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

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

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

TABLE OF CONTENTS
JUNE 30, 2002

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
Financial Statements:	
Statement of Net Assets	15-17
Statement of Revenues, Expenses and Changes in Net Assets	18-19
Statement of Cash Flows	20-21
Notes to Financial Statements	22-41
Supplementary Information - Schedules:	
1 - Operating Revenues and Operating Expenses Other Than Depreciation	42
2 - Calculations of Net Revenues and Taxes and Debt Service Requirement	43-44
3 - Summary of Debt Service Requirements to Maturity	45
4 - Debt Service Requirements to Maturity - Airports System Revenue Bonds	46
5 - Debt Service Requirements to Maturity - General Obligation Bonds	47
6 - Airports System Charges - Fiscal Year 1995-97 Lease Extension	48-50
7 - Approved Maximum Revenue Landing Weights and Airport Landing Fees - Signatory Airlines	51
8 - Approved Maximum Revenue Landing Weights and Airport Landing Fees - Nonsignatory Airlines	52

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INDEPENDENT AUDITORS' REPORT

The Director
Department of Transportation
State of Hawaii:

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

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

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

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

As discussed in Note 1 to the financial statements, the Airports Division has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as of July 1, 2001.

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

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

In accordance with *Government Auditing Standards,* we have also issued our report dated October 11, 2002 on our consideration of the Airports Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 11, 2002
(November 8, 2002 as to the
"Asserted Claim" section of Note 14)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002

The following Management's Discussion and Analysis (MD&A) of the Airports Division, Department of Transportation, State of Hawaii (Airports Division) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Airports Division for the fiscal year ended June 30, 2002, with selected comparative information for the year ended June 30, 2001. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (State) as a single integrated system for management and financial purposes. Honolulu International Airport on the island of Oahu is the principal airport in the airports system providing facilities for inter-island flights, domestic overseas flights and international flights to destinations in the Pacific Rim. Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for inter-island flights. Kahului, Kona International at Keahole, and Lihue also provide facilities for domestic overseas flights and flights to and from Canada. Kona International at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 60.7% and 61.5% of total passenger traffic in the airports system during fiscal years 2002 and 2001, respectively. The other four principal airports accommodated 37.9% and 37.1% of total passenger traffic in fiscal years 2002 and 2001, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the United States military) on the Island of Oahu, Kapalua and Hana Airports on the Island of Maui, Waimea-Kohala and Upolu Airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa Airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen Airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.4% of the total passenger traffic for both fiscal years 2002 and 2001.

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

USING THE FINANCIAL STATEMENTS

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

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

For the year ended June 30, 2002, the Airports Division adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus – an amendment to GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The objective of the GASB in developing the new reporting standards is to enhance the understandability and usefulness of the financial reports of state and local governments to the citizenry, legislative and oversight bodies, investors, and creditors.

Significant changes to the financial statements with the implementation of GASB 34 are as follows:

- A Statement of Net Assets replaces the Balance Sheet in financial reporting. The Statement of Net Assets reports assets, liabilities, and the difference between them. The entire equity section is combined to report total net assets and is displayed in three broad components: invested in capital assets - net of related debt, restricted net assets, and unrestricted net assets. The net assets component, invested in capital assets - net of related debt, consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any outstanding debt that is attributable to the acquisition, construction, or improvements of those assets. The Airports Division's net capital assets of $1.5 billion are reduced by related debt of $771 million for an investment in capital assets, net of related debt, of $739 million.

- The Statement of Revenues, Expenses and Changes in Net Assets replaces the Statement of Revenues, Expenses and Changes in Retained Earnings. Revenues are now categorized as either operating or nonoperating based upon definitions provided by GASB 34. Significant recurring sources of the Airport Division's revenues, including federal grants, are reported as nonoperating revenues.

AIRPORTS DIVISION ACTIVITIES AND HIGHLIGHTS

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

The Airports Division ended fiscal year 2002 with decreases in passenger activity, aircraft operations, landed weights, revenue passenger landings, and deplaning international passengers. The decrease in activities and revenues, combined with an increase in operational expenses, such as new federal security requirements by mandated deadlines, resulted in the Airports Division ending its fiscal year 2002 with a decrease in its net assets.

Activity for the airports system for the fiscal years ended June 30, 2002 and 2001 is as follows:

	2002	2001	% Increase (Decrease) from 2001
Passenger (enplaning and deplaning passengers) activity:			
Honolulu International Airport	19,037,893	22,121,721	(13.9)%
Kahului Airport	5,380,715	6,129,288	(12.2)%
Lihue Airport	2,563,695	2,822,741	(9.2)%
Kona International Airport at Keahole	2,536,013	2,788,105	(9.0)%
Hilo International Airport	1,394,152	1,569,353	(11.2)%
All others	448,895	520,411	(13.7)%
Total passengers	31,361,363	35,951,619	(12.8)%
Aircraft operations:			
Honolulu International Airport	316,374	344,226	(8.1)%
Kahului Airport	155,921	168,000	(7.2)%
Lihue Airport	102,711	108,832	(5.6)%
Kona International Airport at Keahole	116,704	101,617	14.8 %
Hilo International Airport	88,097	109,373	(19.5)%
All others	273,391	270,402	1.1 %
Total aircraft operations	1,053,198	1,102,450	(4.5)%
Revenue landed weights:			
Honolulu International Airport	16,016,798	18,411,269	(13.0)%
Kahului Airport	3,916,932	4,360,731	(10.2)%
Lihue Airport	1,776,494	1,982,689	(10.4)%
Kona International Airport at Keahole	1,996,211	2,290,799	(12.9)%
Hilo International Airport	1,038,977	1,224,953	(15.2)%
All others	414,977	430,403	(3.6)%
Total signatory airlines	25,160,389	28,700,844	(12.3)%
Nonsignatory airlines	1,804,226	1,861,049	(3.1)%
Total revenue landed weights	26,964,615	30,561,893	(11.8)%

	2002	2001	% Increase (Decrease) from 2001
Revenue passenger landings:			
Honolulu International Airport	71,072	80,977	(12.2)%
Kahului Airport	24,722	28,890	(14.4)%
Lihue Airport	14,698	16,842	(12.7)%
Kona International Airport at Keahole	13,106	15,679	(16.4)%
Hilo International Airport	8,143	10,112	(19.5)%
Total signatory airlines	131,741	152,500	(13.6)%
Nonsignatory airlines	928	1,320	(29.7)%
Total revenue passenger landings	132,669	153,820	(13.8)%
Deplaning international passengers:			
Honolulu International Airport	1,951,576	2,391,091	(18.4)%
Kona International Airport at Keahole	60,323	75,471	(20.1)%
Total signatory airlines	2,011,899	2,466,562	(18.4)%
Nonsignatory airlines	51,833	88,968	(41.7)%
Total deplaning international passengers	2,063,732	2,555,530	(19.2)%

The following airlines serve the State with scheduled or charter overseas passenger flights: Air Canada, Air New Zealand, Ltd., Air Pacific, Ltd., Air Transat, All Nippon Airways Co., Ltd., Aloha Airlines, Inc., American Airlines, Inc., American Trans-Air, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Delta Airlines, Inc., Hawaiian Airlines, Inc., Japan Air Lines Company, Ltd., JALways Co., Ltd., Korean Airlines Company, Ltd., Northwest Airlines, Inc., Philippine Airlines, Inc. (terminated service in June 1998 but resumed service), Polynesian Air, Qantas Airways, Ltd., Ryan International Airlines, Royal Aviation, Inc., and United Airlines, Inc. The principal airlines providing inter-island passenger flight service are: Aloha Airlines, Inc., Hawaiian Airlines, Inc., and Island Air.

FINANCIAL OPERATIONS HIGHLIGHTS

The financial results for fiscal year 2002 were significantly affected by the events of September 11, 2001. The majority of the operating revenues at the Airports Division are activity-based and directly relate to the number of passengers and aircraft operations. The events of September 11 led to a significant decrease in aviation activity, which correspondingly led to a direct decrease in operating revenues. In addition, the airports system continued to incur nearly all of its normal operating expenses, with the exception of security costs, special maintenance, and insurance, which significantly increased in the aftermath of the events of September 11. As a result, the decrease in net assets for the fiscal year 2002 was $23.1 million as compared to an increase of $94.4 million in fiscal year 2001.

The State Legislature in its Third Special Session of 2001 passed Act 15, effective from November 3, 2001 through April 30, 2002, which authorized the Governor to waive landing fees and airport system support charges, along with waiving the minimum annual guarantee (MAG) rents for qualifying airports concessions. The Governor approved the waiver of $19.2 million in airport landing fees and airports system support charges for the period September 18, 2001 to March 31, 2002. The Governor

also approved the waiver of MAG rents for 16 concession contracts for the period September 11, 2001 to April 30, 2002. During the period of the waiver, these concessions were allowed to pay only the percentage rents as established in their contracts.

A total amount of $26.1 million in MAG was waived, including $20.2 million for the in-bond concession. Gross sales for the in-bond concession for the contract year June 2001 to May 2002 were down 31.5% compared to the same period in 2001. The effects of the terrorist attacks continued to be felt throughout the fourth quarter of the fiscal year ended June 30, 2002. The holder of the in-bond concession, DFS Group LP, is currently in discussions with the State to adjust the rents due under its current contract. The State has not agreed to any specific rent relief; however, discussions are on-going.

The airports system activities for fiscal year 2002 were severely impacted as compared to fiscal year 2001. Passenger traffic was down 12.8%, aircraft operations were down 4.6%, revenue landing weights were down 11.8 %, passenger revenue landings were down 13.8%, and deplaning international passengers were down 19.2%. The decrease in airport activities, primarily caused by events following the September 11 attacks, contributed to the negative financial results for fiscal year 2002.

A summary of operations and changes in net assets for the years ended June 30, 2002 and 2001 follows:

	2002	2001
Operating revenues	$ 182,894,810	$ 287,086,031
Operating expenses, excluding depreciation	(141,289,738)	(120,455,657)
Operating income before depreciation	41,605,072	166,630,374
Depreciation	(84,729,799)	(91,228,299)
Operating income (loss)	(43,124,727)	75,402,075
Nonoperating revenues (expenses) - net	(15,107,088)	5,057,526
Income (loss) before capital contributions and transfers	(58,231,815)	80,459,601
Capital contributions and transfers	35,139,903	
Adjustment for depreciation expense on assets acquired with federal grants transferred to contributed capital		13,891,623
Net increase (decrease) in net assets	$ (23,091,912)	$ 94,351,224

- Operating revenues decreased by 36.3% from $287.1 million in fiscal year 2001 to $182.9 million in fiscal year 2002. The primary causes of the decrease were the aforementioned decrease in airport activities, along with the waiver of airport landing fees and airports system support charges of $19.2 million, the waiver of $26.1 million in MAG for eligible concession contracts, and the waiver of $3.5 million underpayment of signatory airlines joint-use charges.

- Operating expenses excluding depreciation increased by 17.3% from $120.5 million to $141.3 million, primarily due to increases in security costs of $10.9 million, special repairs and maintenance of $4.9 million, State of Hawaii surcharge on gross receipts of $3.5 million, and insurance costs of $1.3 million.

- The net results of the above resulted in operating income before depreciation decreasing by 75.0% or $125.0 million from fiscal year 2001. Depreciation expense decreased by 7.1% from $91.2 million to $84.7 million, due primarily to changes in the capitalization policy, which increased the threshold for capitalization. The operating loss, before nonoperating expenses - net, of $43.1 million in fiscal year 2002 is a 157.2% decrease from operating income of $75.4 million in fiscal year 2001.

- Nonoperating revenues (expenses) decreased by 399.0% in fiscal year 2002, primarily due to the implementation of GASB 34, which required a change in the recording of federal grants for CIP. In fiscal year 2001, federal grants of $26.8 million for CIP were recorded as nonoperating revenue. However, in fiscal year 2002, the $15.4 million of federal grants received for CIP were recorded as capital contributions and transfers.

- Capital contributions and transfers reflects a new category established by GASB 34 and includes amounts received under federal grants for CIP, a transfer in of $17.1 million from the Highways Division representing the return of the unspent balance of the $250 million previously transferred to the Highways Division in fiscal year 1991, and $2.6 million of donated land from Castle & Cooke, Inc.

FINANCIAL POSITION SUMMARY

A condensed summary of the Airports Division's net assets at June 30, 2002 and 2001 is shown below:

	2002	2001
ASSETS:		
Current assets:		
Unrestricted assets	$ 611,119,008	$ 587,308,481
Restricted assets	255,897,665	301,189,069
Noncurrent assets:		
Restricted assets	41,943,647	42,738,714
Capital assets	1,510,323,740	1,555,151,487
Bond issue costs	6,654,833	7,504,565
Total	$2,425,938,893	$2,493,892,316
LIABILITIES:		
Current liabilities:		
Payable from unrestricted assets	$ 34,686,263	$ 45,876,560
Payable from restricted assets	55,987,403	70,303,182
Long-term liabilities	853,390,459	872,745,894
Total	$ 944,064,125	$ 988,925,636
NET ASSETS:		
Invested in capital assets - net of related debt	$ 739,034,675	$ 736,844,453
Restricted	175,159,213	227,775,632
Unrestricted	567,680,880	540,346,595
Total	$1,481,874,768	$1,504,966,680

The largest portion of the Airports Division's net assets (50% at June 30, 2002) represents its investments in capital assets (e.g., land, buildings improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors to the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net assets (12% at June 30, 2002) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (Certificate).

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash in the amount of $574,706,630 at June 30, 2002. The sizable cash balance provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division's financial position. The net assets exceeded liabilities by $1,481.9 million at June 30, 2002, and decreased $23.1 million from June 30, 2001.

AIRLINE SIGNATORY RATES AND CHARGES

Lease Agreement with Signatory Airlines

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

In June 1994, the Department and the signatory airlines executed a lease extension agreement to extend the expired airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The lease extension agreement's residual rate-setting methodology provided for a final year-end reconciliation containing actual airports system cost data to determine whether airports system charges assessed to the signatory airlines were sufficient to recover airports system costs, including debt service requirements. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement and various agreements between the Department and airlines since June 30, 1997. The final reconciliation for fiscal year 2001 in accordance with these agreements resulted in a net overpayment by the signatory airlines of $463,848 for that fiscal year and funds were transferred to the Prepaid Airport Use Charge Fund (PAUCF) in June 2002. The State waived signatory airlines underpayments of rates and charges in fiscal year 2002 of $3,557,938 based on its agreement with the airlines.

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

The following summarizes the rates in effect at June 30, 2002 and 2001:

	2002	2001
Airport landing fees:		
Signatory airlines:		
Overseas flights	$ 1.930	$ 1.930
Inter-island flights	0.695	0.695
Nonsignatory airlines:		
Overseas flights	2.980	2.980
Inter-island flights	0.954	0.954
Nonexclusive joint-use premise charges:		
Overseas and inter-island terminal joint-use charges:		
Signatory airlines:		
Overseas terminal	475.789	465.630
Blended overseas	380.666	386.688
Inter-island terminal	70.739	68.618
Nonsignatory airlines:		
Overseas terminal	457.344	457.344
Inter-island terminal	69.375	69.375
International arrivals building charges:		
Signatory airlines	3.623	3.744
Nonsignatory airlines	3.346	3.346
Neighbor-island terminals joint-use charges -		
Signatory airlines	14.057	13.878
Airports system support charges - Nonsignatory airlines:		
Overseas flights	0.618	0.618
Inter-island flights	0.198	0.198

REVENUES

A summary of revenues for the fiscal year ended June 30, 2002 and the amount and percentage of change in relation to prior year amounts is as follows:

	2002		Increase (Decrease) from 2001	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Concession fees:				
Duty Free	$ 39,847,703	18.0 %	$ (64,152,624)	(61.7) %
Other concessions	62,940,441	28.4	(9,920,728)	(13.6)
Airport landing fees	14,565,475	6.6	(22,257,643)	(60.4)
Aeronautical rentals:				
Exclusive-use premise charges	26,718,579	12.1	458,264	1.7
Nonexclusive joint-use premise charges	22,976,350	10.4	(3,557,936)	(13.4)
Nonaeronautical rentals	9,047,527	4.1	(686,996)	(7.1)
Aviation fuel tax	3,322,490	1.5	(547,216)	(14.1)
Airports system support charges	391,640	0.2	(437,861)	(52.8)
Miscellaneous	3,084,605	1.4	(3,088,481)	(50.0)
Total operating	182,894,810	82.6	(104,191,221)	(36.3)
NONOPERATING:				
Interest income	33,578,262	15.2	(17,063,093)	(33.7)
Federal operating grants	4,949,039	2.2	(21,836,915)	(81.5)
Contributed land			(1,087,643)	(100.0)
Total nonoperating	38,527,301	17.4	(39,987,651)	(50.9)
TOTAL REVENUES	$221,422,111	100.0 %	$ (144,178,872)	(39.4)

EXPENSES

A summary of expenses for the fiscal year ended June 30, 2002, and the amount and percentage of change in relation to prior year amounts is as follows:

	2002		Increase (Decrease) from 2001	
	Amount	Percent of Total	Amount	Percent
OPERATING:				
Salaries and wages	$ 47,847,638	17.1 %	$ 2,228,043	4.9 %
Other personnel services	36,677,734	13.1	10,949,777	42.6
Utilities	17,023,413	6.1	(1,637,824)	(8.8)
Special maintenance	10,574,224	3.8	4,946,208	87.9
Repairs and maintenance	9,856,299	3.5	(316,763)	(3.1)
State of Hawaii surcharge on gross receipts	5,739,256	2.1	3,472,657	153.2
Materials and supplies	4,639,566	1.7	1,035,308	28.7
Department of Transportation general administration expenses	3,351,720	1.2	(255,722)	(7.1)
Insurance	2,089,694	0.7	1,259,043	151.6
Claims and benefits:				
Payments made during the year	1,243,186	0.4	188,746	17.9
Workers' compensation claims payable			(1,000,000)	(100.0)
Communication	402,559	0.1	(35,084)	(8.0)
Travel	307,742	0.1	41,382	15.5
Disbursements out of major maintenance, renewal and replacement account	276,622	0.1	(452,936)	(62.1)
Rent	244,877	0.1	7,960	3.4
Dues and subscriptions	130,238	0.0	(62,804)	(32.5)
Printing and advertising	18,206	0.0	(16,356)	(47.3)
Freight and delivery	12,432	0.0	(10,205)	(45.1)
Miscellaneous	854,332	0.4	492,652	136.2
Total operating	141,289,738	50.5	20,834,082	17.3
DEPRECIATION	84,729,799	30.3	(6,498,500)	(7.1)
NONOPERATING:				
Interest expense:				
Revenue bonds:				
Airports system	44,250,193	15.8	(19,842,868)	(31.0)
Special facility	3,063,478	1.1	(152,457)	(4.7)
General obligation bonds	19,805	0.0	(3,230)	(14.0)
Loss on disposal of capital assets	4,393,006	1.6	1,259,908	40.2
Loss on redemption of bonds	1,907,907	0.7	(1,084,390)	(36.2)
Total nonoperating	53,634,389	19.2	(19,823,037)	(27.0)
TOTAL EXPENSES	$279,653,926	100.0 %	$ (5,487,455)	(1.9) %

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the fiscal years ended June 30, 2002 and 2001. Cash equivalents include highly liquid investments with an original maturity of three months or less.

	2002	2001
Cash flow provided by operating activities	$ 24,051,690	$ 154,321,271
Cash flow provided by noncapital financing activities	1,781,250	
Cash flow used in capital and related financing activities	(86,574,779)	(329,755,867)
Cash flow provided by investing activities	34,054,737	84,683,992
Net decrease in cash and cash equivalents	(26,687,102)	(90,750,604)
Cash and cash equivalents, beginning of year	772,007,221	862,757,825
Cash and cash equivalents, end of year	$ 745,320,119	$ 772,007,221

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

In fiscal year 2002, there were 14 construction bid openings totaling an estimated $40 million in construction contracts. Significant projects include the intra-terminal transportation system third level overseas terminal roadway strengthening at Honolulu International Airport; statewide architectural barrier removal, phase III at Kahului, Kapalua West Maui, and Hana Airports; general aviation site preparation at Kona International Airport at Keahole; terminal roof replacement at Hilo International Airport; and ticket lobby canopies at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2002 that were under construction during the fiscal year. These projects include the wastewater treatment plant at Kona International Airport at Keahole; airport perimeter road at Honolulu International Airport; replacement of airfield lighting system at Molokai Airport; and apron site preparation and road realignment at Lihue Airport. These projects total approximately $35 million in construction contracts.

Finally, there were seven construction projects that were completed in fiscal year 2002. These projects total over $18 million in construction contracts and include the east ramp sewer system at Kahului Airport; Iroquois Point Elementary School noise attenuation on Oahu; Manuwai canal culvert extension at Honolulu International Airport; and ticket lobby improvements at Honolulu International Airport. During fiscal year 2002, the Airports Division expended $32.4 million on capital activities.

INDEBTEDNESS

Airports System Revenue Bonds and Reimbursable General Obligation Bonds

As of July 1, 2002, $809,570,000 of airports system revenue bonds were outstanding. The last series of "new money" bonds used to fund capital improvement projects was issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. As of June 30, 2002, $56,000,000 of authorized but unissued airports system revenue bonds lapsed. On July 1, 2002, there was no legislative authorization to issue additional bonds.

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

Special Obligation Bonds

The State Legislature has authorized $200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2002, there were outstanding bond obligations of $41,665,000. The Department 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.

CREDIT RATING AND BOND INSURANCE

All airports system revenue bonds issued since 1989 have been issued with bond insurance and are rated AAA by Standard & Poor's Corporation, Aaa by Moody's Investors Service, and AAA by Fitch IBCA, Inc. As of August 1, 2002, the underlying ratings for airports system revenue bonds were as follows:

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

REQUEST FOR INFORMATION

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS

CURRENT ASSETS:	
Unrestricted assets:	
Cash and cash equivalents (Note 3)	$ 574,706,630
Receivables:	
Accounts - net of allowance for uncollectible accounts of $4,354,844	28,368,325
Interest	2,979,769
Claims receivable - federal grants	4,086,071
Aviation fuel tax	298,494
Due from State of Hawaii	461,011
Total receivables	36,193,670
Inventory of materials and supplies, at cost	218,708
Total unrestricted current assets	611,119,008
Restricted assets:	
Cash and cash equivalents (Note 3):	
Revenue bond debt service (Note 6)	114,533,395
Revenue bond construction	53,338,882
Security deposits	2,741,212
Total cash and cash equivalents - restricted	170,613,489
Investments - revenue bond debt service reserve (Notes 3 and 6)	85,284,176
Total restricted current assets	255,897,665
Total current assets	867,016,673
NON-CURRENT ASSETS:	
Restricted assets - net investments in direct financing leases (Note 8)	41,943,647
Capital assets - net of accumulated depreciation of $979,814,076 (Notes 4, 6 and 7)	1,510,323,740
Bond issue costs - net of accumulated amortization of $3,770,134 (Note 6)	6,654,833
Total non-current assets	1,558,922,220
TOTAL ASSETS	$2,425,938,893

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

STATEMENT OF NET ASSETS (Continued)
JUNE 30, 2002

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Payable from unrestricted assets:	
Vouchers payable	$ 6,012,765
Contracts payable (including retainage of $3,521,402)	19,093,969
Current portion of general obligation bonds (Notes 5 and 7)	273,765
Deferred income (Note 8)	565,721
Current portion of workers' compensation (Notes 5 and 13)	837,449
Current portion of compensated absences (Notes 5 and 7)	2,142,518
Accrued wages	2,700,392
Prepaid airport use charge fund (Note 8)	468,665
Due to other state agencies	934,803
Other	1,656,216
Total (payable from unrestricted assets)	34,686,263
Payable from restricted assets:	
Contracts payable (including retainage of $299,413)	304,186
Current portion of airports system revenue bonds (Notes 5 and 6)	27,185,000
Current portion of special facility revenue bonds (Notes 5 and 8)	820,000
Accrued interest	24,937,005
Security deposits	2,741,212
Total (payable from restricted assets)	55,987,403
Total current liabilities	90,673,666
LONG-TERM LIABILITIES - Net of current portion:	
Compensated absences (Note 5)	5,109,726
Workers' compensation (Notes 5 and 13)	3,262,551
General obligation bonds (Notes 5 and 7)	75,402
Airports system revenue bonds (Notes 5 and 6)	804,097,780
Special facility revenue bonds (Notes 5 and 8)	40,845,000
Total liabilities	944,064,125
COMMITMENTS AND CONTINGENCIES (Notes 8, 9, 12, 13 and 14)	

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

STATEMENT OF NET ASSETS (Continued)
JUNE 30, 2002

LIABILITIES AND NET ASSETS (Continued)

NET ASSETS:	
Invested in capital assets - net of related debt	$ 739,034,675
Restricted - reserved for revenue bond requirements:	
Debt service payment	27,185,000
Debt service reserve account	85,284,176
Major maintenance, renewal and replacement account	62,690,037
Total restricted	175,159,213
Unrestricted	567,680,880
Total net assets	1,481,874,768
TOTAL LIABILITIES AND NET ASSETS	$2,425,938,893

See accompanying notes to financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002

OPERATING REVENUES (Notes 8 and 11):	
Concession fees	$ 102,788,144
Aeronautical rentals:	
Exclusive-use premise charges	26,718,579
Nonexclusive joint-use premise charges	22,976,350
Airport landing fees	14,565,475
Nonaeronautical rentals	9,047,527
Aviation fuel tax	3,322,490
Airports system support charges	391,640
Miscellaneous	3,084,605
Total operating revenues	182,894,810
OPERATING EXPENSES (Notes 8, 9, 10, 11, 12, 13 and 14):	
Salaries and wages	47,847,638
Other personnel services	36,677,734
Utilities	17,023,413
Special maintenance	10,574,224
Repairs and maintenance	9,856,299
State of Hawaii surcharge on gross receipts	5,739,256
Materials and supplies	4,639,566
Department of Transportation general administration expenses	3,351,720
Insurance	2,089,694
Claims and benefits	1,243,186
Communication	402,559
Travel	307,742
Disbursements out of major maintenance, renewal and replacement account	276,622
Rent	244,877
Dues and subscriptions	130,238
Printing and advertising	18,206
Freight and delivery	12,432
Miscellaneous	854,332
Depreciation	84,729,799
Total operating expenses	226,019,537
OPERATING LOSS (Forward)	(43,124,727)

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (Continued)
YEAR ENDED JUNE 30, 2002

OPERATING LOSS (Forwarded)	$ (43,124,727)
NONOPERATING REVENUES (EXPENSES):	
Interest income:	
Certificates of deposit, repurchase agreements and U.S. government securities	30,514,784
Investments in direct financing leases (Note 8)	3,063,478
Interest expense:	
Revenue bonds:	
Airports system (Note 6)	(44,250,193)
Special facility (Note 8)	(3,063,478)
General obligation bonds (Note 7)	(19,805)
Federal operating grants	4,949,039
Loss on disposal of capital assets	(4,393,006)
Loss on redemption of bonds (Note 6)	(1,907,907)
Nonoperating revenues (expenses) - net	(15,107,088)
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(58,231,815)
CAPITAL CONTRIBUTIONS AND TRANSFERS:	
Federal capital grants	15,406,845
Contributed land (Note 4)	2,630,000
Transfer in from Highways Division (Note 11)	17,103,058
Total capital contributions and transfers	35,139,903
DECREASE IN NET ASSETS	(23,091,912)
TOTAL NET ASSETS, BEGINNING OF YEAR	1,504,966,680
TOTAL NET ASSETS, END OF YEAR	$1,481,874,768

See accompanying notes to financial statements.

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

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from providing services	$ 155,273,144
Cash paid to suppliers	(84,133,549)
Cash paid to employees	(47,087,905)
Net cash provided by operating activities	24,051,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES -	
Proceeds from federal operating grants	1,781,250
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(32,402,669)
Proceeds from federal capital grants	19,498,361
Interest paid on airports system revenue and general obligation bonds	(41,589,291)
Principal paid on general obligation bonds	(374,238)
Principal paid on airports system revenue bonds	(48,810,000)
Proceeds from transfer from Highways Division	17,103,058
Net cash used in capital and related financing activities	(86,574,779)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale and maturities of investments	107,495,728
Interest received on investments	34,543,635
Purchases of investments	(107,984,626)
Net cash provided by investing activities	34,054,737
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,687,102)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	772,007,221
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 745,320,119

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

STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2002

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$ (43,124,727)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	84,729,799
Provision for uncollectible accounts	520,902
Changes in operating assets and liabilities:	
Accounts receivable	(16,026,031)
Aviation fuel tax receivable	95,710
Inventory of materials and supplies	258
Vouchers payable	1,591,603
Contracts payable	(15,929)
Deferred income	(11,490,907)
Accrued wages	759,733
Prepaid airport use charge fund	(679,502)
Due to State of Hawaii	7,136,198
Security deposits	(41,838)
Other	596,421
Net cash provided by operating activities	$ 24,051,690

SUPPLEMENTAL INFORMATION - NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

- During the year ended June 30, 2002, the Airports Division's noncash capital and financing related activities related to bonds payable included the following:

Principal payments relating to special facility revenue bonds	$ 790,000
Interest payments relating to special facility revenue bonds	2,784,831
Amortization of revenue bond issue costs	849,732
Amortization of revenue bond discount	223,544
Amortization of revenue bond premium	1,580,395
Amortization of deferred loss on refunding revenue bonds	1,907,907

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

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

1. REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

are collateralized in accordance with State statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

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

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

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

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

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

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

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

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

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

Accumulation of such vacation credits is limited to 720 or 1,056 hours at calendar year-end and is convertible to pay upon termination of employment.

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

Risk Management - The Airports Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division is self-insured for workers' compensation claims as discussed in Note 13. 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.

New Accounting Pronouncements - In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34). GASB 34, as amended, establishes financial reporting standards for state and local governments. Among its requirements, GASB 34 requires governmental entities to report certain supplementary information, including management's discussion and analysis of the entity's financial performance. The Airports Division adopted GASB 34, effective July 1, 2001.

In June 2001, the GASB issued Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment to GASB Statements No. 21 and No. 34* (GASB 37). GASB 37 clarifies and amends disclosure requirements related to management's discussion and analysis, modified approach, program revenue classifications, major fund criteria, capitalization of interest, and segment disclosure. The Airports Division adopted GASB 37 effective July 1, 2001.

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures* (GASB 38). GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers. The Airports Division adopted GASB 38 effective July 1, 2001.

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

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Petty cash	$ 17,805
Cash in State Treasury	745,302,314
Certificates of deposit	29,890,382
Repurchase agreements	55,393,794
	$830,604,295

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

Cash and cash equivalents:	
Unrestricted	$574,706,630
Restricted	170,613,489
Total cash and cash equivalents	745,320,119
Investments - restricted	85,284,176
Total cash and cash equivalents and investments	$830,604,295

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

Statutes authorize the Airports Division to invest, with certain restrictions, in obligations of the State or the United States, and in federally insured savings accounts, certificates of deposit, and repurchase agreements with federally insured financial institutions. Money held as reserves may be invested in obligations of the United States, the State, or any subdivision of the State. At June 30, 2002, the investments consisted of certificates of deposit and repurchase agreements. Such investments were insured or collaterized with securities held by the State Treasury or by the State's fiscal agent in the State's name.

Effective August 1, 1999, the State established a policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. The Airports Division records the pooled assets as Cash in State Treasury. At June 30, 2002, the amounts held in the investment pool amounted to $745,302,314.

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

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002 was as follows:

	Balance, July 1, 2001	Increases	Decreases	Transfers	Balance, June 30, 2002
Capital assets not being depreciated:					
Land	$ 286,144,402	$ 2,630,000		$ 2,882,611	$ 291,657,013
Land improvements	9,441,032			43,592	9,484,624
Construction in progress	101,884,586	41,027,791	$ (4,705,061)	(61,999,764)	76,207,552
Total capital assets not being depreciated	397,470,020	43,657,791	(4,705,061)	(59,073,561)	377,349,189
Capital assets being depreciated:					
Land improvements	645,857,513		(3,000)	45,527,220	691,381,733
Buildings and improvements	1,241,974,645		(146,451)	4,488,049	1,246,316,243
Machinery and equipment	165,404,762	1,099,409	(471,812)	9,058,292	175,090,651
Total capital assets being depreciated	2,053,236,920	1,099,409	(621,263)	59,073,561	2,112,788,627
Less accumulated depreciation	895,555,454	84,729,799	(471,177)		979,814,076
Capital assets being depreciated - net	1,157,681,466				1,132,974,551
Total capital assets	$ 1,555,151,486				$ 1,510,323,740

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

In November 1997, Castle & Cooke, Inc. donated land to the Airports Division. The land donated consists of 413.742 acres adjacent to and surrounding the Lanai Airport. Due to an oversight, the property was not recorded when received. In fiscal year 2002, the land was recorded at $2,630,000, the fair market value at the time of the donation.

5. LONG-TERM LIABILITIES

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

	Outstanding June 30, 2001	Increases	Decreases	Outstanding June 30, 2002	Current	Noncurrent
Workers' compensation	$ 4,100,000			$ 4,100,000	$ 837,449	$ 3,262,551
Compensated absences	6,884,352	$ 367,892		7,252,244	2,142,518	5,109,726
General obligation bonds	723,405		$ (374,238)	349,167	273,765	75,402
Airports system revenue bonds	879,541,724		(48,258,944)	831,282,780	27,185,000	804,097,780
Special facility revenue bonds	42,455,000		(790,000)	41,665,000	820,000	40,845,000
	$933,704,481	$ 367,892	$ (49,423,182)	$884,649,191	$31,258,732	$853,390,459

6. AIRPORTS SYSTEM REVENUE BONDS

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

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

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

   1. Interest account

   2. Serial bond principal account

   3. Sinking fund account

   4. Debt service reserve account

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

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

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

e. To provide for betterments and improvements to the airports.

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

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

The amended Certificate requires that the Airports Division impose, prescribe and collect revenues that, together with unencumbered funds, will yield net revenues and taxes at least equal to 1.25 times the

total interest, principal and sinking fund requirements for the ensuing 12 months. The Airports Division is also required to maintain adequate insurance on its properties.

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2002, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

Certain amendments to the Certificate contained in the Twenty-sixth Supplemental Certificate took effect contemporaneously with the Twenty-seventh Supplemental Certificate and delivery of the Airports System Revenue Bonds, Refunding Series 2001. Other amendments which require the consent of 100% of the bondholders have not taken effect as of June 30, 2002.

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

Debt service reserve account	$ 85,284,176
Major maintenance, renewal and replacement account	62,690,037
	147,974,213
Principal and interest due July 1, 2002	51,843,358
	$ 199,817,571

At June 30, 2002, $56,000,000 of authorized but unissued airports system revenue bonds lapsed. As of July 1, 2002, there was no legislative authorization to issue additional bonds.

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

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2002:

Series	Interest Rate	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
1993, refunding	4.00 - 6.45	2013	$131,035,000	$ 98,980,000
1994, first refunding	4.15 - 5.60	2004	63,455,000	30,150,000
1994, second refunding	4.40 - 5.85	2004	79,070,000	8,680,000
2000A, refunding	5.50 - 6.00	2021	26,415,000	26,415,000
2000B, refunding	5.00 - 8.00	2020	261,465,000	249,275,000
2001, refunding	4.00 - 5.75	2021	423,255,000	423,255,000
			$984,695,000	836,755,000
Add unamortized premium				17,803,027
Less unamortized discount				(1,375,446)
Less deferred loss on refunding				(21,899,801)
Less current portion				(27,185,000)
Noncurrent portion				$804,097,780

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

	Principal	Interest	Total
Year ending June 30:			
2003	$ 19,550,000	$ 47,786,165	$ 67,336,165
2004	20,910,000	46,667,760	67,577,760
2005	35,985,000	45,451,148	81,436,148
2006	41,935,000	43,349,176	85,284,176
2007	44,305,000	40,949,014	85,254,014
2008-2012	149,995,000	173,486,048	323,481,048
2013-2017	267,865,000	113,870,674	381,735,674
2018-2021	229,025,000	29,437,394	258,462,394
	$809,570,000	$540,997,379	$1,350,567,379

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2002.

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

Expensed as incurred	$44,250,193
Capitalized in capital assets	4,559,404
	$48,809,597

7. GENERAL OBLIGATION BONDS

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

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

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

Annual debt service requirements for general obligation bonds outstanding at June 30, 2002 are as follows:

	Principal	Interest	Total
Year ending June 30:			
2003	$273,765	$11,077	$284,842
2004	9,427	3,275	12,702
2005	9,425	2,865	12,290
2006	9,425	2,446	11,871
2007	9,425	2,017	11,442
2008-2011	37,700	3,629	41,329
	$349,167	$25,309	$374,476

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

Expensed as incurred	$19,805
Capitalized in capital assets	1,903
	$21,708

8. LEASES

Economic Emergency

In response to the September 11, 2001 terrorist attacks, the Governor issued a proclamation declaring an economic emergency under the authority granted in Act 15, Third Special Session Laws of Hawaii 2001. Under Act 15, the Governor was authorized to grant certain relief to businesses adversely

affected by the terrorist attacks. Among the powers granted to the Governor was the authority to waive airport landing fees and airports system support charges as well as suspend, waive, or defer certain contract obligations owed to the State.

Airport-Airline Lease Agreement

The Airports Division had an airport-airline lease agreement with certain major airline carriers (signatory airlines) that expired on July 31, 1992. The expired lease agreement provided the lessees with the nonexclusive right to use the airports system facilities, equipment, improvements and services, in addition to occupying certain premises and facilities. From August 1, 1992 through June 30, 1993, the signatory airlines continued operations under monthly negotiated agreements with the DOT.

In January 1994, the DOT and the signatory airlines executed a letter agreement to extend the expired airport-airline lease agreement to June 30, 1994. Under the terms of the letter agreement, the signatory airlines continued to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges (adjusted retroactively to July 1, 1993), which included airport landing fees, airports system support charges, nonexclusive joint-use premise charges for terminal rentals (overseas terminal, new inter-island terminal, and the international arrivals building) and exclusive-use premise rentals. The letter agreement further stipulated that the aggregate of all such rates and charges, together with aviation fuel taxes (as adjusted for aviation fuel tax credits), payable to the DOT by the signatory airlines would not exceed $84,175,000.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the expired airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The nature of these charges was similar to those of the expired letter agreement; however, the lease extension agreement did not stipulate a maximum amount for aggregate airports system charges. Instead, 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 under the Certificate. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement.

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

Prepaid Airport Use Charge Fund

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

Aviation Fuel Tax

The aviation fuel tax amounted to $3,322,490 for fiscal year 2002. In May 1996, the State Department of Taxation issued a tax information release that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

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

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

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

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

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

Exclusive-use premise charges amounted to $26,718,579 for fiscal year 2002, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $15,664,316 for fiscal year 2002.

Airports system support charges amounted to $391,640 for fiscal year 2002, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed

rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system inter-island support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

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

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

Special Facility Leases and Revenue Bonds

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

$2,300,000 Issue

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

The bonds bear interest at 6.50% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2002:

	Principal	Interest	Total
Year Ending June 30:			
2003	$ 160,000	$ 33,475	$ 193,475
2004	170,000	23,075	193,075
2005	185,000	12,025	197,025
	$ 515,000	$ 68,575	$ 583,575

$25,255,000 Issue

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

The bonds bear interest at 5.625% per annum. Interest -only payments of $614,672 are due semi-annually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2002:

	Principal	Interest	Total
Year Ending June 30:			
2003		$ 1,229,344	$ 1,229,344
2004		1,229,344	1,229,344
2005		1,229,344	1,229,344
2006		1,229,344	1,229,344
2007		1,229,344	1,229,344
2008-2012		6,146,720	6,146,720
2013-2017		6,146,720	6,146,720
2018-2022		6,146,720	6,146,720
2023-2027		6,146,720	6,146,720
2028	$ 21,855,000	614,672	22,469,672
	$ 21,855,000	$ 31,348,272	$ 53,203,272

$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, 2002:

	Principal	Interest	Total
Year Ending June 30:			
2003	$ 460,000	$ 1,091,650	$ 1,551,650
2004	480,000	1,059,450	1,539,450
2005	520,000	1,025,850	1,545,850
2006	565,000	989,450	1,554,450
2007	600,000	949,900	1,549,900
2008-2012	3,690,000	4,056,150	7,746,150
2013-2017	5,200,000	2,569,000	7,769,000
2018-2020	4,080,000	582,400	4,662,400
	$15,595,000	$12,323,850	$27,918,850

$6,600,000 Issue

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

The bonds bear interest at 10.125% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2002:

	Principal	Interest	Total
Year Ending June 30:			
2003	$ 200,000	$ 369,563	$ 569,563
2004	200,000	349,313	549,313
2005	300,000	329,063	629,063
2006	400,000	293,625	693,625
2007	400,000	253,125	653,125
2008-2010	2,200,000	561,938	2,761,938
	$3,700,000	$2,156,627	$5,856,627

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

	Delta	Continental		Sky Chefs	Total
Current portion	$ 160,000	$ 460,000	$ -	$ 200,000	$ 820,000
Noncurrent portion	355,000	15,135,000	21,855,000	3,500,000	40,845,000
	$ 515,000	$15,595,000	$21,855,000	$3,700,000	$41,665,000

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

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

Cash with bond fund trustee	$ 3,609,928
Receivable from lessees - net of unearned interest of $45,618,669	38,055,072
Interest receivable	278,647
	$41,943,647

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 45 years for other airport users. Information regarding the cost and related accumulated depreciation of these facilities, which is required to be disclosed by Statement of Financial Accounting Standards No. 13, *Accounting for Leases,* is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

The future minimum rentals from these operating leases at June 30, 2002 are as follows:

Year ending June 30:	
2003	$ 84,968,587
2004	83,322,208
2005	83,095,936
2006	75,106,617
2007	12,849,476
2008-2012	43,126,885
2013-2017	30,120,022
2018-2022	21,454,435
2023-2027	11,211,201
2028-2032	1,396,776
	$446,652,143

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 year 2002 were approximately $66,031,000.

Concession fees revenues from the DFS Group L.P. (DFS) concession contracts accounted for approximately 48% of total concession fees revenues for fiscal year 2002.

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

off-airport premises against 80% of the minimum annual guarantee payments aggregating $300,000,000 over the five-year contract.

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

The DFS concession contracts provide for quarterly advance payments due on March 1, June 1, September 1 and December 1 of each year. DFS was not able to make the advance payment of $17,300,000 that was due on June 1, 2002. DFS has since requested the Airports Division to provide rent relief. The issue is currently being reviewed by the DOT.

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

To be eligible to participate in the Program, concessionaires must have met the following four requirements: 1) hold an existing contract on September 11, 2001, 2) prove they suffered significant losses since September 11, evidenced by at least a 15% decline in business volume after consideration of insurance and federal benefits received, 3) agree to submit a weekly report on daily sales, remit percentage rent payment for estimated sales on the first of each month, and submit all reports in accordance with the terms of the concessionaire's contract, and 4) be in good standing on September 11, 2001 and remain in good standing for the time period of the waiver. The total relief granted to the qualified concessionaires approximated $26,100,000.

9. PENSION INFORMATION

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

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

retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching ten years of service; retirement benefits are actuarially reduced for early retirement. The Airports Division is required by state statute to contribute all amounts necessary to pay noncontributory plan benefits when due.

There were no required pension contributions for fiscal years 2002 and 2001. The pension contribution for fiscal year 2000 was $2,396,547, which represented 5.78% of covered payroll and was equal to the required contribution for the year.

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

10. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

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

11. 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 $5,739,256 in fiscal year 2002.

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

During fiscal year 2002, revenues received from other State agencies totaled $470,692 and expenditures to other state agencies totaled $3,272,449.

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

12. COMMITMENTS

Sick Pay

Accumulated sick leave at June 30, 2002 was $15,521,047. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division's employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

Deferred Compensation Plan

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

Other

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

13. RISK MANAGEMENT

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

Torts

The Airports Division is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Airports Division's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State General Fund, except as described in Note 14.

Property and Liability Insurance

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

Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims include the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for

claims that have been incurred but not reported. The workers' compensation reserve amounted to $4,100,000 at June 30, 2002, of which $837,449 is included in other current liabilities (payable from current assets) and $3,262,551 is included in long-term liabilities in the accompanying statement of net assets. In the opinion of management, the Airports Division has adequately reserved for such claims.

14. CONTINGENT LIABILITIES AND OTHER

Litigation

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

Arbitrage

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

Asserted Claim

On November 8, 2002, the Airlines Committee of Hawaii, on behalf of many of the signatory airlines, submitted a written request to the State for the return of $5,393,344. This amount purportedly represents the amount of landing fees and other charges allegedly overpaid by the signatory airlines in fiscal year 1995. The State presently disputes this obligation and does not believe that a return of the amount is warranted at this time.

A liability for the refund of the $5,393,344 overpayment has not been recorded in the Airports Division's financial statements as of June 30, 2002, because the Airports Division does not believe that all of the conditions for recognizing such a liability have been met, i.e., it is not probable that such a payment must be made.

Criminal Investigation

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

The effect, if any, on the June 30, 2002 financial statements as a result of the ultimate resolution of the investigation is presently unknown.

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

Schedule 1

OPERATING REVENUES AND OPERATING EXPENSES OTHER THAN DEPRECIATION
YEAR ENDED JUNE 30, 2002

			Airports					
	Total	Statewide	Honolulu International	Hilo International	Kona International at Keahole	Kahului	Lihue	All Others
Operating revenues:								
Concession fees	$102,788,144		$ 74,137,668	$ 5,833,525	$1,872,406	$14,600,525	$ 6,132,663	$ 211,357
Aeronautical rentals:								
Exclusive-use premise charges	26,718,579		22,985,743	670,684	883,510	1,278,985	715,810	183,847
Nonexclusive joint-use premise charges	22,976,350		21,904,976	114,466	402,781	347,517	206,610	
Airport landing fees	14,565,475		9,808,772	387,785	1,026,365	2,381,545	757,940	203,068
Nonaeronautical rentals	9,047,527		5,419,634	586,827	355,564	2,045,927	565,577	73,998
Aviation fuel tax	3,322,490		3,028,852	668	89,573	140,040	60,652	2,705
Airports system support charges	391,640		265,687	5,423	18,879	59,934	25,564	16,153
Miscellaneous	3,084,605		2,317,793	63,022	200,726	5,053	421,872	76,139
Total operating revenues	$182,894,810	$ -	$139,869,125	$ 7,662,400	$4,849,804	$20,859,526	$ 8,886,688	$ 767,267
Operating expenses other than depreciation:								
Salaries and wages	$ 47,847,638	$ 6,084,882	$ 21,933,890	$ 3,041,665	$3,590,161	$ 5,939,775	$ 4,080,450	$3,176,815
Other personnel services	36,677,734	1,449,736	23,471,570	2,076,013	2,506,071	3,288,049	2,055,058	1,831,237
Utilities	17,023,413		11,978,533	676,291	974,811	1,857,865	1,251,492	284,421
Special maintenance	10,574,224	135,479	5,661,039	2,936,726	7,813	217,532	1,176,831	438,804
Repairs and maintenance	9,856,299	198,766	6,878,351	555,263	226,532	1,166,762	460,372	370,253
State of Hawaii surcharge on gross receipts (Note 1)	5,739,256	5,739,256						
Materials and supplies	4,639,566	160,812	2,216,237	463,764	438,758	684,199	369,034	306,762
Department of Transportation general administration expenses	3,351,720	3,351,720						
Insurance	2,089,694	2,088,856	85	705	12	(94)	2	128
Claims and benefits	1,243,186	29,710	735,241	34,476	95,583	208,746	119,073	20,357
Communication	402,559	88,496	106,375	23,859	24,028	60,873	30,163	68,765
Travel	307,742	69,725	80,874	26,536	34,769	32,872	36,339	26,627
Rent	244,877	32,862	125,425	4,073	8,514	51,601	9,053	13,349
Dues and subscriptions	130,238	116,023	4,194	1,057	1,802	3,819	1,907	1,436
Printing and advertising	18,206	8,507	3,658	3,128	578	789	1,194	352
Freight and delivery	12,432	1,842	2,059	724	147	1,169	504	5,987
Miscellaneous	854,332	608,704	114,047	20,016	53,816	30,474	12,342	14,933
	141,013,116	20,165,376	73,311,578	9,864,296	7,963,395	13,544,431	9,603,814	6,560,226
Allocation of statewide expenses (Note 2)	-	(20,165,376)	12,233,208	1,646,015	1,328,820	2,260,105	1,602,550	1,094,678
Total operating expenses other than depreciation for net revenues and taxes	141,013,116	-	85,544,786	11,510,311	9,292,215	15,804,536	11,206,364	7,654,904
Disbursements out of major maintenance, renewal and replacement account not included above	276,622		80,803			161,340	34,479	
Total operating expenses other than depreciation for statement of revenues, expenses and changes in net assets	$141,289,738	$ -	$ 85,625,589	$11,510,311	$9,292,215	$15,965,876	$11,240,843	$7,654,904

NOTES:

(1) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.

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

See accompanying independent auditors' report.

Schedule 2

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

CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT
YEAR ENDED JUNE 30, 2002

REVENUES:		
Concession fees		$102,788,144
Aeronautical rentals:		
Exclusive-use premise charges		26,718,579
Nonexclusive joint-use premise charges		22,976,350
Airport landing fees		14,565,475
Nonaeronautical rentals		9,047,527
Aviation fuel tax		3,322,490
Airports system support charges		391,640
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $18,463,186 on capital improvement projects		30,514,784
Federal operating grants		4,949,039
Miscellaneous		3,084,605
		218,358,633
DEDUCTIONS:		
Operating expenses other than depreciation for net revenues and taxes (Schedule 1)	$ 141,013,116	
Amounts required to be paid into the State General Fund for general obligation bond requirements:		
Principal	374,238	
Interest	21,708	141,409,062
Net revenues and taxes		76,949,571
DEBT SERVICE REQUIREMENT:		
Airports system revenue bonds:		
Principal	$ 27,185,000	
Interest (Note 1)	49,316,715	
	76,501,715	
Less credits to the interest account (Note 2)	(43,042,000)	
	33,459,715	
Debt service coverage percentage	125%	41,824,644
EXCESS OF NET REVENUES AND TAXES OVER DEBT SERVICE REQUIREMENT		$ 35,124,927

Schedule 2-2

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

CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT (Continued)
YEAR ENDED JUNE 30, 2002

Notes:

1. For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of bond issue costs and debt discount, which are reported as interest expense for financial statement reporting purposes.

2. In fiscal year 2002, the Airports Division deposited $43,042,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal year 2002 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds".

See accompanying independent auditors' report.

Schedule 3

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

SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY
JUNE 30, 2002

	Annual Principal and Interest Requirements				
	Airports System Revenue Bonds		General Obligation Bonds		
Year Ending June 30	Principal	Interest	Principal	Interest	Total
2003	$ 19,550,000	$ 47,786,165	$ 273,765	$ 11,077	$ 67,621,007
2004	20,910,000	46,667,760	9,427	3,275	67,590,462
2005	35,985,000	45,451,148	9,425	2,865	81,448,438
2006	41,935,000	43,349,176	9,425	2,446	85,296,047
2007	44,305,000	40,949,014	9,425	2,017	85,265,456
2008	33,925,000	38,391,831	9,425	1,579	72,327,835
2009	26,375,000	36,403,806	9,425	1,133	62,789,364
2010	27,950,000	34,841,196	9,425	686	62,801,307
2011	29,865,000	32,922,076	9,425	231	62,796,732
2012	31,880,000	30,927,139	-	-	62,807,139
2013	51,860,000	28,969,016	-	-	80,829,016
2014	49,400,000	25,833,876	-	-	75,233,876
2015	52,355,000	22,869,649	-	-	75,224,649
2016	55,500,000	19,726,999	-	-	75,226,999
2017	58,750,000	16,471,134	-	-	75,221,134
2018	62,295,000	12,934,356	-	-	75,229,356
2019	66,035,000	9,216,513	-	-	75,251,513
2020	69,665,000	5,577,400	-	-	75,242,400
2021	31,030,000	1,709,125	-	-	32,739,125
Total	$ 809,570,000	$ 540,997,379	$ 349,167	$ 25,309	$ 1,350,941,855

See accompanying independent auditors' report.

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

DEBT SERVICE REQUIREMENTS TO MATURITY - AIRPORTS SYSTEM REVENUE BONDS
JUNE 30, 2002

	Principal							
Year Ending June 30	Refunding Series of 1993, 4.00% to 6.45%	First Refunding Series of 1994, 4.15% to 5.60%	Refunding Series of 2000 A, 5.50% to 6.00%	Refunding Series of 2000B, 5.00% to 8.00%	Refunding Series of 2001, 4.00% to 5.75%	Total	Interest	Total Requirements
2003	$ 9,590,000	$ 9,960,000	$ -	$ -	$ -	$ 19,550,000	$ 47,786,165	$ 67,336,165
2004	10,145,000	10,765,000	-	-	-	20,910,000	46,667,760	67,577,760
2005	10,735,000	-	-	9,455,000	15,795,000	35,985,000	45,451,148	81,436,148
2006	11,370,000	-	-	10,035,000	20,530,000	41,935,000	43,349,176	85,284,176
2007	12,055,000	-	-	10,660,000	21,590,000	44,305,000	40,949,014	85,254,014
2008	12,785,000	-	-	11,295,000	9,845,000	33,925,000	38,391,831	72,316,831
2009	4,065,000	-	145,000	11,830,000	10,335,000	26,375,000	36,403,806	62,778,806
2010	4,335,000	-	155,000	12,550,000	10,910,000	27,950,000	34,841,196	62,791,196
2011	4,625,000	-	160,000	13,550,000	11,530,000	29,865,000	32,922,076	62,787,076
2012	4,935,000	-	170,000	14,640,000	12,135,000	31,880,000	30,927,139	62,807,139
2013	5,260,000	-	180,000	15,580,000	30,840,000	51,860,000	28,969,016	80,829,016
2014	-	-	190,000	16,595,000	32,615,000	49,400,000	25,833,876	75,233,876
2015	-	-	200,000	17,665,000	34,490,000	52,355,000	22,869,649	75,224,649
2016	-	-	215,000	18,815,000	36,470,000	55,500,000	19,726,999	75,226,999
2017	-	-	225,000	19,960,000	38,565,000	58,750,000	16,471,134	75,221,134
2018	-	-	240,000	21,285,000	40,770,000	62,295,000	12,934,356	75,229,356
2019	-	-	125,000	22,845,000	43,065,000	66,035,000	9,216,513	75,251,513
2020	-	-	8,400,000	22,515,000	38,750,000	69,665,000	5,577,400	75,242,400
2021	-	-	16,010,000	-	15,020,000	31,030,000	1,709,125	32,739,125
Total	$ 89,900,000	$ 20,725,000	$ 26,415,000	$ 249,275,000	$ 423,255,000	$ 809,570,000	$ 540,997,379	$ 1,350,567,379

NOTE: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2002.

See accompanying independent auditors' report.

Schedule 5

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

DEBT SERVICE REQUIREMENTS TO MATURITY - GENERAL OBLIGATION BONDS
JUNE 30, 2002

Year Ending June 30	Series CD 3.85% to 5.00% Due 2003	Series CF 3.25% to 5.50% Due 2002	Series CI 4.00% to 5.00% Due 2011	Total Principal	Interest	Total Requirements
2003	$ 48,909	$ 215,429	$ 9,427	$ 273,765	$ 11,077	$ 284,842
2004	-	-	9,427	9,427	3,275	12,702
2005	-	-	9,425	9,425	2,865	12,290
2006	-	-	9,425	9,425	2,446	11,871
2007	-	-	9,425	9,425	2,017	11,442
2008	-	-	9,425	9,425	1,579	11,004
2009	-	-	9,425	9,425	1,133	10,558
2010	-	-	9,425	9,425	686	10,111
2011	-	-	9,425	9,425	231	9,656
Total	$ 48,909	$ 215,429	$ 84,829	$ 349,167	$ 25,309	$ 374,476

See accompanying independent auditors' report.

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

Schedule 6

AIRPORTS SYSTEM CHARGES - FISCAL YEAR 1995-97 LEASE EXTENSION
YEAR ENDED JUNE 30, 2002

	Airline Activity			Airports System Charges								
						Nonexclusive Joint-Use Premise Charges						
	Approved Maximum Revenue Landing Weights (1,000 Pound Units)	Revenue Passenger Landings	Deplaning International Passengers	Airport Landing Fees	Airports System Support Charges	Joint-Use Charges - Overseas Terminal	Joint-Use Charges - Blended OST Terminal	Joint-Use Charges - Interisland Terminal	Joint-Use Charges - Neighbor Island Terminal	International Arrivals Building Charges	Exclusive-Use Premise Charges - Terminal Space	Total
Signatory airlines:												
Air Canada	533,633	1,498	241,287	$ 371,128		$ 623,284			$ 2,643	$ 874,183		$ 1,871,238
Air New Zealand, Ltd.	69,750	217	28,773	56,202		103,246				104,245	$ 222,832	486,525
Air Pacific, Ltd.	30,287	211	13,460	27,393		100,391				48,766		176,550
All Nippon Airways Co., Ltd.	289,484	638	130,725	270,640		303,553				473,617	10,833	1,058,643
Aloha Airlines, Inc.	6,659,192	52,337	11,392	2,431,135			$ 298,823	$1,714,360	383,995	41,273	2,241,053	7,110,639
American Airlines, Inc.	1,254,870	4,841		1,112,089		1,439,262			25,528		800,205	3,377,084
American Trans-Air, Inc.	507,696	1,591		461,176		429,162			9,685		201,914	1,101,937
Canadian Airlines International, Ltd.			(4,488)							(16,803)	487,320	470,517
China Airlines, Ltd.	162,540	258	77,362	144,692		122,754				280,283	169,632	717,361
Continental Airlines, Inc.	454,651	1,229		458,363		584,745					1,190,352	2,233,460
Continental Micronesia	156,546	512	103,489	150,889		243,604				374,941	91,364	860,798
Delta Airlines, Inc.	759,740	2,170		678,878		859,751			5,103		1,156,494	2,700,226
Evergreen International Airlines, Inc.	63,580			31,034								31,034
Federal Express Corporation	426,262			368,347							4,980	373,327
Hawaiian Airlines, Inc.	6,775,908	52,360	37,930	3,122,075			1,280,180	1,635,910	363,669	137,420	1,708,420	8,247,674
Island Air, Inc.	588,538			169,683							166,884	336,567
Jalways Co. Ltd.	642,240	1,310	276,006	617,125		623,284				999,970		2,240,379
Japan Air Lines Company, Ltd.	1,256,497	2,352	592,620	1,213,678		948,247			5,046	2,147,062	1,154,642	5,468,675
Korean Airlines Company, Ltd.	176,241	258	56,299	126,824		122,753				203,971	235,260	688,808
Northwest Airlines, Inc.	1,197,348	2,460	302,680	1,103,904		1,170,441				1,096,610	925,384	4,296,339
Polar Air Cargo, Inc.	230,427			227,425								227,425
Qantas Airways, Ltd.	129,535	205	47,708	124,273		97,537				172,846	343,836	738,492
Trans World Airlines, Inc.	111,718	380		123,300		78,981			3,008		121,055	326,344
United Airlines, Inc.	2,190,196	6,914	96,656	1,946,988		1,456,876			54,148	350,151	3,463,888	7,272,051
United Parcel Service Co.	493,509			364,500							4,068	368,568
Nonsignatory airlines	1,804,226	928	51,833	1,888,186	$391,640	424,414				173,432	963,900	3,841,572
Total airports system charges billed	26,964,614	132,669	2,063,732	17,589,927	391,640	9,732,285	1,579,003	3,350,270	852,825	7,461,967	15,664,316	56,622,233
Adjusted airports system charges based on final reconciliation				$17,589,927	$391,640	10,760,370	1,737,050	3,834,128	985,157	9,217,583	15,664,316	60,180,171
Fiscal year 2002 underpayment waived						$ 1,028,085	$ 158,047	$ 483,858	$132,332	$1,755,616		$ 3,557,938

See accompanying independent auditors' report.

Schedule 6-2

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

RECONCILIATION OF AIRPORT LANDING FEES
YEAR ENDED JUNE 30, 2002

	Signatory Airlines	Nonsignatory Airlines	Total
Gross airport landing fees billed	$ 15,701,741	$ 1,888,186	$ 17,589,927
Less aviation fuel tax credit	(2,942,224)	(82,228)	(3,024,452)
Total	$ 12,759,517	$ 1,805,958	$ 14,565,475

Schedule 6-3

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

UNDERPAYMENT OF AIRPORTS SYSTEM CHARGES - SIGNATORY AIRLINES
YEAR ENDED JUNE 30, 2002

Fiscal Year 2002

Airports system charges underpayments of $3,557,938 were waived for fiscal year 2002 due to the September 11 terrorist attacks.

See accompanying independent auditors' report.

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

Schedule 7

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES - SIGNATORY AIRLINES
YEAR ENDED JUNE 30, 2002

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport Gross Airport Landing Fees					All Other Airports			
	Honolulu International Airport	Hilo International Airport	All Other Airports	Total	Honolulu International Airport	Hilo nternational Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Total Adjusted Airport Landing Fees
Air Canada	$ 480,712		$ 52,921	$ 533,633	$ 339,966		$ 339,966		$ 339,966	$ 31,162		$ 31,162	$ 371,128
Air New Zealand, Ltd.	69,750			69,750	56,202		56,202	$ (122)	56,080				56,080
Air Pacific Ltd.	30,287			30,287	27,393		27,393		27,393				27,393
All Nippon Airways Co., Ltd.	289,484			289,484	270,640		270,640		270,640				270,640
Aloha Airlines, Inc.	3,173,889	$ 581,712	2,903,591	6,659,192	1,138,121	$200,822	1,338,943	(418,125)	920,818	1,092,191		1,092,191	2,013,009
American Airlines, Inc.	825,750		429,120	1,254,870	745,822		745,822	(487,025)	258,797	366,268		366,268	625,065
American Trans-Air, Inc.	294,042		213,654	507,696	243,966		243,966	(111,265)	132,701	217,210		217,210	349,911
China Airlines, Ltd.	162,540			162,540	144,692		144,692		144,692				144,692
Continental Airlines, Inc.	454,651			454,651	458,364		458,364	(200,600)	257,764				257,764
Continental Micronesia	156,546			156,546	150,889		150,889		150,889				150,889
Delta Airlines, Inc.	632,690		127,050	759,740	565,394		565,394	(181,617)	383,777	113,484		113,484	497,261
Evergreen International Airlines, Inc.	63,580			63,580	31,034		31,034		31,034				31,034
Federal Express Corporation	422,822	3,440		426,262	361,708	6,639	368,347	(33,814)	334,533				334,533
Hawaiian Airlines, Inc.	3,745,120	443,960	2,586,828	6,775,908	1,974,677	154,658	2,129,335	(677,121)	1,452,214	992,739		992,739	2,444,953
Island Air, Inc.	210,011	9,865	368,662	588,538	73,367	142	73,509		73,509	96,174		96,174	169,683
Jalways Co. Ltd.	642,240			642,240	617,125		617,125		617,125				617,125
Japan Air Lines Company, Ltd.	1,084,772		171,725	1,256,497	1,051,627		1,051,627	(220)	1,051,407	162,051		162,051	1,213,458
Korean Airlines Company, Ltd.	176,241			176,241	126,824		126,824		126,824				126,824
Northwest Airlines, Inc.	1,197,348			1,197,348	1,103,904		1,103,904	(264,810)	839,094				839,094
Polar Air Cargo Inc.	230,427			230,427	227,425		227,425		227,425				227,425
Qantas Airways, Ltd.	129,535			129,535	124,273		124,273		124,273				124,273
Trans World Airlines, Inc.	51,290		60,428	111,718	51,759		51,759		51,759	71,541		71,541	123,300
United Airlines, Inc.	1,205,026		985,170	2,190,196	1,104,713		1,104,713	(304,978)	799,735	842,275	$(223,458)	618,817	1,418,552
United Parcel Service Co.	306,580		186,929	493,509	294,999		294,999	(39,069)	255,930	69,501		69,501	325,431
Total	16,035,333	1,038,977	8,086,078	25,160,388	$ 11,284,884	$362,261	$ 11,647,145	$(2,718,766)	$8,928,379	$4,054,596	$(223,458)	$3,831,138	$ 12,759,517

Summary of revenue landing weights:

Overseas	12,185,368
Interisland	12,975,020
	25,160,388

Aviation fuel tax of $3,322,490 was paid by the users for the year ended June 30, 2002. Of this amount, $3,024,453 was credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 2,942,224
Nonsignatory airlines	82,228
	$ 3,024,452

NOTE: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2002.

See accompanying independent auditors' report.

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

Schedule 8

APPROVED MAXIMUM REVENUE LANDING WEIGHTS AND AIRPORT LANDING FEES - NONSIGNATORY AIRLINES
YEAR ENDED JUNE 30, 2002

	Approved Maximum Revenue Landing Weights (1,000 pound units)				Honolulu International Airport and Hilo International Airport					All Other Airports			
					Gross Airport Landing Fees								
	Honolulu International Airport	Hilo Internationa Airport	All Other Airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Total Adjusted Airport Landing Fees
Air Japan	$ 29,440			$ 29,440	$ 86,777		$ 86,777		$ 86,777				$ 86,777
Air Nevada Airlines Inc. dba Pacific Wings	17,837		$45,702	63,539	7,790		7,790		7,790	$ 19,491		$ 19,491	27,281
Air Service Corporation	42,584	$ 619	47,578	90,781	51,139	$ 675	51,814		51,814	44,735		44,735	96,549
Air Transport International	64,858			64,858	88,852		88,852		88,852				88,852
Alika Air, Inc.			18,441	18,441						9,168		9,168	9,168
Aloha Airlines, Inc.-Supplementa	23,000			23,000	42,185		42,185		42,185				42,185
Atlas Air Inc.	29,610			29,610	5,632		5,632		5,632				5,632
Canada 3000 Airlines Limited	22,716		5,312	28,028	34,151		34,151		34,151	6,028		6,028	40,179
Century Aviation Inc.	5,169	45	6,594	11,808	4,930	43	4,973	$ (2,414)	2,559	5,951	$ (828)	5,123	7,682
Commercial Flyers Inc.	4,032	7	12,926	16,965	1,583		1,583	(196)	1,387	5,020		5,020	6,407
Corporate Air	31,367	5,252	17,914	54,533	16,456	4,132	20,588		20,588	8,089		8,089	28,677
Custom Air Transport	6,900			6,900	20,562		20,562		20,562				20,562
Helicopter Consultants of Maui		20,881	42,344	63,225		10,583	10,583		10,583	20,304	(3,546)	16,758	27,341
Island Helicopters Kauai			17,377	17,377						8,515	(1,478)	7,037	7,037
Kalitta Air LLC	15,228			15,228	45,379		45,379		45,379				45,379
Lufthansa Cargo AG	47,070			47,070	50,571		50,571		50,571				50,571
Molokai Lanai Air Shuttle	17,908		21,135	39,043	9,798		9,798		9,798	11,403		11,403	21,201
Oahu Northshore Aviation			16,891	16,891						8,997		8,997	8,997
Ohana Aviation			16,075	16,075						8,189	(1,421)	6,768	6,768
Omni International Airlines, Inc.	66,708		822	67,530	97,416		97,416		97,416				97,416
Pacific Helicopter Tours Inc.			18,807	18,807						11,119	(5,397)	5,722	5,722
Philippine Airlines, Inc.	334,123			334,123	450,203		450,203		450,203				450,203
Polynesian Limited	7,738			7,738	10,006		10,006		10,006				10,006
Ryan International Airlines	148,900		138,998	287,898	146,305		146,305		146,305	270,255		270,255	416,560
Safari Aviation		6,067	12,596	18,663		2,908	2,908		2,908	6,023	(778)	5,245	8,153
Sky-Med, Inc.			14,553	14,553						7,484		7,484	7,484
Sunshine Helicopters Inc.		4,867	22,798	27,665		2,734	2,734		2,734	12,024	(3,957)	8,067	10,801
Trans Air	9,841		47,350	57,191	5,166		5,166	(1,870)	3,296	23,405	(2,210)	21,195	24,491
Will Squyres Helicopters Inc.			24,993	24,993						12,231		12,231	12,231
Miscellaneous	155,692	6,843	129,718	292,253	106,141	5,056	111,197	(34,516)	76,681	82,582	(23,617)	58,965	135,646
Total	1,080,721	44,581	678,924	1,804,226	$1,281,042	$26,131	$1,307,173	$(38,996)	$1,268,177	$581,013	$(43,232)	$537,781	$1,805,958

Summary of revenue landing weights:	
Overseas	1,052,538
Interisland	751,688
	1,804,226

See accompanying independent auditors' report.