,384,853 | 0.9 | 3,384,853 | 100.0 |
| Loss on disposal of capital assets | 1,542,274 | 0.4 | 1,542,274 | 100.0 |
| Bond issue costs | 1,672,005 | 0.5 | 1,672,005 | 100.0 |
| Total nonoperating expenses | 33,257,023 | 9.1 | 2,874,489 | 9.5 |
| Total expenses | \$ 367,371,288 | 100.0% | \$ 449,332 | 0.1% |

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| | 2013 | | Increase (decrease) | |
|--|-----------------------|--------------------------------|----------------------------|-------------------|
| | As restated | | 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 | 66.6 | 14,485,693 | 6.3 |
| Depreciation | 92,231,177 | 25.1 | 1,476,226 | 1.6 |
| Total operating expenses | 336,539,422 | 91.7 | 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) |
| Bond issue costs | — | — | (4,979,938) | (100.0) |
| Other | — | — | (254,202) | (100.0) |
| Total nonoperating expenses | 30,382,534 | 8.3 | (11,365,269) | (27.2) |
| Total expenses | \$ 366,921,956 | 100.0% | \$ 4,596,650 | 1.3% |

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Capital Acquisitions and Construction Activities

In fiscal year 2014, there were 27 construction bid openings totaling an estimated \$663.9 million in potential construction contracts. Significant projects that opened bids in fiscal year 2014 include Taxiway Z Structural Improvements at Honolulu International Airport, Widening of Taxilanes G & L – Phase 1 at Honolulu International Airport, 2nd Level Roadway Improvements at Honolulu International Airport, Improvements to Wiki-Wiki Shuttle Stations Gates 6-62 at Honolulu International Airport, Ewa Concourse Concession Improvements at Honolulu International Airport, Overseas Terminal Metal Roof Replacement at Honolulu International Airport, Interim Car Rental Facility at Honolulu International Airport, Aloha Air Cargo Demolition Phase II and Hardstands at Honolulu International Airport, and NDWP DH Site Improvements at Honolulu International Airport. Projects at Kahului Airport include the Apron Pavement Structural Improvements, Phase II, Repave Runway 2-20, Roadway Improvements and Car Rental (CONRAC) Facility, Replacement of Loading Bridges, Replacement of Elevators & Escalators, Re-Roof Terminal Building, Phase II, Restroom Renovation Phase 2, Replacement of Fire Sprinkler System, Kahului ASAP Improvements, and Access Road to Hana Highway. Projects at Lanai Airport include Airfield Lighting Improvements and Runway Safety Area Improvements. Projects at Hilo International Airport include the Aircraft Rescue and Fire Fighting Facility (ARFF) Improvements, Installation of Perimeter Fence, Phase II, and Airfield Striping and Miscellaneous Improvements. Projects at Kona International Airport at Keahole include Re-Roof Terminal Buildings and Security Checkpoint & AOA Fence Improvements.

There were also several ongoing construction projects that were initiated prior to fiscal year 2014, which were under construction during the fiscal year. Major projects include Emergency Power Facility at Honolulu International Airport, and Roadway Improvements and Consolidated Rental Car Facility at Honolulu International Airport, Hold Cargo Building/Light Industrial Facility at Hilo International Airport, and Aircraft Rescue and Fire Fighting Station Relocation at Kona International Airport at Keahole.

Finally, there were 20 projects that were substantially completed in fiscal year 2014 at a total cost of approximately \$71 million. These projects include planning, design, and construction projects at large, medium and small hub airports statewide to preserve, maintain, and modernize facilities. At Kahului Airport, the General Purpose Apron & Cargo Building, Phase II and the CCTV System for TSA Security were completed. At Kona International Airport at Keahole, a new Aircraft Rescue and Fire Fighting (ARFF) building was substantially completed and is now in use.

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 New Day Work Projects are under construction, including the new Relocate IIT Maintenance Facility and Relocate IIT Cargo Facility 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 began construction to install a new Public Address System and Gate Management System. At Hilo International Airport, several runway, taxiway, and apron pavement projects have been completed improving the condition of the airfield pavement. 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.

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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, 2014, \$897.0 million of airports system revenue bonds were outstanding as compared to \$941.7 million as of June 30, 2013. 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 \$300,885,000 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, 2014 and 2013, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was \$662,157,129 and \$1,310,792,291, respectively.

Lease Revenue Certificates of Participation

Section 36-41 of Hawaii Revised Statutes authorizes the Department of Transportation to enter into multi-year energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in State facilities. The Department released an invitation for proposal to procure the energy saving projects (the ESCO Project) in May 2011, and selected Johnson Controls, Inc. (JCI) in January 2012. The Department executed a contract with JCI, and issued Series 2013 Lease Revenue Certificates of Participation (COPs) with a par value of \$167.7 million in December 2013. The Department is using the net proceeds of COPs, totaling \$150.2 million, to implement the ESCO Project, and expects to complete the ESCO Project in December 2015. JCI has agreed in the contract to guarantee utility savings at approximately 91.7% of expected annual savings, which are expected to exceed annual debt service on COPs.

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, 2014 and 2013, there were outstanding bond obligations of \$29,130,000 and \$30,100,000, 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.

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Credit Rating and Bond Insurance

As of June 30, 2014, there were three Series of airports system revenue bonds outstanding in the principal amount of \$877,725,000. 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 issued certificates of participation amounting to approximately \$168 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 Ross Higashi, 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.

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| Assets | 2014 | 2013 As restated |
|--|------------------|-----------------------------|
| Current assets: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents – unrestricted | \$ 569,949,289 | 571,171,775 |
| Receivables: | | |
| Accounts, net of allowance of \$535,307 and \$1,198,336 for uncollectible accounts, respectively | 17,007,383 | 16,398,865 |
| Promissory note receivable, net of allowance of \$49,512 and \$123,008 for uncollectible notes, respectively | 11,005 | 5,208 |
| Interest | 218,222 | 172,128 |
| Claims – federal grants | 9,954,845 | 8,763,713 |
| Aviation fuel tax | 393,749 | 355,967 |
| Due from State of Hawaii | 1,396,410 | 1,416,180 |
| Total receivables | 28,981,614 | 27,112,061 |
| Inventory of materials and supplies, at cost | 193,713 | 165,758 |
| Total unrestricted current assets | 599,124,616 | 598,449,594 |
| Restricted assets: | | |
| Cash and cash equivalents: | | |
| Revenue bond debt service | 55,726,991 | 62,598,666 |
| Debt extinguishment | 155,013 | 620,050 |
| Security deposits | 5,886,226 | 5,538,444 |
| Total restricted current assets | 61,768,230 | 68,757,160 |
| Total current assets | 660,892,846 | 667,206,754 |
| Noncurrent assets: | | |
| Unrestricted assets: | | |
| Capital assets, net of accumulated depreciation of \$1,915,910,931 and \$1,829,500,300 for 2014 and 2013, respectively | 1,922,444,323 | 1,788,606,407 |
| Total unrestricted noncurrent assets | 1,922,444,323 | 1,788,606,407 |
| Restricted assets: | | |
| Cash and cash equivalents: | | |
| Major maintenance, renewal, and replacement account | 59,898,925 | 59,980,198 |
| Debt extinguishment | — | 155,015 |
| Passenger facility charges | 129,472,670 | 102,109,478 |
| Rental car customer facility charges | 127,793,511 | 78,164,592 |
| Customer advances | — | 952,601 |
| Revenue bond construction | 144,748,531 | 213,141,262 |
| Total cash and cash equivalents – restricted | 461,913,637 | 454,503,146 |
| Investments – revenue bond debt service reserve | 96,893,008 | 96,893,008 |
| Investments – held by certificate of participation funds trustee | 150,067,396 | — |
| Passenger facility charges receivable | 3,653,529 | 3,726,504 |
| Rental car customer facility charges receivable | 4,121,969 | 5,238,195 |
| Net investments in direct financing leases | 29,325,950 | 30,301,608 |
| Total restricted noncurrent assets | 745,975,489 | 590,662,461 |
| Total noncurrent assets | 2,668,419,812 | 2,379,268,868 |
| Total assets | \$ 3,329,312,658 | 3,046,475,622 |
| Deferred outflows of resources: | | |
| Deferred loss on refunding | \$ 5,023,253 | 6,207,417 |
| Total deferred outflows of resources | 5,023,253 | 6,207,417 |

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| Liabilities | 2014 | 2013 As restated |
|---|-------------------------|-----------------------------|
| Current liabilities: | | |
| Payable from unrestricted assets: | | |
| Vouchers payable | \$ 10,707,529 | 12,343,403 |
| Contracts payable, including retainage of \$2,469,250 and \$1,791,806 | 17,364,446 | 11,203,376 |
| Current portion of workers' compensation | 960,961 | 869,295 |
| Current portion of compensated absences | 3,244,303 | 2,986,263 |
| Unearned income | 7,842,663 | 6,670,707 |
| Accrued wages | 5,917,592 | 5,406,053 |
| Pollution remediation liability | 1,096,480 | 950,145 |
| Prepaid airport use charge fund | 1,091,861 | 2,865,353 |
| Other | 1,972,458 | 27,280 |
| Total payable from unrestricted assets | <u>50,198,293</u> | <u>43,321,875</u> |
| Payable from restricted assets: | | |
| Contracts payable, including retainage of \$7,206,292 and \$3,316,164 | 29,427,567 | 11,876,931 |
| Current portion of airports system revenue bonds | 34,210,000 | 40,305,000 |
| Current portion of special facility revenue bonds | 1,030,000 | 970,000 |
| Accrued interest | 26,510,202 | 22,495,274 |
| Security deposits | 5,886,226 | 5,538,444 |
| Total payable from restricted assets | <u>97,063,995</u> | <u>81,185,649</u> |
| Total current liabilities | <u>147,262,288</u> | <u>124,507,524</u> |
| Long-term liabilities – net of current portion: | | |
| Payable from unrestricted assets: | | |
| Prepaid airport use charge fund | 27,091,874 | 37,932,188 |
| Compensated absences | 6,874,870 | 6,604,156 |
| Workers' compensation | 3,300,571 | 3,130,705 |
| Postemployment liability | 64,587,662 | 54,343,599 |
| Total payable from unrestricted assets | <u>101,854,977</u> | <u>102,010,648</u> |
| Payable from restricted assets: | | |
| Airports system revenue bonds | 862,748,213 | 901,397,301 |
| Special facility revenue bonds | 28,100,000 | 29,130,000 |
| Lease revenue certificates of participation | 173,770,923 | — |
| Customer advance | — | 952,601 |
| Total payable from restricted assets | <u>1,064,619,136</u> | <u>931,479,902</u> |
| Total long-term liabilities – net of current portion | <u>1,166,474,113</u> | <u>1,033,490,550</u> |
| Total liabilities | <u>\$ 1,313,736,401</u> | <u>1,157,998,074</u> |
| Net Position | | |
| Net investment in capital assets | \$ 1,139,337,028 | 1,077,045,343 |
| Restricted: | | |
| Debt service payment | 34,210,000 | 40,305,000 |
| Debt service reserve account | 96,893,008 | 96,893,008 |
| Debt extinguishment | 155,013 | 775,065 |
| Major maintenance, renewal, and replacement account | 59,898,925 | 59,980,198 |
| Passenger facility charges | 130,710,740 | 102,938,167 |
| Rental car customer facility charges | 126,343,320 | 81,095,994 |
| Total restricted | <u>448,211,006</u> | <u>381,987,432</u> |
| Unrestricted | 433,051,476 | 435,652,190 |
| Commitments and contingencies | | |
| Total net position | <u>\$ 2,020,599,510</u> | <u>1,894,684,965</u> |

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, 2014 and 2013

| | 2014 | 2013 As restated |
|--|----------------|-----------------------------------|
| | 2014 | As restated |
| Operating revenues: | | |
| Concession fees | \$ 143,569,533 | 151,390,726 |
| Airport landing fees, net | 52,929,865 | 59,873,968 |
| Aeronautical rentals: | | |
| Nonexclusive joint-use premise charges | 53,857,054 | 54,838,168 |
| Exclusive-use premise charges | 40,038,747 | 48,521,342 |
| Nonaeronautical rentals | 14,467,101 | 14,240,830 |
| Aviation fuel tax | 4,847,008 | 4,673,766 |
| Airports system support charges | — | 1,468 |
| Miscellaneous | 7,414,011 | 5,047,319 |
| | 317,123,319 | 338,587,587 |
| Operating expenses: | | |
| Depreciation | 87,233,189 | 92,231,177 |
| Salaries and wages | 82,780,481 | 83,988,652 |
| Other personnel services | 50,588,123 | 52,601,916 |
| Utilities | 48,882,258 | 50,359,918 |
| Repairs and maintenance | 29,270,148 | 20,180,808 |
| State of Hawaii surcharge on gross receipts | 12,260,909 | 12,473,628 |
| Department of Transportation general administration expenses | 6,554,622 | 5,445,497 |
| Materials and supplies | 6,304,085 | 5,557,405 |
| Special maintenance | 4,458,960 | 6,549,580 |
| Insurance | 2,411,856 | 3,188,862 |
| Claims and benefits | 1,543,735 | 1,064,193 |
| Travel | 430,565 | 405,740 |
| Communication | 378,745 | 381,274 |
| Rent | 337,687 | 691,786 |
| Dues and subscriptions | 299,347 | 239,205 |
| Freight and delivery | 19,899 | 8,260 |
| Printing and advertising | 5,954 | 21,057 |
| Bad debt expense | — | 580,495 |
| Disbursements out of major maintenance, renewal, and replacement account | — | 276,782 |
| Miscellaneous | 353,702 | 293,187 |
| | 334,114,265 | 336,539,422 |
| Business interruption insurance recovery | — | 19,000,000 |
| Operating income (loss), carried forward | (16,990,946) | 21,048,165 |

**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, 2014 and 2013

| | <u>2014</u> | <u>2013</u> As restated |
|---|-----------------------------|-----------------------------|
| Operating (loss) income, brought forward | \$ (16,990,946) | 21,048,165 |
| Nonoperating revenues (expenses): | | |
| Interest income: | | |
| Certificates of deposit, repurchase agreements, U.S. government securities | 2,064,139 | 1,991,423 |
| Investments in direct financing leases | 1,802,623 | 1,866,352 |
| Interest expense: | | |
| Revenue bonds: | | |
| Airports system | (24,855,268) | (28,516,182) |
| Special facility | (1,802,623) | (1,866,352) |
| Lease revenue certificates of participation | (3,384,853) | — |
| Federal operating grants | 2,656,113 | 5,038,564 |
| Loss on disposal of capital assets | (1,542,274) | — |
| Passenger facility charges | 34,677,470 | 35,332,787 |
| Rental car customer facility charges | 54,184,678 | 55,710,884 |
| Bond issue costs | (1,672,005) | — |
| Debt service support charges | 19,000,000 | — |
| Gain on amounts held in State Treasury | — | 3,804,400 |
| Other | 130,226 | 2,559,316 |
| | <u>81,258,226</u> | <u>75,921,192</u> |
| Total nonoperating revenues, net | | |
| Income before capital contributions | <u>64,267,280</u> | <u>96,969,357</u> |
| Capital contributions: | | |
| Federal capital grants | 61,316,805 | 23,996,113 |
| Federal stimulus grants | 330,460 | 1,584,267 |
| | <u>61,647,265</u> | <u>25,580,380</u> |
| Total capital contributions | | |
| Increase in net position | 125,914,545 | 122,549,737 |
| Total net position – beginning of year, as restated | <u>1,894,684,965</u> | <u>1,772,135,228</u> |
| Total net position – end of year | <u><u>2,020,599,510</u></u> | <u><u>1,894,684,965</u></u> |

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, 2014 and 2013

| | 2014 | 2013 |
|---|------------------|---------------|
| Cash flows from operating activities: | | |
| Cash received from providing services | \$ 325,369,731 | 354,190,942 |
| Cash paid to suppliers | (164,633,313) | (160,056,937) |
| Cash paid to employees | (71,234,593) | (70,485,582) |
| Net cash provided by operating activities | 89,501,825 | 123,648,423 |
| Cash flows from noncapital financing activity: | | |
| Proceeds from federal operating grants | 3,033,492 | 4,638,598 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (171,219,415) | (72,174,681) |
| Proceeds from federal and other capital grants and contributions | 60,078,754 | 22,617,640 |
| Interest paid on airports system revenue bonds | (43,810,663) | (45,071,038) |
| Principal paid on airports system revenue bonds | (40,305,000) | (27,545,000) |
| Net proceeds from lease revenue certificates of participation | 172,977,322 | — |
| Payments from passenger facility charges program | (7,387,253) | (16,702,429) |
| Proceeds from passenger facility charges program | 34,750,445 | 35,579,114 |
| Payments from rental car customer facility charges program | (5,671,985) | (17,717,807) |
| Proceeds from rental car customer facility charges | 55,300,904 | 50,494,597 |
| Net cash provided by (used in) capital and related financing activities | 54,713,109 | (70,519,604) |
| Cash flows from investing activities: | | |
| Proceeds from sale and maturities of investments | 235,859,543 | 193,786,016 |
| Interest received on investments | 2,018,045 | 2,891,439 |
| Purchases of investments | (385,926,939) | (193,786,016) |
| Gain on amounts held in State Treasury | — | 3,804,400 |
| Net cash provided by (used in) investing activities | (148,049,351) | 6,695,839 |
| Net increase (decrease) in cash and cash equivalents | (800,925) | 64,463,256 |
| Cash and cash equivalents – beginning of year | 1,094,432,081 | 1,029,968,825 |
| Cash and cash equivalents – end of year | \$ 1,093,631,156 | 1,094,432,081 |

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

| | 2014 | 2013 |
|--|-----------------|-------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income (loss) | \$ (16,990,946) | 21,048,165 |
| Adjustments to reconcile operating income (loss) to net cash provided operating activities: | | |
| Depreciation | 87,233,189 | 92,231,177 |
| Bad debt expense (recovery) | (722,428) | 580,495 |
| Overpayment of airport use charge to be transferred to the prepaid airport use charge fund | 6,386,194 | 125,854 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 108,113 | 1,184,950 |
| Aviation fuel tax receivable | (37,782) | 33,239 |
| Due from State of Hawaii | 19,770 | (39,991) |
| Inventory of materials and supplies | (27,955) | 47,088 |
| Vouchers payable | (1,635,874) | 248,626 |
| Contracts payable | 965,006 | 296,112 |
| Unearned income | 1,171,956 | 1,159,374 |
| Accrued wages | 1,301,825 | (149,196) |
| Postemployment liability | 10,244,063 | 13,652,266 |
| Pollution remediation liability | 146,335 | (289,179) |
| Prepaid airport use charge fund | — | (7,445,001) |
| Security deposits | 347,782 | 964,258 |
| Customer advance | (952,601) | — |
| Other current liabilities | 1,945,178 | 186 |
| Net cash provided by operating activities | \$ 89,501,825 | 123,648,423 |
| 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 | \$ 970,000 | 905,000 |
| Interest payments on special facility revenue bonds by trustee | 1,808,281 | 1,871,631 |
| Amortization of revenue bond premium | (4,439,088) | (5,186,101) |
| Amortization of certificates of participation premium | (878,404) | — |
| Amortization of deferred loss on refunding revenue bonds | 1,184,164 | 1,350,481 |
| At June 30, 2014 and 2013, contracts payable included \$40,224,388 and \$17,477,688, respectively, for the acquisition of capital assets. | | |
| During fiscal year 2014 and 2013, interest of \$15,457,800 and \$12,235,536, respectively, was capitalized in capital assets. | | |
| During fiscal year 2014 and 2013, capital assets with a net book value of \$1,662,672 and \$0, 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 agreements. | | |
| During fiscal year 2014, the prepaid airport use charge fund was decreased by \$19,000,000 for a transfer to the Airports Division to offset the signatory airline requirement for fiscal year 2014. | | |

See accompanying notes to financial statements.

**DEPARTMENT OF TRANSPORTATION
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(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2014 and 2013

(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.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
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Notes to Financial Statements

June 30, 2014 and 2013

(e) *Rental Car Customer Facility Charge*

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of \$4.50 a day on all u-drive rentals at a state airport. 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.

(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, 2014 was as follows: current – \$17,245,696; 30 days – (\$101,327); 60 days – \$672,307; and over 90 days – (\$273,986). 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.

(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

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Notes to Financial Statements

June 30, 2014 and 2013

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:

| <u>Class of assets</u> | <u>Estimated useful lives</u> | <u>Capitalization threshold</u> |
|-------------------------|-------------------------------|---------------------------------|
| 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

Bond issue costs, with the exception of prepaid insurance costs, are recognized as an outflow of resources (expense) in the period when the debt is issued. Prepaid insurance costs are capitalized and amortized over the lives of the related debt issues using the effective-interest method.

(m) Bond Original Issue Discount or Premium

Original issue discount or premium 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.

(n) Deferred Loss on Refundings

Deferred loss on refundings are amortized using the effective-interest method over the terms of the respective issues and are reflected as a deferred outflow of resources on the statements of net position. Deferred outflows of resources represent consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

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Notes to Financial Statements

June 30, 2014 and 2013

(o) *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.

(p) *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.

(q) *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 16. 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.

(r) *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.

(s) *Recently Issued Accounting Standards*

Effective July 1, 2013, the Airports Division implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is 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 requirements of GASB Statement No. 65 caused the Airports Division to restate certain prior year net positions by the amount of the unamortized bond issue costs, as these costs should now be recognized as an expense in the period incurred.

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Notes to Financial Statements

June 30, 2014 and 2013

The following table provides a reconciliation of net position at June 30, 2012, as previously reported, to net position at June 30, 2012, as restated.

| | |
|---|------------------|
| Net position at June 30, 2012, as previously reported | \$ 1,776,543,759 |
| Reduction of unamortized bond issue costs | (4,408,531) |
| | \$ 1,772,135,228 |
| Net position at June 30, 2012, as restated | \$ 1,772,135,228 |

Effective July 1, 2013, the Airports Division implemented the provisions of GASB Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statement No. 10 and No. 62*, which is effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. This Statement did not have a material impact on the Airport Division’s financial statements for the fiscal year ended June 30, 2014.

In June 2013, 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 15, 2014. The Airports Division has not yet determined the impact of this Statement on its financial statements and disclosures.

Effective July 1, 2013, the Airports Division implemented the provisions of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is effective for financial statements for periods beginning after June 15, 2013. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. The implementation of GASB Statement No. 70 does not have a material impact on the financial statements for the fiscal year ended June 30, 2014.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68. The Airports Division has not yet determined the impact of this Statement on its financial statements and disclosures.

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Notes to Financial Statements

June 30, 2014 and 2013

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2014 and 2013 consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|-------------------------|----------------------|
| Petty cash | \$ 4,765 | 4,765 |
| Amounts held in State Treasury | 1,093,626,391 | 1,094,427,316 |
| Certificates of deposit | 96,893,008 | 78,594,282 |
| Repurchase agreements | — | 18,298,726 |
| Money market funds | <u>150,067,396</u> | <u>—</u> |
| | <u>\$ 1,340,591,560</u> | <u>1,191,325,089</u> |

Such amounts are reflected in the statements of net position at June 30, 2014 and 2013 as follows:

| | <u>2014</u> | <u>2013</u> |
|--|-------------------------|----------------------|
| Cash and cash equivalents: | | |
| Unrestricted | \$ 569,949,289 | 571,171,775 |
| Restricted | <u>523,681,867</u> | <u>523,260,306</u> |
| Total cash and cash equivalents | 1,093,631,156 | 1,094,432,081 |
| Investments – restricted | 96,893,008 | 96,893,008 |
| Investments – held by certificate of participation funds – trustee | <u>150,067,396</u> | <u>—</u> |
| Total cash and cash equivalents and investments | <u>\$ 1,340,591,560</u> | <u>1,191,325,089</u> |

(a) Amounts Held in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is required to be 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, 2014 and 2013, 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 \$1,093,626,391 and \$1,094,427,316, respectively. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by \$3,804,400 during the year ended June 30, 2013.

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

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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 under collateralized 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, 2013 is summarized in the table below (amounts in thousands):

| | Fair value | Less than 1 | Maturity (in years) | |
|-----------------------------------|---------------------|------------------|---------------------|----------------|
| | | | 1-5 | >5 |
| Investments – primary government: | | | | |
| Certificates of deposit | \$ 976,243 | 878,619 | 97,624 | — |
| U.S. government securities | 1,092,462 | 567,854 | 320,667 | 203,941 |
| Repurchase agreements | 255,683 | 219,887 | 35,796 | — |
| | <u>\$ 2,324,388</u> | <u>1,666,360</u> | <u>454,087</u> | <u>203,941</u> |
| Investments – fiduciary funds: | | | | |
| Certificates of deposit | \$ 166,308 | 149,677 | 16,631 | — |
| U.S. government securities | 186,106 | 99,614 | 50,716 | 35,776 |
| Repurchase agreements | 43,557 | 37,459 | 6,098 | — |
| | <u>\$ 395,971</u> | <u>286,750</u> | <u>73,445</u> | <u>35,776</u> |

Information relating to the State's investment pool at June 30, 2014 will be included in the comprehensive annual financial report of the State when issued.

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(b) Investments

At June 30, 2014 and 2013, the Airports Division's investments consisted of money market funds, 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.

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(4) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 consist of the following:

| | Balance, June 30, 2013 | Increases | Decreases | Transfers | Balance, June 30, 2014 |
|--|-----------------------------------|---------------------|--------------------|---------------------|-----------------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 300,248,125 | — | — | 15,462,222 | 315,710,347 |
| Land improvements | 26,681,609 | — | — | 4,560,048 | 31,241,657 |
| Construction in progress | 377,086,413 | 221,160,731 | (429,947) | (92,176,524) | 505,640,673 |
| Total capital assets not being depreciated | <u>704,016,147</u> | <u>221,160,731</u> | <u>(429,947)</u> | <u>(72,154,254)</u> | <u>852,592,677</u> |
| Capital assets being depreciated: | | | | | |
| Land improvements | 936,995,350 | — | (784) | 42,302,569 | 979,297,135 |
| Buildings and improvements | 1,697,220,871 | 32 | (1,188,000) | 28,286,498 | 1,724,319,401 |
| Machinery and equipment | 279,874,339 | 1,489,337 | (866,499) | 1,648,864 | 282,146,041 |
| Total capital assets being depreciated | <u>2,914,090,560</u> | <u>1,489,369</u> | <u>(2,055,283)</u> | <u>72,237,931</u> | <u>2,985,762,577</u> |
| Less accumulated depreciation: | | | | | |
| Land improvements | (709,837,077) | (23,180,860) | 784 | — | (733,017,153) |
| Buildings and improvements | (940,458,936) | (46,985,556) | 59,400 | — | (987,385,092) |
| Machinery and equipment | (179,204,287) | (17,066,773) | 837,829 | (75,455) | (195,508,686) |
| Total depreciation | <u>(1,829,500,300)</u> | <u>(87,233,189)</u> | <u>898,013</u> | <u>(75,455)</u> | <u>(1,915,910,931)</u> |
| Capital assets being depreciated, net | <u>1,084,590,260</u> | | | | <u>1,069,851,646</u> |
| Total capital assets | <u>\$ 1,788,606,407</u> | | | | <u>1,922,444,323</u> |

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| | <u>Balance, June 30, 2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Balance, June 30, 2013</u> |
|--|-----------------------------------|---------------------|--------------------|----------------------|-----------------------------------|
| 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 | <u>692,840,162</u> | <u>123,284,939</u> | <u>(11,677)</u> | <u>(112,097,277)</u> | <u>704,016,147</u> |
| 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 | <u>2,799,581,851</u> | <u>3,778,852</u> | <u>(1,301,567)</u> | <u>112,031,424</u> | <u>2,914,090,560</u> |
| 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 | <u>(1,738,636,543)</u> | <u>(92,231,177)</u> | <u>1,301,567</u> | <u>65,853</u> | <u>(1,829,500,300)</u> |
| Capital assets being depreciated, net | <u>1,060,945,308</u> | | | | <u>1,084,590,260</u> |
| Total capital assets | <u>\$ 1,753,785,470</u> | | | | <u>1,788,606,407</u> |

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2014 and 2013 is as follows:

| | <u>Balance, June 30, 2013</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance, June 30, 2014</u> | <u>Current</u> | <u>Noncurrent</u> |
|--|-----------------------------------|--------------------|---------------------|-----------------------------------|-------------------|----------------------|
| Workers' compensation (note 16) | \$ 4,000,000 | 1,485,594 | (1,224,062) | 4,261,532 | 960,961 | 3,300,571 |
| Compensated absences | 9,590,419 | 5,304,068 | (4,775,314) | 10,119,173 | 3,244,303 | 6,874,870 |
| Customer advances (note 15) | 952,601 | — | (952,601) | — | — | — |
| Prepaid airport use charge fund (notes 8 and 17) | 40,797,541 | 6,386,194 | (19,000,000) | 28,183,735 | 1,091,861 | 27,091,874 |
| Postemployment liability (note 13) | 54,343,599 | 15,507,713 | (5,263,650) | 64,587,662 | — | 64,587,662 |
| Airports system revenue bonds (note 6) | 941,702,301 | — | (44,744,088) | 896,958,213 | 34,210,000 | 862,748,213 |
| Lease revenue certificates of participation (note 7) | — | 174,649,327 | (878,404) | 173,770,923 | — | 173,770,923 |
| Special facility revenue bonds (note 8) | 30,100,000 | — | (970,000) | 29,130,000 | 1,030,000 | 28,100,000 |
| | <u>\$ 1,081,486,461</u> | <u>203,332,896</u> | <u>(77,808,119)</u> | <u>1,207,011,238</u> | <u>40,537,125</u> | <u>1,166,474,113</u> |

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| | <u>Balance, June 30, 2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance, June 30, 2013</u> | <u>Current</u> | <u>Noncurrent</u> |
|---|-----------------------------------|-------------------|---------------------|-----------------------------------|-------------------|----------------------|
| Workers' compensation (note 16) | \$ 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 |
| Customer advances (note 15) | 952,601 | — | — | 952,601 | — | 952,601 |
| Prepaid airport use charge fund (notes 8 and 17) | 48,116,688 | 125,854 | (7,445,001) | 40,797,541 | 2,865,353 | 37,932,188 |
| Postemployment liability (note 13) | 40,691,333 | 18,789,218 | (5,136,952) | 54,343,599 | — | 54,343,599 |
| Airports system revenue bonds (note 6) | 974,433,402 | — | (32,731,101) | 941,702,301 | 40,305,000 | 901,397,301 |
| Special facility revenue bonds (note 8) | 31,005,000 | — | (905,000) | 30,100,000 | 970,000 | 29,130,000 |
| | <u>\$ 1,108,660,850</u> | <u>24,388,626</u> | <u>(51,563,015)</u> | <u>1,081,486,461</u> | <u>47,995,911</u> | <u>1,033,490,550</u> |

(6) Airports System Revenue Bonds

In 1969, the Director issued the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (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

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- 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, 2014 and 2013, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2014 and 2013, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net position) consisted of the following:

| | 2014 | 2013 |
|---|----------------|-------------|
| Debt service reserve account | \$ 96,893,008 | 96,893,008 |
| RHB Debt extinguishment | 155,013 | 775,065 |
| Major maintenance, renewal, and replacement account | 59,898,925 | 59,980,198 |
| | 156,946,946 | 157,648,271 |
| Principal and interest due July 1 | 55,726,991 | 62,598,666 |
| | \$ 212,673,937 | 220,246,937 |

At June 30, 2014 and 2013, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was \$662,157,129 and \$1,310,792,291, 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.

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The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2014 and 2013:

| Series | Interest rate | Final maturity date (July 1) | Original amount of issue | Outstanding amount | |
|-------------------------|---------------|------------------------------|--------------------------|-----------------------|---------------------|
| | | | | 2014 | 2013 |
| 2010A, refunding | 2.00%–5.25% | 2039 | \$ 478,980,000 | 478,090,000 | 478,395,000 |
| 2010B, refunding | 3.00%–5.00% | 2020 | 166,000,000 | 135,750,000 | 150,750,000 |
| 2011, refunding | 2.00%–5.00% | 2024 | 300,885,000 | 263,885,000 | 288,885,000 |
| | | | <u>\$ 945,865,000</u> | 877,725,000 | 918,030,000 |
| Add unamortized premium | | | | 19,233,213 | 23,672,301 |
| Less: | | | | | |
| Current portion | | | | <u>(34,210,000)</u> | <u>(40,305,000)</u> |
| Noncurrent portion | | | | <u>\$ 862,748,213</u> | <u>901,397,301</u> |

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

| | Principal | Interest | Total |
|-------------------------|-----------------------|--------------------|----------------------|
| Year(s) ending June 30: | | | |
| 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 |
| 2020–2024 | 246,445,000 | 139,769,988 | 386,214,988 |
| 2025–2029 | 102,265,000 | 91,810,879 | 194,075,879 |
| 2030–2034 | 131,540,000 | 62,527,420 | 194,067,420 |
| 2035–2039 | 167,975,000 | 26,090,885 | 194,065,885 |
| | <u>\$ 843,515,000</u> | <u>511,127,577</u> | <u>1,354,642,577</u> |

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- 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, 2014 of \$34,210,000 and \$21,516,991, respectively.

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The following is a summary of interest costs incurred for the years ended June 30, 2014 and 2013 and the allocation thereof:

| | 2014 | 2013 |
|-------------------------------|---------------|-------------|
| Expensed as incurred | \$ 24,855,268 | 28,516,182 |
| Capitalized in capital assets | 14,923,796 | 12,235,536 |
| | \$ 39,779,064 | 40,751,718 |

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) Lease Revenue Certificates of Participation

The Airports Division entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of \$167,740,000 at interest rates ranging from 3 to 5.25%. These lease revenue certificates of participation are payable from revenues derived by the Airports Division from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State of Hawaii. At June 30, 2014, the outstanding balance of the lease revenue certificates of participation and the unamortized premium are \$167,740,000 and \$6,030,923, respectively.

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The Lease requires the Airports Division to make payments 15 days prior to the principal and interest dates under the lease revenue certificates of participation on July 15 and January 15. The schedule of lease rent payments for the lease revenue certificates of participation are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|-----------------------|-------------------|--------------------|
| Year(s) ending June 30: | | | |
| 2015 | \$ — | 9,316,420 | 9,316,420 |
| 2016 | — | 8,343,063 | 8,343,063 |
| 2017 | 4,745,000 | 8,271,887 | 13,016,887 |
| 2018 | 5,675,000 | 8,058,838 | 13,733,838 |
| 2019 | 6,490,000 | 7,787,162 | 14,277,162 |
| 2020–2024 | 52,615,000 | 32,413,188 | 85,028,188 |
| 2025–2029 | 98,215,000 | 13,556,868 | 111,771,868 |
| | <u>\$ 167,740,000</u> | <u>87,747,426</u> | <u>255,487,426</u> |

(8) Leases

(a) *Airport-Airline Lease Agreement*

Airports Division

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

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

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(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 17).

Aviation Fuel Tax

The aviation fuel tax amounted to \$4,847,008 and \$4,673,766 for fiscal years 2014 and 2013, 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 \$56,904,147 and \$63,800,325 for fiscal years 2014 and 2013. Airport landing fees are shown net of aviation fuel tax credits of \$3,974,282 and \$3,926,357 for fiscal years 2014 and 2013, respectively, on the statements of revenues, expenses, and changes in net position, which resulted in net airport landing fees of \$52,929,865 and \$59,873,968 for fiscal years 2014 and 2013, 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 42% and 41% of the airport landing

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fees for overseas flights for fiscal years 2014 and 2013, 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 enplaning or deplaning passenger. Nonexclusive joint-use premise charges for terminal rentals amounted to \$53,857,054 and \$54,838,168 for fiscal years 2014 and 2013, respectively.

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 \$40,038,747 and \$48,521,342 for fiscal years 2014 and 2013, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to \$20,452,433 and \$29,323,427 for fiscal years 2014 and 2013, respectively.

Airports system support charges amounted to \$1,468 for fiscal year 2013, 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 two special facility lease agreements with Continental Airlines, Inc. in November 1997 and July 2000. 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 and \$16,600,000, 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.

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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, 2014:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|----------------------|-------------------|-------------------|
| Year(s) ending June 30: | | | |
| 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 | — | 1,222,031 | 1,222,031 |
| 2020–2024 | — | 6,110,156 | 6,110,156 |
| 2025–2028 | 21,725,000 | 4,277,110 | 26,002,110 |
| | <u>\$ 21,725,000</u> | <u>16,497,421</u> | <u>38,222,421</u> |

\$16,600,000 Issue

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

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

The bonds bear interest at 7% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2014:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|---------------------|------------------|------------------|
| Year(s) ending June 30: | | | |
| 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 | 1,360,000 | 196,000 | 1,556,000 |
| 2020 | 1,440,000 | 100,800 | 1,540,800 |
| | <u>\$ 7,405,000</u> | <u>1,915,550</u> | <u>9,320,550</u> |

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Special facility revenue bonds payable at June 30, 2014 and 2013 consisted of the following:

| | <u>Continental</u> | <u>Total</u> |
|--------------------|---------------------|-------------------|
| 2014: | | |
| Current portion | \$ 1,030,000 | 1,030,000 |
| Noncurrent portion | 6,375,000 | 21,725,000 |
| | <u>\$ 7,405,000</u> | <u>21,725,000</u> |
| 2013: | | |
| Current portion | \$ 970,000 | 970,000 |
| Noncurrent portion | 7,405,000 | 21,725,000 |
| | <u>\$ 8,375,000</u> | <u>21,725,000</u> |

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

Net investments in direct financing leases at June 30, 2014 and 2013 consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|-------------------|
| Cash with bond fund trustee | \$ 3,203,623 | 3,203,609 |
| Receivable from lessees, net of unearned interest of \$18,217,022 and \$20,001,390 | 25,926,377 | 26,896,391 |
| Interest receivable | 195,950 | 201,608 |
| | <u>\$ 29,325,950</u> | <u>30,301,608</u> |

(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.

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The future minimum rentals from these operating leases at June 30, 2014 are as follows:

| Year(s) ending June 30: | |
|-------------------------|-----------------------|
| 2015 | \$ 118,761,028 |
| 2016 | 66,983,528 |
| 2017 | 57,935,355 |
| 2018 | 24,533,480 |
| 2019 | 21,778,664 |
| 2020–2024 | 42,652,253 |
| 2025–2029 | 24,871,323 |
| 2030–2034 | 11,652,056 |
| 2035–2039 | 10,531,959 |
| Thereafter | <u>9,831,059</u> |
| | <u>\$ 389,530,705</u> |

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 2014 and 2013 were \$31,693,459 and \$47,311,605, 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 \$151,559 at June 30, 2014 is due as follows: 2015 – \$60,517; 2016 – \$8,400; 2017 – \$8,400; and thereafter – \$74,242.

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 24% and 27% of total concession fee revenues for fiscal years 2014 and 2013, 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

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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 scheduled to terminate 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 preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period the minimum annual guarantee rent is \$12 million. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the minimum annual guarantee rent for the period April 1, 2015 through March 31, 2016 be \$12 million and for each subsequent year, the minimum annual guarantee rent will be 85% of the actual annual fee paid for the preceding year.

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(9) Passenger Facility Charges

Passenger facility charge activity for the years ended June 30, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|---------------------|
| Restricted assets – passenger facility charges, beginning of year | \$ 105,835,982 | 87,205,624 |
| Passenger facility charges during the year | 34,371,317 | 35,142,089 |
| Interest earned on passenger facility charges during the year | 306,153 | 190,698 |
| Capital expenditures during the year | <u>(7,387,253)</u> | <u>(16,702,429)</u> |
| Restricted assets – passenger facility charges, end of year | <u>\$ 133,126,199</u> | <u>105,835,982</u> |

Restricted assets – passenger facility charges are presented on the statements of net position as of June 30, 2014 and 2013 as follows:

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|--------------------|
| Cash and cash equivalents | \$ 129,472,670 | 102,109,478 |
| Receivable | <u>3,653,529</u> | <u>3,726,504</u> |
| Total restricted assets – passenger facility charges | <u>\$ 133,126,199</u> | <u>105,835,982</u> |

(10) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the years ended June 30, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|---------------------|
| Restricted assets – rental car customer facility charge, beginning of year | \$ 83,402,787 | 45,409,710 |
| Rental car customer facility charges during the year | 53,923,545 | 55,578,560 |
| Interest earned on rental car customer facility charges during the year | 261,133 | 132,324 |
| Capital expenditures during the year | <u>(5,671,985)</u> | <u>(17,717,807)</u> |
| Restricted assets – rental car customer facility charges, end of year | <u>\$ 131,915,480</u> | <u>83,402,787</u> |

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Restricted assets – rental car customer facility charges are presented on the statements of net position as of June 30, 2014 and 2013 as follows:

| | 2014 | 2013 |
|---|----------------|-------------|
| Cash and cash equivalents | \$ 127,793,511 | 78,164,592 |
| Receivable | 4,121,969 | 5,238,195 |
| Total restricted assets – rental car customer facility charges | \$ 131,915,480 | 83,402,787 |

(11) 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.

(12) 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.

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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 of 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%.

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The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial-cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts 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, 2014, 2013, and 2012 were \$9,030,263, \$8,647,308, and \$7,683,738, respectively, which represented 17.53%, 18.60%, and 16.05% 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

(13) 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.

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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.

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, 2014 and 2013 was \$5,263,650 and \$5,136,952, respectively, which represented 34% and 27%, respectively, of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of \$15,507,713 and \$18,789,218.

The following is a summary of changes in postemployment liability during the fiscal years ended June 30, 2014 and 2013:

| | | |
|--------------------------|----|-------------|
| Balance at June 30, 2013 | \$ | 54,343,599 |
| Additions | | 15,507,713 |
| Deletions | | (5,263,650) |
| Balance at June 30, 2014 | \$ | 64,587,662 |
| | | |
| Balance at June 30, 2012 | \$ | 40,691,333 |
| Additions | | 18,789,218 |
| Deletions | | (5,136,952) |
| Balance at June 30, 2013 | \$ | 54,343,599 |

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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

(14) 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 \$12,260,909 and \$12,473,628 in fiscal years 2014 and 2013, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to \$6,554,622 and \$5,445,497 in fiscal years 2014 and 2013, respectively. During fiscal years 2014 and 2013, the Airports Division received assessment refunds from the DOT amounting to \$1,336,777 and \$1,382,000, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

During fiscal years 2014 and 2013, revenues received from other state agencies totaled \$1,600,328 and \$1,604,614, and expenditures to other state agencies totaled \$8,174,647 and \$8,221,702, respectively.

(15) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2014 and 2013 was \$21,160,766 and \$19,720,758, 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.

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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 \$1,354,642,577. In fiscal year 2014, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were \$83,338,988 and \$94,172,417, 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 year. Accordingly, the amount had been recorded as a noncurrent customer advance on the statements of net position at June 30, 2013.

At June 30, 2014, the Airports Division has commitments totaling approximately \$388,866,157 for construction and service contracts.

(16) 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 16.

(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.

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(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, 2014 and 2013, the workers' compensation reserve was \$4,261,532 and \$4,000,000, of which \$960,961 and \$869,295 is included in current liabilities (payable from unrestricted net assets) and \$3,300,571 and \$3,130,705, respectively, is included in long-term liabilities in the accompanying statements of net position at June 30, 2014 and 2013. In the opinion of management, the Airports Division has adequately reserved for such claims.

(17) 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, 2014 and 2013, 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

On November 15, 2010, the State reached a settlement with the Airlines Committee of Hawaii (ACH), on behalf of many of the signatory airlines under which the Airports Division transferred an overpayment of airports system charges 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

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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 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.

In fiscal year 2014, the PAUCF was decreased by \$19,000,000 for a transfer to the Airports Division to offset the signatory airline requirement for fiscal year 2014. The PAUCF was increased by \$6,386,194 due to an overpayment for fiscal year 2014. The PAUCF liability at June 30, 2014 was \$28,183,735.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the DOT was required to pay a \$1 million fine. The Airports Division's allocated share of the fine was \$400,000, which was paid in February 2006. In addition, the Department is expected to expend an additional \$1,096,480 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(18) Subsequent Events

In August 2014, the State, acting through the DOT, entered into a loan agreement with Hawaii Regional Center, LP I and Hawaii Regional Center, LP II (together, the Lenders), with CanAM HI GP I, LLC. acting as the agent of the Lenders. The Lenders were created to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) created according to legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is \$76 million. The EB-5 loan is the first series of obligations issued under an Indenture of Trust between the State, acting through the DOT and MUFG Union Bank, N.A., as Trustee, and is payable solely from Trust Estate, with Customer Facility Charges being the primary component. The EB-5 loan is not payable from Revenues and Aviation Fuel Taxes, which the DOT has pledged for the repayment of Airports System Revenue Bonds issued under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.

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

Notes to Financial Statements

June 30, 2014 and 2013

The Airports Division has evaluated subsequent events from the balance sheet date through December 15, 2014, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

**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, 2014

| | Airports | | | | | | | |
|--|----------------|--------------|---------------------------|-----------------------|-------------------------------------|------------|------------|------------|
| | Total | Statewide | Honolulu International | Hilo International | Kona International at Keahole | Kahului | Lihue | |
| Operating revenues: | | | | | | | | |
| Concession fees | \$ 143,569,533 | — | 84,270,496 | 3,156,342 | 13,379,573 | 29,362,638 | 13,094,262 | 306,222 |
| Airport landing fees | 52,929,865 | — | 36,761,355 | 1,255,039 | 3,279,922 | 7,999,355 | 3,175,474 | 458,720 |
| Aeronautical rentals: | | | | | | | | |
| Nonexclusive joint-use premise charges | 53,857,054 | — | 40,931,179 | 948,390 | 2,029,216 | 7,627,177 | 2,321,092 | — |
| Exclusive-use premise charges | 40,038,747 | — | 29,344,819 | 968,987 | 1,456,808 | 5,681,062 | 2,135,467 | 451,604 |
| Nonaeronautical rentals | 14,467,101 | — | 8,875,324 | 396,636 | 1,130,156 | 2,970,747 | 1,032,108 | 62,130 |
| Aviation fuel tax | 4,847,008 | — | 3,366,391 | 114,929 | 300,356 | 732,534 | 290,791 | 42,007 |
| Miscellaneous | 7,414,011 | 906,501 | 4,417,873 | 98,611 | 634,727 | 582,558 | 665,787 | 107,954 |
| | 317,123,319 | 906,501 | 207,967,437 | 6,938,934 | 22,210,758 | 54,956,071 | 22,714,981 | 1,428,637 |
| Allocation of statewide miscellaneous revenues (note 1) | — | (906,501) | 615,413 | 13,736 | 88,418 | 81,151 | 92,745 | 15,038 |
| Net operating revenues | \$ 317,123,319 | — | 208,582,850 | 6,952,670 | 22,299,176 | 55,037,222 | 22,807,726 | 1,443,675 |
| Operating expenses other than depreciation: | | | | | | | | |
| Salaries and wages | \$ 82,780,481 | 18,124,050 | 31,503,957 | 5,162,090 | 5,735,773 | 8,854,069 | 6,388,845 | 7,011,697 |
| Other personnel services | 50,588,123 | 2,111,537 | 29,160,753 | 3,492,554 | 4,030,030 | 4,645,177 | 4,719,639 | 2,428,433 |
| Utilities | 48,882,258 | 2,728,547 | 33,966,087 | 1,375,240 | 2,383,999 | 5,184,170 | 2,254,935 | 989,280 |
| Repairs and maintenance | 29,270,148 | 10,354,403 | 13,421,815 | 784,786 | 992,933 | 2,327,621 | 891,959 | 496,631 |
| State of Hawaii surcharge on gross receipts (note 2) | 12,260,909 | 12,260,909 | — | — | — | — | — | — |
| Department of Transportation general administration expenses | 6,554,622 | 6,554,622 | — | — | — | — | — | — |
| Materials and supplies | 6,304,085 | 271,653 | 3,383,580 | 520,243 | 492,112 | 683,476 | 612,332 | 340,689 |
| Special maintenance | 4,458,960 | 2,915,290 | 496,326 | 5,668 | 253,767 | (231) | 485,228 | 302,912 |
| Insurance | 2,411,856 | 2,411,856 | — | — | — | — | — | — |
| Claims and benefits | 1,543,735 | 277,028 | 694,455 | 23,416 | 152,341 | 262,771 | 78,494 | 55,230 |
| Travel | 430,565 | 129,421 | 80,866 | 40,423 | 41,099 | 46,395 | 41,095 | 51,266 |
| Communication | 378,745 | 74,087 | 73,821 | 48,880 | 26,652 | 48,933 | 45,346 | 61,026 |
| Rent | 337,687 | 87,237 | 152,138 | 12,597 | 23,493 | 22,511 | 22,597 | 17,114 |
| Dues and subscriptions | 299,347 | 296,528 | 1,275 | — | 576 | 675 | 293 | — |
| Freight and delivery | 19,899 | 13,574 | 743 | 3,103 | 466 | 1,108 | 104 | 801 |
| Printing and advertising | 5,954 | 5,319 | — | 635 | — | — | — | — |
| Bad debt expense (note 3) | — | — | — | — | — | — | — | — |
| Miscellaneous | 353,702 | 101,070 | 112,882 | 91,243 | 26,415 | 1,447 | 11,196 | 9,449 |
| | 246,881,076 | 58,717,131 | 113,048,698 | 11,560,878 | 14,159,656 | 22,078,122 | 15,552,063 | 11,764,528 |
| Allocation of statewide expenses (note 4) | — | (58,717,131) | 35,277,190 | 3,607,607 | 4,418,564 | 6,889,545 | 4,853,068 | 3,671,157 |
| Total operating expenses other than depreciation for net revenues and taxes | 246,881,076 | — | 148,325,888 | 15,168,485 | 18,578,220 | 28,967,667 | 20,405,131 | 15,435,685 |
| Disbursements out of major maintenance, renewal, and replacement account not included above | — | — | — | — | — | — | — | — |
| Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net position. | \$ 246,881,076 | — | 148,325,888 | 15,168,485 | 18,578,220 | 28,967,667 | 20,405,131 | 15,435,685 |

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.

**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, 2014

| | | |
|---|----|--------------------------|
| Revenues and taxes: | | |
| Concession fees | \$ | 143,569,533 |
| Airport landing fees | | 52,929,865 |
| Aeronautical rentals: | | |
| Nonexclusive joint-use premise charges | | 53,857,054 |
| Exclusive-use premise charges | | 40,038,747 |
| Nonaeronautical rentals | | 14,467,101 |
| Aviation fuel tax | | 4,847,008 |
| Interest income, exclusive of interest on investments in direct financing leases and including interest income of \$197,068 on capital improvement projects | | 2,064,139 |
| Federal operating grants | | 2,656,113 |
| Miscellaneous | | 7,414,011 |
| Total revenues and taxes | | <u>321,843,571</u> |
| Deductions: | | |
| Operating expenses other than depreciation for net revenues and taxes (schedule 1) | | 246,881,076 |
| Annual reserve required on major maintenance, renewal, and replacement account | | 101,075 |
| Total deductions | | <u>246,982,151</u> |
| Net revenues and taxes | | 74,861,420 |
| Add funded coverage per bond certificate | | <u>19,310,997</u> |
| Adjusted net revenues and taxes | | <u>94,172,417</u> |
| Debt service requirement: | | |
| Airports system revenue bonds: | | |
| Principal | | 34,210,000 |
| Interest (note 1) | | 42,413,938 |
| Total debt service | | <u>76,623,938</u> |
| Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2) | | <u>(19,000,000)</u> |
| Total debt service requirement | | 57,623,938 |
| Debt service coverage percentage | | <u>125%</u> |
| Total debt service with coverage requirement | | <u>72,029,923</u> |
| Excess of net revenues and taxes over debt service requirement | \$ | <u><u>22,142,494</u></u> |

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.
- (2) In fiscal year 2014, the Airports Division transferred \$19,000,000 of available funds from the Prepaid Airport Use Charge Fund into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required to be deposited to the interest account, pursuant to the provisions of Section 6.01 in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds." The Prepaid Airport Use Charge Fund (See notes 7 and 17) are amounts owed to the signatory airlines, and the transfer of \$19,000,000 in lieu of payment, was agreed to by the Airlines Committee of Hawaii, Inc. a Hawaii corporation representing the majority of signatory airlines operating at the Hawaii Airports System.

See accompanying independent auditors' report.

**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, 2014

| | Annual principal and interest requirements | | |
|----------------------|---|--------------------|----------------------|
| | Airports system revenue bonds | | |
| | Principal | Interest | Total |
| Year ending June 30: | | | |
| 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 | \$ <u>843,515,000</u> | <u>511,127,577</u> | <u>1,354,642,577</u> |

Note:

For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12 – 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, 2014.

See accompanying independent auditors' report.

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds
June 30, 2014

| Year ending June 30: | 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 |
|----------------------|--|--|---|--------------------|--------------------|-----------------------|
| 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 | \$ <u>477,780,000</u> | <u>121,950,000</u> | <u>243,785,000</u> | <u>843,515,000</u> | <u>511,127,577</u> | <u>1,354,642,577</u> |

Note:

For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12 – 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, 2014.

See accompanying independent auditors' report.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)
Airports System Charges – Fiscal Year 2008 Lease Extension
Year ended June 30, 2014

| | Airline activity | | | | Airports system charges | | | | | | | | | | | Exclusive-use premise charges – terminal space | Total | | | |
|---|---|----------------------------------|--|-----------------------------|--|---|--|--|------------------------------------|--|---|---|--|--|---------------------|--|-------|------------|-------------|-----------|
| | 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 baggage make up | 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 | | | | | |
| Signatory airlines: | | | | | | | | | | | | | | | | | | | | |
| Acko Kula, Inc. | 962,754 | — | — | \$ 1,184,188 | — | — | — | — | — | — | — | — | — | — | — | — | — | 118,284 | 1,302,472 | |
| Air Canada | 174,080 | 544 | — | 508,313 | — | 190,678 | 190,787 | 46,039 | — | — | — | — | — | — | — | — | — | 552,091 | 1,487,908 | |
| Air China Limited | 27,628 | 69 | 10,198 | 80,673 | — | — | 11,140 | 10,279 | — | — | — | — | — | 54,049 | — | — | — | — | 156,141 | |
| Air Japan Co., Ltd. | 77,440 | 242 | 45,751 | 226,125 | — | — | 50,745 | 46,821 | — | — | — | — | — | 242,480 | — | — | — | — | 566,171 | |
| Air New Zealand, Ltd. | 58,659 | 165 | 33,203 | 171,284 | — | — | 38,677 | 35,686 | — | — | — | — | — | 175,976 | — | — | — | — | 451,623 | |
| Air Pacific, Ltd. | 21,664 | 156 | 16,477 | 63,259 | — | — | 16,015 | 14,777 | — | — | — | — | — | 87,328 | — | — | — | — | 181,379 | |
| Alaska Airlines, Inc. | 1,113,837 | 7,719 | — | 3,252,402 | — | 1,952,566 | 904,155 | 397,271 | — | — | — | — | — | — | — | 499,937 | — | 619,911 | 7,626,242 | |
| All Nippon Airways Co., Ltd. | 121,660 | 371 | 76,529 | 355,247 | — | — | 355,247 | 79,108 | — | — | — | — | — | 405,604 | — | — | — | 4,038 | 917,232 | |
| Alegiant Air LLC | 103,356 | 522 | — | 301,800 | — | 232,765 | 123,374 | 74,372 | — | — | — | — | — | — | — | — | — | 167,142 | 899,453 | |
| American Airlines, Inc. | 1,004,618 | 4,431 | — | 2,933,485 | — | 1,513,678 | 1,228,327 | 401,393 | — | — | — | — | — | — | — | — | — | 1,372,309 | 7,449,192 | |
| Asiana Airlines, Inc. | 120,381 | 292 | 62,129 | 351,513 | — | — | 64,353 | 59,376 | — | — | — | — | — | 329,284 | — | — | — | 160,696 | 965,222 | |
| China Airlines, Ltd. | 248,972 | 472 | 127,952 | 726,998 | — | — | 138,820 | 128,085 | — | — | — | — | — | 678,146 | — | — | — | 38,862 | 1,710,911 | |
| Continental Airlines, Inc. | 740,948 | 3,400 | 17,967 | 2,163,189 | — | 1,446,998 | 883,458 | 558,391 | — | — | — | — | — | 95,225 | — | — | — | 163,557 | 5,310,818 | |
| Continental Micronesia, Inc. | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 394,625 | 394,625 |
| Delta Air Lines, Inc. | 1,718,355 | 5,833 | 407,201 | 5,017,596 | — | 1,700,550 | 1,502,625 | 951,502 | — | — | — | — | — | 2,158,165 | — | — | — | 2,029,675 | 13,360,113 | |
| Evergreen International Airlines, Inc. | 29,304 | — | — | 85,568 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 85,568 | — |
| Federal Express Corporation | 754,655 | — | — | 1,966,727 | — | — | — | — | — | — | — | — | — | — | — | — | — | 7,611 | 1,974,338 | |
| Hawaii Island Air, Inc. | 560,258 | 11,951 | — | 689,117 | — | — | — | — | — | — | — | — | — | — | — | — | — | 62,301 | 1,384,934 | |
| Hawaiian Airlines, Inc. | 9,929,976 | 70,316 | 519,312 | 17,706,682 | — | — | 1,270,017 | — | 10,097,798 | 2,777 | — | — | 229,118 | 2,752,354 | 6,229,113 | — | — | 7,971,420 | 46,030,161 | |
| Japan Airlines International Co., Ltd. | 908,241 | 2,224 | 537,617 | 2,651,050 | — | — | 580,380 | 535,261 | — | — | — | — | — | 2,849,370 | — | — | — | 1,071,368 | 7,687,429 | |
| Kalitta Air, LLC | 186,026 | — | — | 527,225 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 527,225 | — |
| Korean Airlines Company, Ltd. | 487,013 | 965 | 230,406 | 1,422,078 | — | — | 235,839 | 217,600 | — | — | — | — | — | — | — | — | — | 236,176 | 3,332,845 | |
| Mesa Airlines, Inc. | 400,487 | 8,521 | — | 492,599 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 303,986 | 1,414,311 |
| Mokulele Flight Service, Inc. | 291,873 | 34,338 | — | 359,004 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 43,424 | 433,616 |
| Pacific Wines LLC | — | 34 | — | 356 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 320 | 676 |
| Philippine Airlines, Inc. | 87,552 | 174 | 40,695 | 255,652 | — | — | 40,419 | 37,293 | — | — | — | — | — | — | — | — | — | 119,563 | 668,611 | |
| Polar Air Cargo, LLC | 666 | — | — | 1,945 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 1,945 | — |
| Qantas Airways, Ltd. | 198,264 | 169 | 33,115 | 578,931 | — | — | 38,251 | 35,293 | — | — | — | — | — | — | — | — | — | — | 432,679 | 1,260,664 |
| United Airlines, Inc. | 2,029,799 | 6,985 | 165,304 | 5,926,008 | — | 2,373,623 | 2,239,229 | 740,223 | — | (3,172) | — | — | — | 877,171 | — | — | — | 4,669,902 | 16,822,984 | |
| United Parcel Service Co. | 763,276 | — | — | 1,947,857 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 45,643 | 1,993,500 |
| US Airways, Inc. | 393,624 | 1,988 | — | 1,149,382 | — | 631,883 | 526,962 | 149,470 | — | — | — | — | — | — | — | — | — | — | 416,535 | 2,874,232 |
| WestJet | 239,448 | 1,565 | — | 699,187 | — | 390,621 | 417,667 | 80,350 | — | — | — | — | — | — | — | — | — | — | 112,416 | 1,700,241 |
| WestJet | 1,504,289 | 1,110 | 178,382 | 3,488,108 | — | 212,375 | 360,842 | — | 457 | — | — | — | — | — | — | — | — | 1,471,916 | 1,123,348 | |
| Nonsignatory airlines | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 6,657,046 |
| Total airports system charges billed | 25,259,392 | 164,556 | 2,502,438 | 57,283,548 | — | 10,645,737 | 10,941,317 | 4,592,590 | 457 | 10,379,589 | 269,898 | 302,574 | 427,772 | 13,789,414 | 6,729,050 | — | — | 22,237,882 | 137,599,828 | |
| Signatory airlines requirements | — | — | — | 53,416,041 | — | 10,257,355 | 9,996,259 | 4,233,794 | — | 8,553,396 | 283,232 | 302,574 | 427,772 | 11,597,041 | 6,160,041 | — | — | 19,329,085 | 124,556,590 | |
| Nonsignatory airlines requirements | — | — | — | 3,488,106 | — | 212,375 | 360,842 | — | 457 | — | — | — | — | — | — | — | — | — | 1,123,348 | 6,657,044 |
| Fiscal year 2014 overpayment (underpayment) | — | — | \$ | 379,401 | — | 176,007 | 584,216 | 358,796 | — | 1,826,193 | (13,334) | — | — | 720,457 | 569,009 | — | — | 1,785,449 | 6,386,194 | |

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, 2014

| | <u>Signatory airlines</u> | <u>Nonsignatory airlines</u> | <u>Total</u> |
|-----------------------------------|-------------------------------|----------------------------------|--------------------|
| Gross airport landing fees billed | \$ 53,795,439 | 3,488,109 | 57,283,548 |
| Less aviation fuel tax credit | <u>(3,737,328)</u> | <u>(236,954)</u> | <u>(3,974,282)</u> |
| Net airport landing fees billed | <u>\$ 50,058,111</u> | <u>3,251,155</u> | <u>53,309,266</u> |

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, 2014

| | Approved maximum revenue landing weights (1,000-pound units) | | | | Honolulu International Airport and Hilo International Airport Gross airport landing fees | | | | | All other airports | | | Total adjusted airport landing fees |
|--|---|----------------------------------|--------------------------|-------------------|---|----------------------------------|-------------------|--------------------------------|--|-------------------------------------|--------------------------------|--|---|
| | Honolulu International Airport | Hilo International Airport | All other airports | Total | Honolulu International Airport | Hilo International Airport | Total | Aviation fuel tax credit | Adjusted airport landing fees | Gross airport landing fees | Aviation fuel tax credit | Adjusted airport landing fees | |
| | | | | | | | | | | | | | |
| Aeko Kula, Inc | 548,534 | 114,837 | 299,383 | 962,754 | \$ 674,697 | 141,250 | 815,947 | (122,562) | 693,385 | 368,241 | — | 368,241 | 1,061,626 |
| Air Canada | 83,520 | — | 90,560 | 174,080 | 243,878 | — | 243,878 | — | 243,878 | 264,435 | — | 264,435 | 508,313 |
| Air China Limited | 27,628 | — | — | 27,628 | 80,673 | — | 80,673 | — | 80,673 | — | — | — | 80,673 |
| Air Japan Company | 77,440 | — | — | 77,440 | 226,125 | — | 226,125 | — | 226,125 | — | — | — | 226,125 |
| Air New Zealand Ltd. | 58,659 | — | — | 58,659 | 171,284 | — | 171,284 | — | 171,284 | — | — | — | 171,284 |
| Air Pacific, Ltd. | 21,664 | — | — | 21,664 | 63,259 | — | 63,259 | — | 63,259 | — | — | — | 63,259 |
| Alaska Airlines, Inc. | 391,258 | — | 722,579 | 1,113,837 | 1,142,471 | — | 1,142,471 | (587,249) | 555,222 | 2,109,931 | (76,873) | 2,033,058 | 2,588,280 |
| All Nippon Airways Co., Ltd. | 121,660 | — | — | 121,660 | 355,247 | — | 355,247 | — | 355,247 | — | — | — | 355,247 |
| Allegiant Air Llc | 87,714 | — | 15,642 | 103,356 | 256,125 | — | 256,125 | (75,896) | 180,229 | 45,675 | — | 45,675 | 225,904 |
| American Airlines, Inc. | 515,290 | — | 489,328 | 1,004,618 | 1,504,647 | — | 1,504,647 | (294,207) | 1,210,440 | 1,428,838 | — | 1,428,838 | 2,639,278 |
| Asiana Airlines, Inc. | 120,381 | — | — | 120,381 | 351,513 | — | 351,513 | — | 351,513 | — | — | — | 351,513 |
| China Airlines, Ltd. | 248,972 | — | — | 248,972 | 726,998 | — | 726,998 | — | 726,998 | — | — | — | 726,998 |
| Continental Airlines, Inc. | 696,911 | 44,036 | — | 740,947 | 2,034,603 | 128,586 | 2,163,189 | (25,967) | 2,137,222 | — | — | — | 2,137,222 |
| Delta Air Lines, Inc. | 1,433,998 | — | 284,357 | 1,718,355 | 4,187,274 | — | 4,187,274 | (138,486) | 4,048,788 | 830,322 | — | 830,322 | 4,879,110 |
| Evergreen International Airlines, Inc. | 29,304 | — | — | 29,304 | 85,568 | — | 85,568 | — | 85,568 | — | — | — | 85,568 |
| Federal Express Corporation | 673,231 | 81,424 | — | 754,655 | 1,864,084 | 102,643 | 1,966,727 | (185,152) | 1,781,575 | — | — | — | 1,781,575 |
| Hawaii Island Air, Inc. | 274,982 | 188 | 285,088 | 560,258 | 338,227 | 232 | 338,459 | (15,390) | 323,069 | 350,658 | — | 350,658 | 673,727 |
| Hawaiian Airlines, Inc. | 5,869,241 | 643,830 | 3,416,905 | 9,929,976 | 12,014,461 | 791,911 | 12,806,372 | (1,325,327) | 11,481,045 | 4,900,310 | (195,305) | 4,705,005 | 16,186,050 |
| Japan Airlines International Co., Ltd. | 907,641 | — | 600 | 908,241 | 2,650,312 | — | 2,650,312 | — | 2,650,312 | 738 | — | 738 | 2,651,050 |
| Kalitta Air, L.L.C. | 175,946 | — | 10,080 | 186,026 | 513,762 | — | 513,762 | — | 513,762 | 13,463 | — | 13,463 | 527,225 |
| Korean Airlines Company, Ltd. | 487,013 | — | — | 487,013 | 1,422,078 | — | 1,422,078 | — | 1,422,078 | — | — | — | 1,422,078 |
| Mesa Airlines, Inc. | 200,079 | 28,952 | 171,456 | 400,487 | 246,097 | 35,611 | 281,708 | (41,962) | 239,746 | 210,891 | — | 210,891 | 450,637 |
| Mokulele Flight Service, Inc. | 59,560 | — | 232,314 | 291,874 | 73,258 | — | 73,258 | (1,877) | 71,381 | 285,746 | (2,863) | 282,883 | 354,264 |
| Pacific Wings, L.L.C. | — | — | 289 | 289 | — | — | — | — | — | 356 | (150) | 206 | 206 |
| Philippine Airlines, Inc. | 87,552 | — | — | 87,552 | 255,652 | — | 255,652 | — | 255,652 | — | — | — | 255,652 |
| Polar Air Inc | 666 | — | — | 666 | 1,945 | — | 1,945 | — | 1,945 | — | — | — | 1,945 |
| Qantas Airways Limited | 198,264 | — | — | 198,264 | 578,931 | — | 578,931 | — | 578,931 | — | — | — | 578,931 |
| United Airlines, Inc. | 1,186,509 | — | 843,290 | 2,029,799 | 3,463,601 | — | 3,463,601 | (408,992) | 3,054,609 | 2,462,407 | (70,617) | 2,391,790 | 5,446,399 |
| United Parcel Service Co. | 600,821 | — | 162,455 | 763,276 | 1,615,109 | — | 1,615,109 | (7,668) | 1,607,441 | 332,748 | — | 332,748 | 1,940,189 |
| Us Airways, Inc. | 164,142 | — | 229,482 | 393,624 | 479,295 | — | 479,295 | (160,785) | 318,510 | 670,087 | — | 670,087 | 988,597 |
| Westjet | 82,519 | — | 156,929 | 239,448 | 240,955 | — | 240,955 | — | 240,955 | 458,232 | — | 458,232 | 699,187 |
| Total | 15,431,099 | 913,267 | 7,410,737 | 23,755,103 | \$ 37,862,129 | 1,200,233 | 39,062,362 | (3,391,520) | 35,670,842 | 14,733,078 | (345,808) | 14,387,270 | 50,058,112 |
| Summary of revenue landing weights: | | | | | | | | | | | | | |
| Overseas | | | | 14,544,537 | | | | | | | | | |
| Interisland | | | | 9,210,566 | | | | | | | | | |
| | | | | <u>23,755,103</u> | | | | | | | | | |

Aviation fuel tax of \$4,847,008 was paid by the users for the year ended June 30, 2014. Users can claim a credit for aviation fuel taxes paid up to six months after payment. Aviation fuel tax credits of \$3,974,282 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

| | |
|-----------------------|---------------------|
| Signatory airlines | \$ 3,737,328 |
| Nonsignatory airlines | <u>236,954</u> |
| | <u>\$ 3,974,282</u> |

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2014.

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, 2014

| | Approved maximum revenue landing weights (1,000-pound units) | | | | Honolulu International Airport and Hilo International Airport Gross airport landing fees | | | | Adjusted airport landing fees | All other airports | | | Total adjusted airport landing fees |
|--|---|----------------------------------|--------------------------|------------------|---|----------------------------------|------------------|--------------------------------|--|-------------------------------------|--------------------------------|--|---|
| | Honolulu International Airport | Hilo International Airport | All other airports | Total | Honolulu International Airport | Hilo International Airport | Total | Aviation fuel tax credit | | Gross airport landing fees | Aviation fuel tax credit | Adjusted airport landing fees | |
| | | | | | | | | | | | | | |
| Above It All, Inc. | 16 | 635 | 461 | 1,112 | \$ 16 | 586 | 602 | — | 602 | 439 | (102) | 337 | 939 |
| Aero Micronesia, Inc. | 32,964 | — | — | 32,964 | 129,732 | — | 129,732 | — | 129,732 | — | — | — | 129,732 |
| Air Japan Co Ltd | 39,360 | — | — | 39,360 | 176,202 | — | 176,202 | — | 176,202 | — | — | — | 176,202 |
| Air Transport International LLC | 31,312 | — | — | 31,312 | 124,130 | — | 124,130 | — | 124,130 | — | — | — | 124,130 |
| Air Ventures Hawaii, LLC | — | — | 4,947 | 4,947 | — | — | — | — | — | 4,485 | — | 4,485 | 4,485 |
| Alika Aviation, Inc. | — | — | 1,016 | 1,016 | — | — | — | — | — | 1,171 | — | 1,171 | 1,171 |
| Aris, Inc. | — | — | 21,312 | 21,312 | — | — | — | — | — | 19,327 | (3,950) | 15,377 | 15,377 |
| Atlas Air Inc. | 32,150 | — | — | 32,150 | 120,057 | — | 120,057 | — | 120,057 | — | — | — | 120,057 |
| Big Island Air, Inc. | 23 | 421 | 3,182 | 3,626 | 20 | 358 | 378 | — | 378 | 2,896 | — | 2,896 | 3,274 |
| Bradley Pacific Aviation, Inc. | 29,259 | 693 | 69,290 | 99,242 | 71,049 | 1,055 | 72,104 | — | 72,104 | 161,138 | — | 161,138 | 233,242 |
| Castle & Cooke Homes Hawaii, Inc. | 24,885 | — | 79 | 24,964 | 62,102 | — | 62,102 | — | 62,102 | 195 | — | 195 | 62,297 |
| Corporate Air | 26,979 | 187 | 35,525 | 62,691 | 44,805 | 288 | 45,093 | — | 45,093 | 59,287 | — | 59,287 | 104,380 |
| Delta Air Lines, Inc. | 84,921 | — | — | 84,921 | 326,881 | — | 326,881 | — | 326,881 | — | — | — | 326,881 |
| Fly Kauai | — | — | 1,183 | 1,183 | — | — | — | — | — | 1,146 | — | 1,146 | 1,146 |
| George's Aviation Services, Inc. | 980 | 35 | 721 | 1,736 | 858 | 32 | 890 | (285) | 605 | 649 | (795) | (146) | 459 |
| Hawaii Air Ambulance, Inc. | 21,792 | — | — | 21,792 | 19,564 | — | 19,564 | (351) | 19,213 | — | — | — | 19,213 |
| Hawaii Helicopters, Inc. | — | — | 6,602 | 6,602 | — | — | — | — | — | 6,013 | — | 6,013 | 6,013 |
| Helicopter Consultants Of Maui, Inc. | 20,618 | 60,114 | 83,618 | 164,350 | 18,705 | 55,003 | 73,708 | (15,417) | 58,291 | 75,698 | (14,534) | 61,164 | 119,455 |
| Honolulu Soaring Club, Inc. | — | — | 2,518 | 2,518 | — | — | — | — | — | 2,364 | — | 2,364 | 2,364 |
| International Life Support, Inc. | 9,442 | — | 193 | 9,635 | 8,485 | — | 8,485 | — | 8,485 | 181 | — | 181 | 8,666 |
| Island Helicopters Kauai, Inc. | — | — | 18,054 | 18,054 | — | — | — | — | — | 16,405 | (2,326) | 14,079 | 14,079 |
| Jack Harter Helicopters, Inc. | — | — | 17,351 | 17,351 | — | — | — | — | — | 15,595 | (3,617) | 11,978 | 11,978 |
| Jetstar Airways Pty Limited | 189,686 | — | — | 189,686 | 765,893 | — | 765,893 | — | 765,893 | — | — | — | 765,893 |
| K & S Helicopters, Inc. | 954 | 16,804 | 8,434 | 26,192 | 872 | 15,369 | 16,241 | — | 16,241 | 7,671 | (5,424) | 2,247 | 18,488 |
| Kamaka Air, Inc. | 9,424 | 17 | 13,369 | 22,810 | 8,455 | 17 | 8,472 | — | 8,472 | 12,014 | — | 12,014 | 20,486 |
| Makani Kai Helicopters, Ltd. | 21,241 | 28 | 24,341 | 45,610 | 18,798 | 26 | 18,824 | (451) | 18,373 | 21,784 | (412) | 21,372 | 39,745 |
| Maui Island Air, Inc. | — | — | 973 | 973 | — | — | — | — | — | 903 | — | 903 | 903 |
| Miscellaneous | 7,214 | 434 | 288 | 7,936 | 27,661 | 1,087 | 28,748 | — | 28,748 | 1,036 | — | 1,036 | 29,784 |
| Niihau Helicopters, Inc. | — | — | 1,593 | 1,593 | — | — | — | — | — | 1,460 | — | 1,460 | 1,460 |
| Omni Air International, Inc. | 79,880 | — | — | 79,880 | 315,080 | — | 315,080 | (9,205) | 305,875 | — | — | — | 305,875 |
| Pacific Air Charters, Incorporated | 446 | 73 | 1,832 | 2,351 | 401 | 62 | 463 | (338) | 125 | 1,679 | (503) | 1,176 | 1,301 |
| Pacific Helicopter Tours, Inc. | 1,124 | 3 | 1,282 | 2,409 | 1,005 | 3 | 1,008 | — | 1,008 | 1,171 | — | 1,171 | 2,179 |
| Paragon Air Inc. | — | — | 204 | 204 | — | — | — | — | — | 235 | — | 235 | 235 |
| Pofolk Aviation Hawaii, Inc. | — | — | 38,350 | 38,350 | — | — | — | — | — | 35,475 | — | 35,475 | 35,475 |
| Resort Air, LLC | 622 | — | 1,435 | 2,057 | 583 | — | 583 | (356) | 227 | 1,323 | (489) | 834 | 1,061 |
| Ryan International Airlines | 300 | — | — | 300 | 1,587 | — | 1,587 | — | 1,587 | — | — | — | 1,587 |
| Safari Aviation, Inc. | 1,007 | 8,374 | 13,166 | 22,547 | 1,160 | 7,415 | 8,575 | — | 8,575 | 11,956 | — | 11,956 | 20,531 |
| Sky-med, Inc. | — | — | 25,849 | 25,849 | — | — | — | — | — | 23,345 | — | 23,345 | 23,345 |
| Skyview Soaring Lcc | — | — | 184 | 184 | — | — | — | — | — | 169 | — | 169 | 169 |
| Smoky Mountain Helicopters, Inc. | — | — | 5,600 | 5,600 | — | — | — | — | — | 5,065 | — | 5,065 | 5,065 |
| Southern Air | 29,410 | — | — | 29,410 | 136,217 | — | 136,217 | — | 136,217 | — | — | — | 136,217 |
| Will Squyres Helicopter Service, Inc. | — | — | 6,459 | 6,459 | — | — | — | — | — | 6,307 | — | 6,307 | 6,307 |
| Sunshine Helicopters, Inc. | — | 124 | 24,196 | 24,320 | — | 107 | 107 | — | 107 | 21,600 | (10,280) | 11,320 | 11,427 |
| Trans Executive Airlines Of Hawaii, Inc. | 29,457 | 16,490 | 95,383 | 141,330 | 26,813 | 15,250 | 42,063 | (11,881) | 30,182 | 84,172 | (12,951) | 71,221 | 101,403 |
| dba Trans Air | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Universal Enterprises, Inc. | 59,066 | 624 | 59,627 | 119,317 | 151,429 | 995 | 152,424 | (83,622) | 68,802 | 137,128 | (59,665) | 77,463 | 146,265 |
| Wings Over Kauai LLC | — | — | 2,428 | 2,428 | — | — | — | — | — | 2,274 | — | 2,274 | 2,274 |
| World Airways | 23,656 | — | — | 23,656 | 88,139 | — | 88,139 | — | 88,139 | — | — | — | 88,139 |
| Total | 808,188 | 105,056 | 591,045 | 1,504,289 | \$ 2,646,699 | 97,653 | 2,744,352 | (121,906) | 2,622,446 | 743,756 | (115,048) | 628,708 | 3,251,154 |
| Summary of revenue landing weights: | | | | | | | | | | | | | |
| Overseas | | | | 755,744 | | | | | | | | | |
| Interisland | | | | 748,545 | | | | | | | | | |
| | | | | <u>1,504,289</u> | | | | | | | | | |

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2014.

See accompanying independent auditors' report.