STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
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DEPT. COMM. NO. 363

March 20, 2018

VIA HAND DELIVERY

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
State Capitol, Room 409
Honolulu, Hawaiʻi 96813

RE: Financial Audit of the Department of Transportation, Airports Division

Dear President Kouchi:

The financial and compliance audit report of the Department of Transportation, Airports Division for the fiscal year ended June 30, 2017, was issued on February 23, 2018. The Office of the Auditor retained BKD LLP to perform the financial and compliance audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and the financial and compliance audit report.

You may view the Auditor's Summary and report on our website at:

http://files.hawaii.gov/auditor/Reports/2017_Audit/DOT_Airports_Financial_2017.pdf

http://files.hawaii.gov/auditor/Reports/2017_Audit/DOT_Airports_Summary_2017.pdf and

http://files.hawaii.gov/auditor/Reports/2017_Audit/DOT_Airports_SA2017.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

Auditor’s Summary

Financial and Compliance Audit of the Department of Transportation, Airports Division

Financial Statements, Fiscal Year Ended June 30, 2017

PHOTO: HAWAII DOT AIRPORTS DIVISION

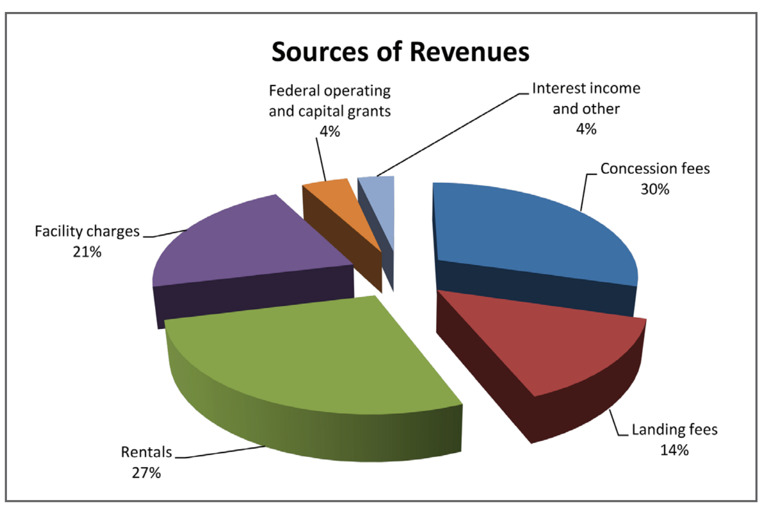
***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Transportation, Airports Division (DOT-Airports), as of and for the fiscal year ended June 30, 2017, and to comply with the requirements of Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, Part 200 (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by BKD, LLP.*

About the Division

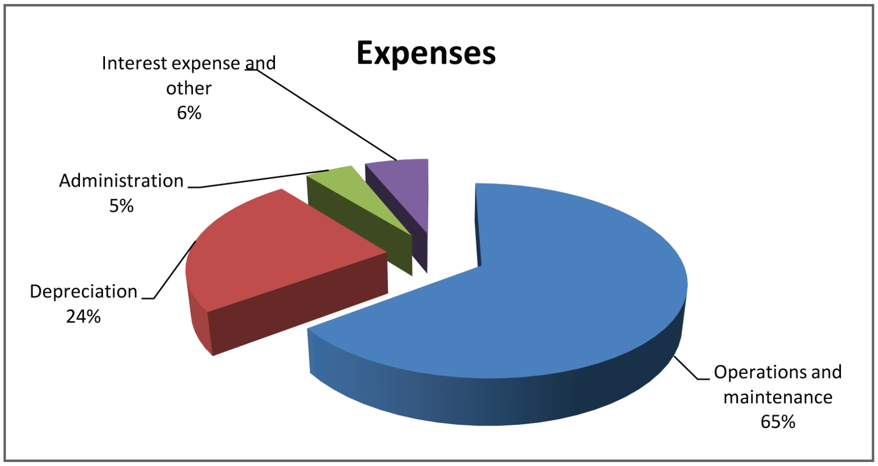
DOT—AIRPORTS operates and maintains 15 airports at various locations within the State of Hawai‘i as a single integrated system for management and financial purposes. Daniel K. Inouye International Airport is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. DOT-Airports is authorized to impose and collect rates and charges for the airports system services and properties to generate revenues to fund operating expenses. The Capital Improvements Program is funded primarily by airports system revenue bonds and lease revenue certificates of participation issued by DOT-Airports, federal grants, passenger facility charges, customer facility charges, and the DOT-Airports revenues.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2017, DOT-Airports reported total revenues of $545 million and total expenses of $409 million, resulting in an increase in net position of $136 million. Revenues consisted of $161 million in concession fees, $78 million in landing fees, $149 million in rentals, $114 million in facility charges, $24 million in federal operating and capital grants, and $19 million in interest and other income.



Total expenses of $409 million, consisted of $265 million for operations and maintenance, $100 million in depreciation, $19 million for administration, and $25 million in interest and other expenses.



As of June 30, 2017, total assets and deferred outflows of resources of DOT-Airports exceeded total liabilities and deferred inflows of resources by approximately $2.29 billion. Of this amount, $346 million is unrestricted and may be used to meet ongoing expenses and obligations. Total assets and deferred outflows of resources of $4.13 billion were comprised of cash of $1.19 billion, investments of $182 million, net capital assets of $2.63 billion, and $126 million in receivables, other assets, and deferred outflows of resources. Total liabilities and deferred inflows of resources totaled $1.84 billion, including $1.04 billion in airports system revenue bonds, $771 million in other liabilities and deferred inflows of resources, and $22 million in special facility revenue bonds. The airports system revenue bonds are rated as follows:

- Standard & Poor's Corporation: A+
- Moody's Investors Service: A1
- Fitch IBCA, Inc.: A

DOT-Airports has numerous capital projects ongoing state-wide; construction-in-progress totaled $1.02 billion at the end of the fiscal year.

Auditors' Opinions

DOT—AIRPORTS RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT-Airports received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

Findings

THERE WAS ONE SIGNIFICANT DEFICIENCY in internal control over financial reporting that was considered a material weakness and required to be reported under *Government Auditing Standards*.

- A number of variances between account balances and supporting documentation provided were identified resulting in several audit adjustments.

There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2017_Audit/DOT_Airports_Financial_2017.pdf
http://files.hawaii.gov/auditor/Reports/2017_Audit/DOT_Airports_SA2017.pdf

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Independent Auditor's Report and Financial Statements

June 30, 2017

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

June 30, 2017

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Independent Auditor's Report

The Auditor
State of Hawaii
Oahu, Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Transportation, Airports Division, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

The Auditor
State of Hawaii

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Airports Division, State of Hawaii as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Airports Division present only the Airports Division enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airports Division's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Auditor
State of Hawaii

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airports Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airports Division's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
December 8, 2017

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Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

The following Management's Discussion and Analysis of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal years ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Daniel K. Inouye International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. It has four runways, two of which (12,000 and 12,300 feet long) are among the nations longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Kahului Airport on the Island of Maui, Hilo International Airport and Ellison Onizuka Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Ellison Onizuka Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Ellison Onizuka Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Daniel K. Inouye International Airport accommodated 57.0% and 57.7% of total passenger traffic in the airports system during fiscal years 2017 and 2016, respectively. The other four principal airports accommodated 41.7% and 41.0% of the total passenger traffic for fiscal years 2017 and 2016, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly, Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Daniel K. Inouye International Airport on July 1, 1999. The other airports in the airports system accommodated 1.2% and 1.3% of the total passenger traffic for fiscal years 2017 and 2016, respectively.

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

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

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

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

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

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Daniel K. Inouye, Kahului, Ellison Onizuka Kona, and Lihue. The program's remaining cost to be paid for planned projects is $1.8 billion and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

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

Overview of the Financial Statements

The Airports Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenue is 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 position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

Airports Division Activities and Highlights

The Airports Division ended fiscal year 2017 with increases in total passengers, revenue landed weights, and in deplaning international passengers of 3.7%, 4.0%, and 3.1%, respectively, as compared to fiscal year 2016. Increasing passenger traffic, in addition to airline carriers maximizing passenger load factors, are the reasons for such changes. Although overseas carriers account for a higher percentage, 62.7%, of revenue landed weights, the overall carrier mix remains diverse.

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

For fiscal year 2017, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 41% and 10% of the total landed weights, respectively. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 23%, 16%, and 11% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Aeko Kula, Inc. accounted for 68% and 10% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 22% and Japan Airlines International Company, Ltd. accounted for 18% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2017: Air Canada, Air China Ltd., Air Japan Co., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., Allegiant Air, L.L.C., Asiana Airlines, Inc., All Nippon Airways Co., Ltd., American Airlines, Inc., China Airlines, Ltd., China Eastern, Inc., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Company, Ltd., Jetstar Airways PTY Ltd., Jin Air Co. Ltd., Korean Airlines Company, Ltd., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, United Airlines, Inc., U.S. Airways, Inc., Virgin America, Inc. and WestJet. The principal airlines providing interisland passenger flight services are Hawaiian Airlines, Inc., Hawaii Island Air, Inc., and Mokulele Flight Service, Inc.

Activity for the airports system for the fiscal years ended June 30, 2017 and 2016 is as follows:

	2017	2016	Percentage increase (decrease) from 2016
Passengers (enplaning and deplaning passengers activity):			
Daniel K. Inouye International Airport	20,374,952	19,873,182	2.52 %
Kahului Airport	7,048,609	6,797,911	3.69
Ellison Onizuka Kona International Airport at Keahole	3,454,151	3,132,632	10.26
Lihue Airport	3,033,195	2,865,267	5.86
Hilo International Airport	1,367,152	1,322,322	3.39
All others	421,529	439,408	(4.07)
Total passengers	35,699,588	34,430,722	3.69 %
Revenue landed weights (1,000-pound units):			
Daniel K. Inouye International Airport	16,494,135	16,027,528	2.91 %
Kahului Airport	4,418,029	4,394,951	0.53
Ellison Onizuka Kona International Airport at Keahole	2,146,995	1,907,839	12.54
Lihue Airport	1,841,146	1,700,405	8.28
Hilo International Airport	899,632	848,575	6.02
All others	258,935	290,925	(11.00)
Total signatory airlines	26,058,872	25,170,223	3.53
Nonsignatory airlines	1,646,558	1,473,303	11.76
Total revenue landed weights	27,705,430	26,643,526	3.99 %

	2017	2016	Percentage increase (decrease) from 2016
Revenue passenger landings:			
Daniel K. Inouye International Airport	76,734	72,660	5.61 %
Kahului Airport	37,666	37,934	(0.71)
Ellison Onizuka Kona International Airport at Keahole	21,012	19,000	10.59
Lihue Airport	14,447	12,609	14.58
Hilo International Airport	6,719	6,604	1.74
All others	16,462	19,278	(14.61)
Total signatory airlines	173,040	168,085	2.95
Nonsignatory airlines	576	815	(29.33)
Total revenue passenger landings	173,616	168,900	2.79 %
Deplaning international passengers:			
Daniel K. Inouye International Airport	2,679,839	2,615,738	2.45 %
Ellison Onizuka Kona International Airport at Keahole	15,872	-	-
Total signatory airlines	2,695,711	2,615,738	3.06
Nonsignatory airlines	56,684	53,476	6.00
Total deplaning international passengers	2,752,395	2,669,214	3.12 %

Financial Operations Highlights

The financial results for fiscal years 2017 and 2016 reflected income before capital contributions of $115.5 million and $90.2 million, respectively. Operating revenue increased by $44.5 million, or 12.6%, resulting from increased revenue from airport landing fees, aeronautical rentals, nonaeronautical rentals and concessions revenue. Total nonoperating revenue increased by $6.1 million, or 5.1%, mainly due to an increase in investment income, rental car customer facility charges and passenger facility charges offset by decrease in debt service support charges.

Revenue

A summary of revenue for the years ended June 30, 2017 and 2016 and the amount and percentage of change in relation to prior year amounts is as follows:

	2017		2016		Increase (decrease) from 2016	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Operating revenue						
Concession fees						
Duty free	$ 32,941,667	6.0 %	$ 32,300,000	6.5 %	$ 641,667	2.0 %
Duty free retail	11,731,747	2.2	11,321,021	2.3	410,726	3.6
Airport parking	26,996,010	5.0	24,935,247	5.0	2,060,763	8.3
Car rental	64,445,003	11.8	53,686,828	10.8	10,758,175	20.0
Food and beverage	10,141,016	1.9	8,881,390	1.8	1,259,626	14.2
Other concessions	14,971,478	2.7	14,405,930	2.9	565,548	3.9
Total concession fees	161,226,921		145,530,416			
Airport landing fees, net	77,858,188	14.3	66,087,556	13.2	11,770,632	17.8
Aeronautical rentals						
Nonexclusive joint-use premise charges	70,655,449	13.0	66,307,423	13.3	4,348,026	6.6
Exclusive-use premise charges	55,489,627	10.2	49,114,469	9.8	6,375,158	13.0
Nonaeronautical rentals	22,995,616	4.2	15,790,815	3.2	7,204,801	45.6
Other	9,381,908	1.7	10,240,603	2.1	(858,695)	(8.4)
Total operating revenue	397,607,709	73.0	353,071,282	70.7	44,536,427	12.6
Nonoperating revenue						
Interest income						
Investments	8,725,065	1.6	4,862,834	1.0	3,862,231	79.4
Direct financing leases	1,222,031	0.2	1,222,031	0.2	-	-
Other loans and investment	130,740	0.0	10,583	0.0	120,157	1,135.4
Federal operating grants	2,925,054	0.5	2,273,076	0.5	651,978	28.7
Passenger facility charges	41,153,190	7.6	38,454,274	7.7	2,698,916	7.0
Rental car customer facility charges	72,362,001	13.3	69,604,372	13.9	2,757,629	4.0
Debt service support charges	-	-	4,000,000	0.8	(4,000,000)	(100.0)
Total nonoperating revenue	126,518,081	23.2	120,427,170	24.1	6,090,911	5.1
Capital contributions						
Federal capital grants	20,651,381	3.8	25,614,492	5.1	(4,963,111)	(19.4)
Total revenue	$544,777,171	100.0 %	$499,112,944	100.0 %	$ 45,664,227	9.1 %

Expenses

A summary of expenses for the years ended June 30, 2017 and 2016 and the amount and percentage of change in relation to prior year amounts is as follows:

	2017		2016		Increase (decrease) from 2016	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Operating expense						
Salaries and wages	$110,721,712	27.1 %	$ 92,251,266	24.1 %	$ 18,470,446	20.0 %
Other personnel services	67,426,087	16.5	58,559,458	15.3	8,866,629	15.1
Utilities	33,900,871	8.3	34,414,525	9.0	(513,654)	(1.5)
Repairs and maintenance	32,445,349	7.9	34,031,495	8.9	(1,586,146)	(4.7)
State of Hawaii surcharge on gross receipts	13,576,235	3.3	12,786,441	3.3	789,794	6.2
Special maintenance	9,911,265	2.4	8,661,551	2.3	1,249,714	14.4
Department of transportation general administration expenses	5,919,473	1.4	5,595,301	1.5	324,172	5.8
Materials and supplies	6,179,969	1.5	5,476,678	1.4	703,291	12.8
Insurance	2,632,629	0.6	2,675,748	0.7	(43,119)	(1.6)
Bad debt expense	454,587	0.1	333,416	0.1	121,171	36.3
Other	5,475,387	1.3	4,436,841	1.2	1,038,546	23.4
Total operating expenses before depreciation	288,643,564	70.6	259,222,720	67.6	29,420,844	11.3
Depreciation	100,260,055	24.5	99,396,717	25.9	863,338	0.9
Total operating expense	388,903,619	95.2	358,619,437	93.6	30,284,182	8.4
Nonoperating expense						
Interest expense						
Revenue bonds						
Airports system	16,010,553	3.9	17,752,943	4.6	(1,742,390)	(9.8)
Special facility	1,222,031	0.3	1,222,031	0.3	-	-
Lease revenue certificates of participation	1,789,530	0.4	1,046,152	0.3	743,378	71.1
Other	551,152	0.1	523,652	0.1	27,500	5.3
Loss on disposal of capital assets	39,853	0.0	2,228,535	0.6	(2,188,682)	(98.2)
Bond issue costs	112,000	0.0	1,856,122	0.5	(1,744,122)	(94.0)
Other	(6,215)	(0.0)	5,599	0.0	(11,814)	(211.0)
Total nonoperating expense	19,718,904	4.8	24,635,034	6.4	(4,916,130)	(20.0)
Total expense	$408,622,523	100.0 %	$383,254,471	100.0 %	$ 25,368,052	6.6 %

Operating expenses before depreciation for fiscal year 2017 increased by 11.3%, or $29.4 million, as compared to fiscal year 2016 mainly due to increases in salaries and wages, other personnel services, special maintenance, other expenses, State of Hawaii surcharge on gross receipts and materials and supplies offset by decreases in repairs and maintenance and other expenses.

Total nonoperating expenses for fiscal year 2017 decreased by 20.0%, or $4.9 million, as compared to fiscal year 2016 mainly due to decreases in loss on disposal of capital assets, bond issue costs and interest expense on Airports System Revenue Bonds offset by increases in interest expense on Lease Revenue Certificates of Participation.

As a result, net assets increased by $136.2 million and $115.9 million for fiscal years 2017 and 2016, respectively.

A summary of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016 follows:

	2017	2016
Operating revenue	$ 397,607,709	$ 353,071,282
Operating expenses, excluding depreciation	(288,643,564)	(259,222,720)
Operating income before depreciation	108,964,145	93,848,562
Depreciation	(100,260,055)	(99,396,717)
Operating income (loss)	8,704,090	(5,548,155)
Nonoperating revenue - net	106,799,177	95,792,136
Income before capital contributions	115,503,267	90,243,981
Capital contributions		
Federal capital grants	20,651,381	25,614,492
Increase in net position	$ 136,154,648	$ 115,858,473

As a result of the above fluctuations in revenues and expenses, net position for the Airports Division increased $136.2 million during 2017.

In summary, the Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenue from a diverse mix of sources. The Airports Division continues to monitor signatory airline requirements and adjust rates and charges, accordingly, to assure financial stability and bond certificate requirements are met on a semiannual and annual basis.

- Operating revenues increased by 12.6%, or \$44.5 million, due to a \$15.7 million increase in concessions revenue, \$11.8 million increase in airport landing fees, \$10.7 million increase in aeronautical revenue, and \$7.2 million increase in nonaeronautical rentals offset by \$0.8 million decrease in other revenue. The increases in operating revenues are due to an increase in passenger traffic

- Operating expenses excluding depreciation increased by 11.3% or \$29.4 million from \$259.2 million in fiscal year 2016 to \$288.6 million in fiscal year 2017. The increase in operating expenses is primarily due to increases in salaries and wages (including pension expense) of \$18.5 million, other personnel services of \$8.9 million, special maintenance of \$1.2 million, other expenses of \$1.0 million, State of Hawaii surcharge on gross receipts of \$0.8 million and materials and supplies of \$0.7 million, offset be a decrease in repairs and maintenance of \$1.6 million and utilities of \$0.5 million.

- The net results of the above resulted in operating income before depreciation of \$109.0 million and \$93.8 million in fiscal years 2017 and 2016, respectively. Operating income before depreciation for fiscal year 2017 increased by 16.1%, or \$15.1 million. Operating income is \$8.7 million in fiscal year 2017 as compared to an operating loss of \$5.5 million in fiscal year 2016.

- Nonoperating revenue, net, increased by 11.5%, or \$11.0 million, in fiscal year 2017, primarily due to a decrease in debt service support charges of \$4.0 million offset by an increase in investment interest income of \$3.9 million, which was due to overall better investment performance in 2017. Increases of rental car customer facility charges of \$2.8 million and passenger facility charges of \$2.7 million were caused by overall increases in passenger traffic during 2017. Additionally, interest expense on airports system revenue bonds decreased by \$1.7 million, and there was a decrease in loss on disposal of capital assets of \$2.2 million.

- Income before capital contributions for fiscal year 2017 of \$115.5 million as compared to \$90.2 million for fiscal year 2016 was a result of an increase in both operating income and nonoperating revenue, net as noted above.

- Capital contributions decreased by 19.4%, or \$5.0 million, in fiscal year 2017, due to a decrease in federal capital grant revenue in fiscal year 2017.

The change in net position is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net position may serve over time as a useful indicator of the Airports Division's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,292.7 million at June 30, 2017, representing an increase of \$136.2 million from June 30, 2016.

Passenger Facility Charges

The Passenger Facility Charge (PFC) program consists of six Federal Aviation Administration (FAA) approved applications. All projects in PFC Application No. 1 have been completed and the application was closed on June 30, 2013. PFC Application No. 3 was "blended" with PFC Application No. 2. PFC Application No. 3 was closed on September 23, 2016. The PFC collection for PFC Application No. 4 was completed on June 1, 2014. However, three projects in PFC Application No. 4 are still ongoing and therefore, this application remains open. On November 22, 2013, the FAA issued the Final Agency Decision (FAD) for PFC Application No. 5 giving approval for PFC collection during the period from June 1, 2014 through July 1, 2026. On August 30, 2016, the FAA issued the FAD for PFC Application No. 6 giving approval to use PFC revenue in the amount of $14,275,000 for the Kahului Airport (OGG) Land Acquisition project approved in PFC Application No. 5 for collection only. The OGG Land Acquisition project was completed on August 1, 2012.

Since the inception of the PFC program through June 30, 2017, the FAA has approved PFC collections for impose and use totaling $719.0 million with collections currently scheduled through 2026. The total PFC collected amount through June 30, 2017, including interest earned, and expenditures were $388.2 million and $231.5 million, respectively.

The Airports Division plans to submit a new PFC application to the FAA in January 2018. The new PFC application proposes PFC collections for impose and use for eight projects totaling an estimated amount of $340.7 million. The FAD for this new PFC application is anticipated in June 2018.

Rental Car Customer Facility Charges

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

On July 7, 2010, State Legislature Senate Bill 2461 became law as Act 204, Session Laws of Hawaii 2010, authorizing the Airports Division to increase the CFC surcharge to $4.50 per day, effective September 1, 2010.

Since September 1, 2009 through June 30, 2017, the total CFC-related revenue, including interest earned, and CFC-related project expenditures were $381.9 million and $267.6 million, respectively.

Financial Position Summary

A condensed summary of the Airports Division's net position at June 30, 2017 and 2016 is shown below:

	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Unrestricted assets	$ 629,160,555	$ 592,765,781
Restricted assets	97,600,241	96,484,437
Noncurrent Assets		
Capital assets	2,629,877,990	2,373,245,489
Restricted assets	711,113,247	776,417,634
Total assets	4,067,752,033	3,838,913,341
Deferred Outflows of Resources	61,437,399	21,597,705
Total assets and deferred outflows of resources	4,129,189,432	3,860,511,046
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Payable from unrestricted assets	61,236,223	63,488,131
Payable from restricted assets	158,226,688	133,130,316
Noncurrent Liabilities		
Payable from unrestricted assets	274,868,411	210,756,609
Payable from restricted assets	1,339,129,114	1,289,427,534
Total liabilities	1,833,460,436	1,696,802,590
Deferred Inflows of Resources	3,016,031	7,150,139
Total liabilities and deferred inflows of resources	1,836,476,467	1,703,952,729
Net Position		
Net investment in capital assets	1,493,025,362	1,292,149,545
Restricted	453,196,194	519,326,280
Unrestricted	346,491,409	345,082,492
Total net position	$ 2,292,712,965	$ 2,156,558,317

The largest portion of the Airports Division's net position (64.1% and 58.9% at June 30, 2017 and 2016, respectively) represents its investment in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net position (20.8% and 25.1% at June 30, 2017 and 2016, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate), as well as PFCs and CFCs that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net position represents unrestricted cash and cash equivalents in the amount of $576.5 million and $558.3 million at June 30, 2017 and 2016, respectively. The $576.5 million and $558.3 million cash balance at June 30, 2017, provides the Airports Division with substantial flexibility, as such unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects.

Capital Acquisitions and Construction Activities

As of June 30, 2017 and 2016, the Airports Division had capital assets of approximately $2,629.9 million and $2,373.2 million, respectively. These amounts are net of accumulated depreciation of approximately $2,197.0 million and $2,097.1 million, respectively.

In fiscal year 2017, there were four construction bid openings totaling an estimated $20 million in potential construction contracts. Projects included Ewa and Diamond Head Terminal Reroofing and Roadway Improvements at Daniel K. Inouye International Airport, Automated Passport Control Kiosk Solution at Ellison Onizuka Kona International Airport at Keahole, Airfield Drainage Improvements at Hilo International Airport, and Hangar 110 Renovation – Phase 5 at Kalaeloa Airport.

There were also many ongoing construction projects that were initiated prior to fiscal year 2017, which were under construction during the fiscal year. Major projects included Statewide Energy Savings Performance Contracting, Statewide; Taxilane G & L Widening Phase I, Taxiway Z Structural Improvements, Consolidated Car Rental Facility, and Mauka Extension at Daniel K. Inouye International Airport; Roadway Improvements and Consolidated Car Rental Facility, Airport Access Road to Hana Highway, and Apron Pavement Structural Improvements at Kahului Airport; and Aircraft Rescue and Fire Fighting Facility Improvements at Hilo International Airport.

Finally, there were 12 projects that were substantially completed in fiscal year 2017 and involved planning, design, and construction projects at large, medium, and small hub airports statewide to preserve, maintain, and modernize facilities. These projects included Environmental Impact Statement, Sustainable Management Plan, and Taxiway Z Structural Improvements at Daniel K. Inouye International Airport; Replacement of Loading Bridges, and Upgrade of Explosive Detection System for TSA, at Kahului Airport; Aircraft Rescue and Fire Fighting Facility Improvements at Hilo International Airport; Re-Roof Terminal Buildings and Terminal Improvements-Design at Ellison Onizuka Kona International Airport at Keahole; and Pavement Management System Phase 2, Access Control System Material Procurement, Construction Management Support, Phase 6, and Statewide Stormwater Improvements for statewide airports.

The Airports Division continues its mission to modernize airport facilities to provide safety and efficiency to airport tenants and enhance the passenger experience. At Daniel K. Inouye International Airport and Kahului Airport, restroom improvements will be advertised in fiscal year 2018. At Ellison Onizuka Kona International Airport at Keahole, a terminal modernization program started construction. These are examples of the projects that are being completed to improve safety as well as traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

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

Indebtedness

Airports System Revenue Bonds

As of June 30, 2017, $1,044.0 million of airports system revenue bonds were outstanding as compared to $1,084.5 million as of June 30, 2016.

At June 30, 2017, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,050,358,121.

Lease Revenue Certificates of Participation

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

On April 13, 2016, the Airports Division issued Series 2016 Lease Revenue Certificates of Participation financing which provided an additional $8.1 million for the ESCO Project.

On March 31, 2017, the Airports Division issued Series 2017 Lease Revenue Certificates of Participation to provide an additional $51.5 million for the ESCO Project.

Special Facility Revenue Bonds

The State Legislature has authorized $200,000,000 of special facility revenue bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2017, there were outstanding bond obligations of $21,725,000. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special facility revenue bonds are payable solely from the revenue derived from the leasing of special facilities financed with the proceeds of special facility revenue bonds.

Immigration Investor Program (EB-5)

In August 2014, the State, acting through the DOT, entered into a loan agreement with Hawaii Regional Center, LP I and Hawaii Regional Center, LP II (together, the Lenders), with CanAM HI GP I, LLC, acting as the agent of the Lenders. The Lenders were created to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) created according to legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is $76,000,000. The EB-5 loan is the first Series of obligations issued under an Indenture of Trust between the State, acting through the DOT and MUFG Union Bank, N.A., as Trustee, and is payable solely from Trust Estate, with CFCs being the primary component. The EB-5 loan is not payable from revenue and aviation fuel taxes, which the DOT has pledged for the repayment of Airports System Revenue Bonds issued under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds. At June 30, 2017, the outstanding balance on the loan facility amounted to $76.0 million.

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

Credit Rating and Bond Insurance

As of June 30, 2017, there were five series of airports system revenue bonds outstanding in the principal amount of $1,014.8 million. Payment of principal and interest on the bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The airports system revenue bonds are rated as follows:

Standard & Poor's Corporation	A+
Moody's Investors Service	A1
Fitch IBCA, Inc.	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 Ross Higashi, Deputy Director, State of Hawaii, Department of Transportation, Airports Division, 400 Rodgers Boulevard, Suite 700, Honolulu, Hawaii 96819-1880, or by e-mail to *airadministrator@hawaii.gov*.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position

June 30, 2017

Assets

Current Assets	
Unrestricted assets	
Cash and cash equivalents - unrestricted	$ 576,465,188
Receivables	
Accounts, net of allowance of $1,369,072 for uncollectible accounts	31,447,485
Interest	2,276,664
Claims - federal grants	11,019,560
Aviation fuel tax	253,738
Due from state of Hawaii agencies	7,491,437
Total receivables	52,488,884
Inventories of materials and supplies at cost	206,483
Total unrestricted current assets	629,160,555
Restricted assets	
Cash and cash equivalents	
Revenue bond debt service	64,143,238
Debt extinguishment	2,142,566
Security deposits	8,487,652
Prepaid airport use charge fund	10,350,276
Held by loan trustee	524,661
Total cash and cash equivalents - restricted	85,648,393
Passenger facility charges receivable	5,775,895
Rental car customer facility charges receivable	6,175,953
Total restricted current assets	97,600,241
Total current assets	726,760,796

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position (continued)

June 30, 2017

Noncurrent Assets	
Unrestricted assets	
Capital assets, net of accumulated depreciation of $2,196,972,922	$ 2,629,877,990
Total unrestricted noncurrent assets	2,629,877,990
Restricted assets	
Cash and cash equivalents:	
Major maintenance, renewal, and replacement account	60,000,000
Debt extinguishment	591,797
Passenger facility charges	150,898,421
Rental car customer facility charges	131,060,948
Unspent loan proceeds	14,087,037
Bond construction proceeds	172,555,086
Total cash and cash equivalents - restricted	529,193,289
Investments - revenue bond debt service reserve	96,893,008
Investments - held by certificate of participation funds trustee	43,640,967
Investments - certificate of participation debt service reserve held by trustee	16,792,787
Investments - certificate of participation debt extinguishment held by trustee	2,715,442
Net investments in direct financing leases	21,877,754
Total restricted noncurrent assets	711,113,247
Total noncurrent assets	3,340,991,237
Total assets	$ 4,067,752,033

Deferred Outflows of Resources

Deferred loss on refunding	$ 2,172,036
Differences between expected and actual experience	3,429,526
Changes in assumptions	32,454,073
Changes in proportion and differences between Airports Division contributions and proportionate share of contributions	570,181
Differences between projected and actual earnings on pension plan investments	11,195,824
Airports Division contributions subsequent to the measurement date	11,615,759
Total deferred outflows of resources	$ 61,437,399

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position (continued)

June 30, 2017

Liabilities

Current Liabilities	
Payable from unrestricted assets	
Vouchers payable	$ 13,468,701
Contracts payable, including retainage of $2,753,664	19,903,075
Current portion of workers' compensation	1,411,359
Current portion of compensated absences	4,683,191
Accrued wages	7,465,943
Pollution remediation liability	391,312
Other	13,912,642
Total payable from unrestricted assets	61,236,223
Payable from restricted assets	
Contracts payable, including retainage of $20,063,179	74,220,899
Current portion of airports system revenue bonds	38,935,000
Accrued interest	30,236,961
Current portion of lease revenue certificates of participation	6,346,175
Security deposits	8,487,653
Total payable from restricted assets	158,226,688
Total current liabilities	219,462,911
Long-term Liabilities - Net of Current Portion	
Payable from unrestricted assets	
Compensated absences	6,946,319
Workers' compensation	2,850,173
Postemployment liability	92,914,633
Net pension liability	172,157,286
Total payable from unrestricted assets	274,868,411
Payable from restricted assets	
Airports system revenue bonds	1,005,033,638
Special facility revenue bonds	21,725,000
Lease revenue certificates of participation	219,467,133
Loan payable	76,000,000
Prepaid airport use charge fund	16,903,343
Total payable from restricted assets	1,339,129,114
Total long-term liabilities - net of current portion	1,613,997,525
Total liabilities	$ 1,833,460,436

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position (continued)

June 30, 2017

Deferred Inflows of Resources

Differences between expected and actual experience	$ 2,468,698
Changes in proportion	547,333
Total deferred inflows of resources	$ 3,016,031

Net Position

Net investment in capital assets	$ 1,493,025,362
Restricted for	
Revenue debt service payment	38,935,000
Revenue debt service reserve account	75,251,513
Revenue debt extinguishment	2,734,363
Certificate of participation debt extinguishment	2,715,442
Major maintenance, renewal, and replacement	60,000,000
Construction to be funded by PFCs	155,397,911
Construction to be funded by CFCs	118,161,965
Total restricted	453,196,194
Unrestricted	346,491,409
Total net position	$ 2,292,712,965

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017

Operating revenue	
Concession fees	$ 161,226,921
Airport landing fees, net	77,858,188
Aeronautical rentals	
Nonexclusive joint-use premise charges	70,655,449
Exclusive-use premise charges	55,489,627
Nonaeronautical rentals	22,995,616
Aviation fuel tax	2,156,017
Miscellaneous	7,225,891
Net operating revenue	397,607,709
Operating expenses	
Salaries, wages and benefits	110,721,712
Depreciation	100,260,055
Other personnel services	67,426,087
Utilities	33,900,871
Repairs and maintenance	32,445,349
State of Hawaii surcharge on gross receipts	13,576,235
Special maintenance	9,911,265
Materials and supplies	6,179,969
Department of Transportation general administration expenses	5,919,473
Claims and benefits	3,262,352
Insurance	2,632,629
Bad debt expense	454,587
Travel	410,379
Communication	362,894
Rent	361,885
Dues and subscriptions	281,758
Printing and advertising	16,273
Freight and delivery	12,605
Miscellaneous	767,241
Total operating expenses	388,903,619
Operating income	8,704,090

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Revenue, Expenses and Changes in Net Position (continued)

Year Ended June 30, 2017

Nonoperating revenue (expenses)	
Interest income	$ 8,855,805
Investments in direct financing leases	1,222,031
Interest expense	
Revenue bonds	
Airports system	(16,010,553)
Special facility	(1,222,031)
Lease revenue certificates of participation	(1,789,530)
Other	(551,152)
Federal operating grants	2,925,054
Passenger facility charges	41,153,190
Rental car customer facility charges	72,362,001
Bond issue costs	(112,000)
Loss on disposal of capital assets	(39,853)
Other	6,215
Total nonoperating revenue, net	106,799,177
Income before capital contributions	115,503,267
Capital contributions	
Federal capital grants	20,651,381
Total capital contributions	20,651,381
Increase in net position	136,154,648
Total net position, beginning of year	2,156,558,317
Total net position, end of year	$ 2,292,712,965

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Cash Flows

Year Ended June 30, 2017

Cash flows from operating activities	
Cash received from providing services	$ 390,329,977
Cash paid to suppliers	(181,087,165)
Cash paid to employees	(89,846,115)
Net cash provided by operating activities	119,396,697
Cash flows from noncapital financing activity	
Proceeds from federal operating grants	3,445,603
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(292,314,683)
Proceeds from federal and other capital grants and contributions	13,852,221
Principal paid on airports system revenue bonds	(37,290,000)
Bond issue costs paid	(112,000)
Proceeds from lease revenue certificates of participation	51,473,427
Principal paid on lease revenue certificates of participation	(4,745,000)
Proceeds from draw on loan payable	41,089,858
Interest paid on outstanding debt	(61,682,316)
Proceeds from passenger facility charges program	39,544,170
Proceeds from rental care customer facility charges	71,603,691
Receipts - other	6,215
Net cash used in capital and related financing activities	(178,574,417)
Cash flows from investing activities	
Proceeds from sale and maturities of investments	154,706,042
Interest received on investments	7,351,615
Purchases of investments	(193,786,017)
Net cash used in investing activities	(31,728,360)
Net decrease in cash and cash equivalents	(87,460,477)
Cash and cash equivalents, beginning of year	1,278,767,347
Cash and cash equivalents, end of year	$ 1,191,306,870

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Cash Flows (continued)

Year Ended June 30, 2017

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 8,704,090
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	100,260,055
Bad debt expense	454,587
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	6,553,067
Changes in operating assets and liabilities	
Accounts receivable	(6,848,659)
Aviation fuel tax receivable	(96,915)
Due from State of Hawaii	(3,792,821)
Deferred outflows of resources - pensions	(40,669,571)
Vouchers payable	(5,069,506)
Contracts payable	(4,545,519)
Unearned income	(1,428,735)
Accrued wages	536,928
Compensated absences	445,988
Postemployment liability	7,318,617
Net pension liability	57,377,743
Pollution remediation liability	(308,061)
Security deposits	1,096,577
Other current liabilities	3,542,940
Deferred inflows of resources - pensions	(4,134,108)
Net cash provided by operating activities	$ 119,396,697

Supplemental information	
Noncash investing, capital and financing activities	
The Airports Divisions noncash capital and financing activities related to bonds payable included the following	
Interest payments on special facility revenue bonds by trustee	$ 1,222,031
Amortization of revenue bond premium	(3,234,973)
Amortization of revenue bond discount	1,052
Amortization of certificates of participation premium	(899,676)
Amortization of deferred loss on refunding revenue bonds	829,877
At June 30, 2017 and 2016, contract payable included $82,988,846 and $56,767,079, respectively, for the acquisition of capital assets	
During fiscal year 2017, interest of $38,395,959 was capitalized in capital assets	
During fiscal year 2017, capital assets with a net book value of $39,853 were written off	

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Note 1: Reporting Entity

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

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

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

An enterprise fund is established to account for an activity that is financed with debt secured solely by a pledge of net revenues from fees and charges of the activity or when laws and regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges rather than with taxes or similar revenues. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). As an enterprise fund, the Airport uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as incurred (flow of economic resources measurement focus).

Operating Revenue and Expenses

Revenue from airlines, concessions, rental cars (excluding customer facility charges), and parking are reported as operating revenue. Transactions that are capital, financing, or investing related are reported as nonoperating revenue. All expenses related to operating the Airports Division are reported as operating expenses. Generally, interest expense and financing costs are reported as nonoperating expenses. Revenue from capital contributions are reported separately, after nonoperating revenue and expenses.

Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $4.50 per passenger effective September 1, 2010. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the statement of revenue, expenses, and changes in net position.

Rental Car Customer Facility Charge

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of $4.50 a day on all u-drive rentals at a state airport. The net receipts from CFCs are restricted to be used for funding approved rental car facility capital projects. CFC revenue, along with the related interest income, is reported as nonoperating revenue in the statement of revenue, expenses and changes in net position.

Capital Contributions

The Airports Division receives federal grants from the FAA and other federal agencies. Grant revenue is considered earned as the related allowable expenditures are incurred. Grants for the acquisition and construction of land, property, and certain types of equipment are reported in the statement of revenue, expenses and changes in net position as capital contributions.

Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

Cash and Cash Equivalents

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

Receivables

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

An aging of the accounts receivable at June 30, 2017 was as follows: current - $30,666,845; 30 days - $1,199,823; 60 days - $(59,979); and over 90 days - $1,009,868.

Investments

Investments held outside of the State Treasury pool consist of certificates of deposit, U.S. Treasury bills and repurchase agreements. The certificates of deposit and repurchase agreements are reported at amortized cost due to the nonparticipating nature of these securities. U.S. Treasury bills are measured at fair value within the fair value hierarchy established by generally accepted accounting principles and are based on quoted prices or other observable inputs, including pricing matrices.

Restricted Assets

Restricted assets consist of moneys and other resources, the use of which is limited because of an externally enforceable constraint. 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 position because they are maintained separately and the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to make debt service payments, unspent bond proceeds, amounts restricted for bond reserve requirements, unspent PFCs, unspent CFCs, security deposits, customer advances, and the prepaid airport use charge fund.

When both restricted and unrestricted resources are available for use, it is the policy of the Airports Division to use restricted resources first and then unrestricted resources as they are needed.

Capital Assets

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

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

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

Repairs and maintenance, minor replacements, renewals, and betterments are charged against operations for the year. Major replacements, renewals, and betterments are capitalized in the year incurred.

Interest cost is capitalized during the period of construction for all capital improvement projects except the portion of projects funded by grants from the federal government. The following is a summary of interest costs incurred for the year ended June 30, 2017 and the allocation thereof:

Expensed as incurred, excluding special facility interest	$ 18,351,235
Capitalized in capital assets	38,395,959
	$ 56,747,194

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is a consumption of net position by the Airports Division that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Bond Issue Costs

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

Bond Original Issue Discount or Premium

Original issue discounts or premiums are amortized using the effective-interest method over the terms of the respective debt issues and are added to, or offset against, the long-term debt in the statement of net position.

Deferred Loss on Refundings

Deferred loss on refundings are amortized using the effective-interest method over the terms of the respective debt issues and are reflected as a deferred outflow of resources on the statement of net position.

Compensated Absences Payable

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 the vesting method provided under 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 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 policy is to fund its required contribution annually.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Pension investments are reported at their fair value.

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 later in these notes. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3: Cash and Cash Equivalents and Investments

The State has an established policy whereby all unrestricted and certain restricted cash is required to be invested in the State's Treasury (the investment pool) in accordance with Section 36-21, of the Hawaii Revised Statutes.

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

The State's investment pool at June 30, 2016 is summarized in the table below (amounts in thousands):

			Maturity (in years)	
	Fair Value	**Less than 1**	**1-5**	**>5**
Investments - primary government				
Certificates of Deposits	$ 861,410	$ 829,635	$ 31,775	$ -
U.S. government securities	2,079,266	997,545	1,073,773	7,948
Repurchase agreements	29,704	29,704	-	-
	2,970,380	$ 1,856,884	$ 1,105,548	$ 7,948
Mutual funds	36,214			
Total investments	$ 3,006,594			
Investments - fiduciary funds				
Certificates of Deposits	$ 65,266	$ 62,859	$ 2,407	$ -
U.S. government securities	157,539	75,581	81,356	602
Repurchase agreements	2,250	2,250	-	-
	225,055	$ 140,690	$ 83,763	$ 602
Equity securities	303,129			
Mutual funds	104,809			
Commingled funds	904,990			
Total investments	$ 1,537,983			

Information relating to the State's investment pool at June 30, 2017 will be included in the comprehensive annual financial report of the State when issued.

At June 30, 2017, the amount reported as amounts held in State Treasury reflects the Airports Division's relative position in the State's investment pool and amounted to $1,190,777,444.

Airports Division's cash and cash equivalents and investments at June 30, 2017 consisted of the following:

Petty cash	$ 4,765
Amounts held in State Treasury	1,190,777,444
Certificates of Deposit	78,690,964
U.S. government securities	34,994,831
Money market mutual funds	46,881,070
	$ 1,351,349,074

Such amounts are reflected in the statement of net position as June 30, 2017 as follows:

Cash and cash equivalents	
Unrestricted	$ 576,465,188
Restricted	614,841,682
Total cash and cash equivalents	1,191,306,870
Investments - restricted	96,893,008
Investments - held by certificate of participation funds - trustee	63,149,196
Total cash and cash equivalents and investments	$ 1,351,349,074

Deposits

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State.

A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations.

Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments

At June 30, 2017, the investments held by the Airports Division consisted of money market mutual funds, non-negotiable certificates of deposit, and U.S. Treasury bills. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State.

The Airports Division categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quote market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters. Such securities are classified as Level 2 of the valuation hierarchy. In certain cases where Level 1 and Level 2 inputs are not available, the fair values of securities are estimated using significant unobservable inputs and are therefore classified within Level 3 of the hierarchy. The fair value of the U.S. Treasury bills held by the Airports Division are measured using Level 1 inputs.

Certain investments, such as the Airports Division's interest in the State investment pool, are measured using the net asset value per share (or its equivalent) practical expedient and are not required to be classified in the fair value hierarchy. The Airports Division has no unfunded commitments or restrictions on redemptions with regard to its investment in the State investment pool.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Airports Division follows the State's policy of limiting maturities on investments to generally not more than five years from the date of investment. The Airports Division's U.S. Treasury bills have maturities that range from six months to one year.

Credit Risk

The Airports Division follows the State's policy of limiting its investments as authorized in the Hawaii Revised Statutes.

At June 30, 2017, the Airports Divisions investments were rated by Moody's as follows:

	Fair Value	Ratings Moody's
Money market mutual funds		
US Bank - Federated government oblivations fund	$ 46,356,409	Aaa-mf
Fidelity Institutional MMF - Government	524,661	Aaa-mf
	$ 46,881,070	

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Airports Division or the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Airports Division and the State's investments are held at broker-dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess SIPC coverage is provided by the firm's insurance policies. The Airports Division and the State require the institutions to set aside, in safekeeping, certain types of securities to collateralize repurchase agreements. The Airports Division and the State monitor the market value of these securities and obtain additional collateral when appropriate. The Airports Division's investments in money market mutual funds and the State investment pool were not subject to custodial credit risk at June 30, 2017, as their existence is not evidenced by securities that exist in physical book entry form.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. At June 30, 2017, the Airports Division did not hold any investments that represent more than 5% of total investments.

Note 4: Capital Assets

Capital assets activity for the year ended June 30, 2017 consists of the following:

	Balance, June 30, 2016	Increases	Decreases	Transfers	Balance, June 30, 2017
Capital assets not being depreciated					
Land	$ 315,977,962	$ -	$ -	$ -	$ 315,977,962
Land improvements	45,375,534	-	-	1,811,144	47,186,678
Construction in progress	779,943,279	355,254,689	(39,852)	(118,460,623)	1,016,697,493
Total capital assets not being depreciated	1,141,296,775	355,254,689	(39,852)	(116,649,479)	1,379,862,133
Capital assets being depreciated					
Land improvements	1,094,148,665	-	-	59,225,203	1,153,373,868
Buildings and improvements	1,941,396,157	-	-	57,236,975	1,998,633,132
Machinery and equipment	293,486,849	1,677,720	(370,091)	187,301	294,981,779
Total capital assets being depreciated	3,329,031,671	1,677,720	(370,091)	116,649,479	3,446,988,779
Less accumulated depreciation					
Land improvements	(784,504,553)	(30,031,043)	-	-	(814,535,596)
Buildings and improvements	(1,089,250,517)	(54,001,948)	-	-	(1,143,252,465)
Machinery and equipment	(223,327,888)	(16,227,064)	370,091	-	(239,184,861)
Total depreciation	(2,097,082,958)	(100,260,055)	370,091	-	(2,196,972,922)
Capital assets being depreciated, net	1,231,948,713	(98,582,335)	-	116,649,479	1,250,015,857
Total capital assets	$ 2,373,245,488	$ 256,672,354	$ (39,852)	$ -	$ 2,629,877,990

Note 5: Long-term Liabilities

A summary of the long-term liabilities changes during fiscal year 2017 is as follows:

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017	Current	Noncurrent
Workers' compensation (Note 16)	$ 4,261,532	$ 1,279,349	$ (1,279,349)	$ 4,261,532	$ 1,411,359	$ 2,850,173
Compensated absences	11,183,522	4,796,374	(4,350,386)	11,629,510	4,683,191	6,946,319
Prepaid airport use charge fund (Notes 9 and 17)	10,350,276	6,553,067	-	16,903,343	-	16,903,343
Postemployment liability (Note 13)	85,596,016	16,856,142	(9,537,525)	92,914,633	-	92,914,633
Net Pension liability (Note 12)	114,779,543	68,410,751	(11,033,008)	172,157,286	-	172,157,286
Airports system revenue bonds (Note 6)	1,052,050,000	-	(37,290,000)	1,014,760,000	38,935,000	975,825,000
Airports system revenue bonds premiums (Note 6)	32,495,279	-	(3,234,973)	29,260,306	-	29,260,306
Airports system revenue bonds discounts (Note 6)	(52,719)	1,051	-	(51,668)	-	(51,668)
Lease revenue certificates of participation (Note 7)	175,796,521	51,473,427	(4,745,000)	222,524,948	6,346,175	216,178,773
Lease revenue certificates of participation premiums (Note 7)	4,188,035	-	(899,675)	3,288,360	-	3,288,360
Special facility revenue bonds (Note 9)	21,725,000	-	-	21,725,000	-	21,725,000
Loan payable (Note 8)	34,910,142	41,089,858	-	76,000,000	-	76,000,000
	$ 1,547,283,147	$ 190,460,019	$ (72,369,916)	$ 1,665,373,250	$ 51,375,725	$ 1,613,997,525

Note 6: Airports System Revenue Bonds

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

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

These revenue bonds are payable solely from and are collateralized solely by the revenue 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 revenue as follows:

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

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

    1. Interest account

    2. Serial bond principal account

    3. Sinking fund account

    4. Debt service reserve account

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

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

e. To provide for betterments and improvements to the airports

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

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

The amended Certificate requires that the Airports Division impose, prescribe, and collect revenue that, together with unencumbered funds, will yield net revenue 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.

At June 30, 2017, the amount credited to the revenue bond debt service reserve accounts was in accordance with applicable provisions of the Certificate.

At June 30, 2017, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statement of net position) consisted of the following:

Debt service reserve account	$ 96,893,008
Major maintenance, renewal and replacement account	60,000,000
	156,893,008
Principal and interest due July 1	64,143,238
	$ 221,036,246

At June 30, 2017, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,050,358,120.

The revenue bonds are subject to redemption at the option of the Department of Transportation (the 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, 2017:

	Interest Rate	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2010A, refunding	2.00%-5.25%	2039	$ 478,980,000	$ 477,125,000
2010B, refunding	3.00%-5.00%	2020	166,000,000	84,770,000
2011, refunding	2.00%-5.00%	2024	300,885,000	208,605,000
2015A, nonrefunding	4.125%-5.00%	2045	235,135,000	235,135,000
2015B, nonrefunding	4.00%	2045	9,125,000	9,125,000
			$ 1,190,125,000	1,014,760,000
Add unamortized premium				29,260,306
Less unamortized discount				(51,668)
Less current portion				(38,935,000)
Noncurrent portion				$ 1,005,033,638

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

Years Ending June 30,	Principal	Interest	Total
2018	$ 38,935,000	$ 49,506,501	$ 88,441,501
2019	40,755,000	47,681,101	88,436,101
2020	42,585,000	45,713,876	88,298,876
2021	44,690,000	43,604,114	88,294,114
2022	46,805,000	41,359,358	88,164,358
2023-2027	192,785,000	172,292,106	365,077,106
2028-2032	113,195,000	138,471,365	251,666,365
2033-2038	145,080,000	105,889,005	250,969,005
2039-2043	179,340,000	65,048,610	244,388,610
2044-2046	170,590,000	17,394,146	187,984,146
	$ 1,014,760,000	$ 726,960,182	$ 1,741,720,182

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranges of 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. The average interest rates of the refunded bonds were 5.749928% and 6.429042%, respectively. Of the net proceeds of $656,136,858 (after the payment of $3,572,788 in underwriting fees, insurance, and other costs), along with an additional $3,069,096 from the debt service reserve account $204,061,069 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

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

The Airports Division recognized an accounting loss of $2,834,351 in connection with this refunding that is reflected as a deferred outflow of resources in the statement of net position and is being amortized to interest expense through 2021.

On November 18, 2015, the Airports Division issued $235,135,000 and $9,125,000 of airports system revenue bonds (Series 2015A (AMT) and Series 2015B (Non-AMT), respectively) at interest rates ranging from 4% to 5% to pay costs of capital improvement projects at certain facilities of the State's airports system, capitalized interest on the Series 2015 Bonds, and certain costs of issuance relating the Series 2015 Bonds.

Note 7: Lease Revenue Certificates of Participation

The Airports Division entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of $167,740,000 at interest rates ranging from 3 to 5.25%.

On April 13, 2016, the Airports Division entered into another lease agreement with Johnson Controls, Inc., amending the Energy Performance Contract dated December 19, 2013, to finance improvements to Daniel K. Inouye International Airport's cooling infrastructure. The costs relating to the lease and installation of certain equipment to implement the third amendment to the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of $8,056,521 at an interest rate of 1.74%.

On March 31, 2017, the Airport Division entered into another lease agreement with Johnson Controls, Inc. amending the Energy Performance Contract dated December 19, 2013 to finance improvements to the lighting infrastructure at multiple airports. The costs relating to the purchase and installation of certain equipment to implement the fourth amendment to the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of $51,473,427 at an interest rate of 2.87%.

The lease revenue certificates of participation are payable from revenue derived by the Airports Division from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State of Hawaii. The certificates of participation represent participations in equipment lease rent payments to be made by the Department. Lease rent payments to holders of the certificates of participation are payable from Revenues and Aviation Fuel Taxes, subordinate in right of payment to the payments of debt service on bonds.

At June 30, 2017, the outstanding balance of the lease revenue certificates of participation and the unamortized premium are $222,524,948 and $3,288,360, respectively.

The schedule of lease rent payments for the lease revenue certificates of participation are as follows:

Years Ending June 30:	Principal	Interest	Total
2018	$ 6,346,175	$ 9,543,923	$ 15,890,098
2019	7,330,905	9,389,313	16,720,218
2020	10,300,960	9,040,194	19,341,154
2021	12,115,573	8,550,685	20,666,258
2022	13,752,812	7,981,791	21,734,603
2023-2027	95,712,483	28,367,202	124,079,685
2028-2032	68,696,602	5,459,790	74,156,392
2033-2034	8,269,438	249,494	8,518,932
	$ 222,524,948	$ 78,582,392	$ 301,107,340

Note 8: Loan Payable

In August 2014, the State, acting through the DOT, entered into a loan agreement with Hawaii Regional Center, LP I and Hawaii Regional Center, LP II (together, the Lenders), with CanAM HI GP I, LLC, acting as the agent of the Lenders. The Lenders were established to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) provided through legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is $76,000,000. The EB-5 loan is the first series of obligations issued under an Indenture of Trust between the State, acting through the DOT and MUFG Union Bank, N.A., as Trustee, and is payable solely from the Trust Estate, with customer facility charges being the primary component. The EB-5 loan is not payable from revenue and aviation fuel taxes, which the DOT has pledged for the repayment of airports system revenue bonds issued under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.

The loan bears interest at a rate of 1.50% with interest payments due semiannually on July 1 and January 1. For the year ended June 30, 2017, the Airports Division has incurred interest of $551,152. At June 30, 2017, the outstanding balance on the loan facility amounted to $76,000,000. The loan is due in full on August 27, 2019.

Note 9: Leases

Airport Airline Lease Agreement

Airports Division

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

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

Effective January 1, 2008, under the first amended lease extension agreement, the airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Nonsignatory airlines are subject to the Administrative Rules, which require the payment of specified amounts for landing fees, Airports System Support Charges, and certain other rates, fees, and charges. Under the 2007 Agreement, the Department agreed to amend the methodology for calculating fees and charges so that nonsignatory airline fees and charges would be 125% of Signatory Airline fees and charges.

Prepaid Airport Use Charge Fund

The Prepaid Airport Use Charge Fund (the PAUCF) was established in 1994 to provide a process to transfer monies paid to the Airports Division by the signatory airlines in excess of the amounts required under each lease.

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the PAUCF.

Net excess payments for fiscal years 1996 through 2017 have been transferred to the PAUCF (Note 17). These funds are required to be set aside as restricted, is the property of the signatory airlines, and can only be spent for purposes mutually designated by the State and the Airlines Committee of Hawaii, which substantially benefit the state airport system.

Aviation Fuel Tax

The aviation fuel tax amounted to $2,156,017 for fiscal year 2017. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

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

Airport landing fees amounted to $79,570,929 for the fiscal year. Airport landing fees are shown net of aviation fuel tax credits of $1,712,741 for fiscal year 2017, on the statement of revenue, expenses, and changes in net position, which resulted in net airport landing fees of $77,858,188 for fiscal year 2017. Airport landing fees are based on a computed rate per 1000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines is set at 45% of the airport landing fees for overseas flights for fiscal year 2017, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per enplaning or deplaning passenger. Nonexclusive joint-use premise charges for terminal rentals amounted to $70,655,449 for fiscal year 2017.

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

Exclusive-use premise charges amounted to $55,489,627 for fiscal year 2017, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $30,118,623 for fiscal year 2017.

Airports system support charges were $0 for fiscal year 2017, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

Special Facility Leases and Revenue Bonds

The Airports Division entered into special facility lease agreements with Continental Airlines, Inc. in November 1997 and July 2000. The construction of the related facilities was financed by special facility revenue bonds issued by the Airports Division in the amounts of $25,255,000 and $6,600,000, respectively. These bonds are payable solely from and collateralized solely by certain rentals and other moneys derived from the special facility. Special facility revenue bonds amounting to $16,600,000 were called in full on May 18, 2015.

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

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments on special facility revenue bonds are required based on the amounts outstanding at June 30, 2017:

Years Ending June 30:	Principal	Interest	Total
2018	$ -	$ 1,222,031	$ 1,222,031
2019	-	1,222,031	1,222,031
2020	-	1,222,031	1,222,031
2021	-	1,222,031	1,222,031
2022	-	1,222,031	1,222,031
2023-2027	-	6,110,156	6,110,156
2028	21,725,000	611,016	22,336,016
	$ 21,725,000	$ 12,831,327	$ 34,556,327

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 position.

Net investments in direct financing leases at June 30, 2017 consisted of the following:

Cash with bond fund trustee	$ 1,199,285
Receivable from lessees, net of unearned interest of $12,678,573	20,525,715
Interest receivable	152,754
	$ 21,877,754

Other Operating Leases

The Airports Division also leases certain building spaces and improvements to concessionaires, airline carriers and other airport users. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users.

The future minimum rentals from these operating leases at June 30, 2017 are as follows:

Years Ending June 30,	
2018	$ 86,185,752
2019	81,307,270
2020	71,819,364
2021	71,671,206
2022	26,148,022
2023-2027	96,008,227
2028-2032	30,370,111
2033-2037	5,151,195
2038-2042	3,262,041
Thereafter	4,332,814
	$ 476,256,002

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 2017 was $80,725,556.

In fiscal years 2006 and 2013, the Airports Division converted certain past-due amounts from two lessees and a lessee, respectively, into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 0 months to 9 years. The balance remaining at June 30, 2017 is $73,541.

Concession fee revenue from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, accounted for approximately 20% of total concession fee revenue for fiscal year 2017.

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

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

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

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provided for a minimum annual guarantee rent, as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent was $38 million and the percentage rent was as follows: (1) for total concession receipts greater than $155 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales, and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent was equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period was calculated the same as during the first four years of the lease term.

Effective October 31, 2014, the in-bond concession lease agreement was amended and the lease was extended through May 31, 2027. The amended lease contract provides (a) for the period from June 1, 2017 through May 31, 2019, $40 million, (b) for the period of June 1, 2019 through May 31, 2020, $47.5 million, (c) for the period June 1, 2020 through May 31, 2021, 85% of the actual annual fee paid and payable (either minimum annual guarantee rent or percentage rent) for the previous year, (d) for the period of June 1, 2021 through May 31, 2022, the same as the previous year, (e) for the period of June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable for the previous year, (f) for the period from June 1, 2023 through May 31, 2027, the same as the minimum annual guarantee rent for the period of June 1, 2022 through May 31, 2023, (3) the percentage fees for the extension period will be set at 30% of gross receipts from on-airport sales and 18% of gross receipts from off-airport sales, (4) the percentage fee for merchandise converted from duty free status to duty paid status shall be 1.25%, and (5) the concession fee for items that are High Price/Low Margin Merchandise shall be 2.5% of the gross receipts from the sale. In addition, DFS agreed to pay $27.9 million for improvements to the Central Waiting Lobby Building at Daniel K. Inouye International.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Daniel K. Inouye International Airport, with the term commencing on April 1, 2009 and scheduled to terminate on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent (85% of the actual annual fee paid for the preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period, the minimum annual guarantee rent was $12 million. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the minimum annual guarantee rent for the period April 1, 2015 through March 31, 2016 be $12 million and for each subsequent year, the minimum annual guarantee rent will be 85% of the actual annual fee paid for the preceding year.

Note 10: Passenger Facility Charges

Passenger facility charge activity for the year ended June 30, 2017 is as follows:

Restricted assets - passenger facility charges, beginning of year	$ 153,476,125
Passenger facility charges during the year	39,601,244
Interest earned on passenger facility charges during the year	1,551,946
Capital expenditures during the year	(37,954,999)
Restricted assets - passenger facility charges, end of year	$ 156,674,316

Restricted assets – passenger facility charges are presented on the statement of net position as of June 30, 2017 as follows:

Cash and cash equivalents	$ 150,898,421
Receivable	5,775,895
Total restricted assets - passenger facility charges	$ 156,674,316

Note 11: Rental Car Customer Facility Charge

Rental car customer facility charge activity for the year ended June 30, 2017 is as follows:

Restricted assets - rental car customer facility charge, beginning of year	$ 219,369,134
Rental car customer facility charges during the year	70,449,453
Interest earned on rental care customer facility charges during the year	1,912,548
Transfer to Bond Projects	(43,000,000)
Capital expenditures during the year	(110,680,282)
Interest paid on loan payable	(813,952)
Restricted assets - rental car customer facility charges, end of year	$ 137,236,901

Restricted assets – rental car customer facility charges are presented on the statement of net position as of June 30, 2017 as follows:

Cash and cash equivalents	$ 131,060,948
Receivable	6,175,953
Total restricted assets - rental car customer facility charges	$ 137,236,901

Note 12: Pension Information

Plan Description

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

Employees covered by Social Security on June 30, 1984 were given the option of becoming noncontributory members or remain contributory members. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to become a noncontributory member. Qualified contributory and noncontributory members were given the option of becoming hybrid members, effective July 1, 2006, or remain in their existing class. Starting July 1, 2006, all new employees covered by Social Security are required to be hybrid members.

Benefits Provided

The three benefit structures provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%), multiplied by the average final compensation (AFC), multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

For postretirement increases, every retirees original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For new members hired after June 30, 2012, the postretirement annuity increase was decreased to 1.5% per year.

Contributions

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

Contributory

Police officers, firefighters, and certain other members that are not covered by Social Security first hired prior to July 1, 2012 contribute 12.2% of their salary and receive a retirement benefit using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 55 with five years of credited service or at any age with 25 years of credited service, provided the last five years of credited service is any of the qualified occupations.

Police officers, firefighters, and certain other members that are not covered by Social Security first hired after June 30, 2012 contribute 14.20% of their salary and receive a retirement benefit using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 60 with 10 years of credited service or at any age with 25 years of credited service, provided the last five years of credited service is any of the qualified occupations.

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

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

Hybrid

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

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

Noncontributory

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

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial-cost method. Since July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts to pay for the unfunded actuarial accrued liability. The contribution rates for fiscal year 2016 were 25.00% for police officers and firefighters, and 17.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The required pension contributions by the Airports Division for the year ended June 30, 2017 were $11,615,759. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Airports Division reported a liability of $172,157,286 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Airports Division's proportion of the net pension liability is determined by a systematic methodology, based on an estimation of covered payroll, utilized by the Department of Accounting and General Services to allocate the State's proportion of the collective net pension liability to the various departments and agencies across the State. At June 30, 2016, the Airports Division's proportion was 2.280% which was an increase of .0100% from its proportion measured as of June 30, 2015.

There were no changes in benefit terms that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2017, the Airports Division recognized pension expense of $20,483,823. At June 30, 2017, the Airports Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,429,526	$ 2,468,698
Changes in assumptions	32,454,073	-
Net difference between projected and actual earnings on pension plan investments	11,195,824	-
Changes in proportion and differences between Airports Division contributions and proportionate share of contributions	570,181	547,333
Airports Division contributions subsequent to the measurement date	11,615,759	-
	$ 59,265,363	$ 3,016,031

The $11,615,759 reported as deferred outflows of resources related to pensions resulting for the Airports Division contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	$ 8,531,817
2019	8,531,817
2020	11,564,634
2021	10,094,642
2022	5,910,663
	$ 44,633,573

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Payroll growth rate	3.5%
Investment rate of return, including inflation at 2.5%	7.0% per year

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA. Postretirement mortality rates are based on the 2016 public retirees of Hawaii mortality table, based on generational projections of the BB projection table from the year 2016 and for generational projections for future years. Preretirement mortality rates are based on the RP-2014 tables based on the occupation of the member.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2015. ERS updates their experience studies every five years. Following this regularly scheduled experience study, the ERS board adopted new assumptions for first use on the June 30, 2016 valuation.

The complete assumption set can be found in the experience study dated July 5, 2016. The primary changes include the following:

- Decreased the nominal investment return assumption to 7.00%.
- Decreased the inflation assumption from 3.00% to 2.5%.
- Decreased the nominal general wage inflation assumption from 4.00% to 3.50%

The mortality assumption was modified to assume longer life expectancies as well as to reflect continuous mortality improvement (generational mortality improvement).

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (Risk-based Classes)	Target Allocation	Long-term Expected Geometric Rate of Return
Broad growth	63.00%	8.35%
Principal protection	7.00%	2.20%
Real estate	10.00%	6.15%
Crisis risk offset	20.00%	5.50%
	100.00%	

Discount Rate

The discount rate used to measure the net pension liability was 7.00% a decrease of .65% from the valuation completed at June 30, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Sensitivity of the Airports Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airports Division's proportionate share of the net pension liability calculated using the discount rate of 7.00% proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.00%) or one-percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Airports Division's proportionate share of the net pension liability	$ 220,672,920	$ 172,157,286	$ 132,686,923

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued ERS comprehensive annual financial report (CAFR). The ERS CAFR can be obtained from: http://ers.ehawaii.gov/resources/financials or from the address below:

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

The State issues a comprehensive annual financial report that includes the required note disclosures and the required supplementary information in accordance with the provisions of GASB Statement No. 68. This report can be obtained from http://ags.hawaii.gov/accounting/annual-financial-reports/

Note 13: Postretirement Healthcare and Life Insurance Benefits

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

The State pays the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with 10 or more years of credited service.

The State pays the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than 10 years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between 10 and 15 years of credited service; (b) 75 percent of the base monthly contribution if the employee retired with between 15 and 25 years of credited service; and (c) 100 percent of the base monthly contribution if the employee retired with 25 or more years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 2001: (a) one-half of the base monthly contribution for a self-only plan if the employee retired with between 10 and 15 years of credited service; (b) seventy-five percent of the base monthly contribution for a self-only plan if the employee retired with between 15 and 25 years of credited service; and (c) one hundred percent of the base monthly contribution for a self-only plan if the employee retired with 25 or more years of credited service.

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

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

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Airports Division's contribution for the year ended June 30, 2017 was $9,537,524, which represented 57% of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $16,856,141.

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

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

Note 14: Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $13,576,235 in fiscal year 2017.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $5,919,473 in fiscal year 2017. During fiscal year 2017, the Airports Division received assessment refunds from the DOT amounting to $1,754,012, which is recorded as a receivable Due from State of Hawaii at year end. Such refunds reduced operating expenses in the accompanying statement of revenue, expenses and changes in net position.

During fiscal year 2017, revenue received from other state agencies totaled $6,171,227 and expenditures to other state agencies totaled $8,421,631. The revenue received relates to various rental agreements that the Airports Division has with the State of Hawaii. The expenses paid relate to various items including security, salary and insurance.

At June 30, 2017, the Airports Division had a receivable due from state agencies for $7,491,437. The receivable includes an assessment refund and rental revenue outstanding at year-end.

Note 15: Commitments

Sick Pay

Accumulated sick leave at June 30, 2017 was $24,709,406. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment.

Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

Deferred Compensation Plan

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying financial statements.

Pledged Future Revenue

In accordance with the Certificate, the Airports Division has pledged future revenue net of operation, maintenance and repair expenses, and certain adjustments (net revenue and taxes available for debt service) to repay $1,190,125,000 in revenue bonds issued in 2010, 2011 and 2015, and payable through 2046. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $1,741,720,182. In fiscal year 2017, total debt service paid, exclusive of amounts refunded, and net revenue and taxes available for debt service for the Airports Division was $89,975,366 and $143,082,874, respectively. See also Note 6 for further discussion on the revenue bonds.

Other

At June 30, 2017, the Airports Division has commitments totaling approximately $1,282,465,173 for construction and service contracts.

Note 16: Risk Management

The Airports Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division generally addresses these risks through commercial insurance policies. Settled claims have not exceeded this commercial coverage in any of the past three years.

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.

Property and Liability Insurance

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

The Airports Division is covered under the State of Hawaii Statewide Insurance Program for Property, Auto and Crime Insurance.

Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2017, the workers compensation reserve was $4,261,532, of which $1,411,359 is included in current liabilities (payable from unrestricted net assets), and $2,850,173 is included in long-term liabilities in the accompanying statement of net position at June 30, 2017. In the opinion of management, the Airports Division has adequately reserved for such claims.

The change in claims payable for 2017 and 2016, including an estimate of incurred but not reported claims, is as follows:

	2017	2016
Beginning balance - July 1	$ 4,261,532	$ 4,261,532
Current year claims and changes in estimates	1,279,349	1,369,943
Claims settled	(1,279,349)	(1,369,943)
Ending balance - June 30	$ 4,261,532	$ 4,261,532

Note 17: 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 Airports Division. 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, 2017, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

Asserted Claims

Prepaid Airport Use Charge Fund

The PAUCF was increased by $6,553,067 due to an overpayment for fiscal year 2017. The PAUCF liability at June 30, 2017 was $16,903,343.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the DOT was required to pay a $1 million fine. The Airports Division's allocated share of the fine was $400,000, which was paid in February 2006. The consent decree was terminated in April 2016 and no further liability exists. The department is expected to expend an additional $391,312 to complete various projects in order to be in compliance with their permit and the Clean Water Act.

Note 18: Subsequent Events

In July 2017, the Airports Division issued $249,805,000 of airports system customer facility charge revenue bonds (Customer Facility Charge Revenue Bonds, Series 2017A) at interest rates ranging from 1.70% to 4.14%. The Series 2017 Bonds are being issued for the costs of design, development and construction of consolidated rental motor vehicle facility projects at certain airports and to fund the Rolling Coverage Fund Requirement and the Debt Service Reserve Fund Requirement for the Series 2017 Bonds and to pay certain costs of issuance relating to the Series 2017 bonds. The Bonds are special limited obligations of the State, payable solely from and secured by the receipts from collection of the Rental Motor Vehicle Customer Facility Charge imposed by the State on rental motor vehicle customers who use or benefit from rental car facilities at all airports in the Airports System.

Supplementary Information

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Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Operating Revenues and Operating Expenses Other than Depreciation
Year Ended June 30, 2017

			Airports					
	Totals	Statewide	Daniel K. Inouye International	Hilo International	Ellison Onizuka Kona International at Keahole	Kahului	Lihue	All Others
Operating revenue								
Concession fees	$ 161,226,921	$ -	$ 93,702,390	$ 3,718,821	$ 16,430,280	$ 32,104,123	$ 14,974,277	$ 297,030
Airport landing fees	77,858,188	-	52,520,243	1,674,437	5,708,784	12,635,802	4,701,116	617,806
Nonexclusive joint-use premise charges	70,655,449	-	54,419,759	1,325,679	2,956,924	8,599,429	3,353,658	-
Exclusive-use premise charges	55,489,627	-	40,134,542	1,722,815	1,920,471	7,738,267	3,271,721	701,811
Nonaeronautical rentals	22,995,616	-	16,451,567	417,942	1,189,696	3,596,227	1,234,147	106,037
Aviation fuel tax	2,156,017	-	839,135	194,861	147,001	737,570	237,450	-
Miscellaneous	7,225,891	499,559	5,007,927	37,987	633,716	601,874	435,355	9,473
	397,607,709	499,559	263,075,563	9,092,542	28,986,872	66,013,292	28,207,724	1,732,157
Allocation of statewide miscellaneous revenue (Note 1)	-	(499,559)	330,947	11,623	36,280	83,044	35,485	2,180
Net operating revenue	$ 397,607,709	$ -	$ 263,406,510	$ 9,104,165	$ 29,023,152	$ 66,096,336	$ 28,243,209	$ 1,734,337
Operating expenses other than depreciation								
Salaries and wages	$ 110,721,712	$ 26,607,886	$ 41,094,429	$ 6,732,528	$ 7,856,345	$ 11,462,272	$ 7,641,640	$ 9,326,612
Other personnel services	67,426,087	6,077,540	38,999,469	4,097,829	4,643,011	5,765,070	4,884,829	2,958,339
Utilities	33,900,871	3,128	24,756,028	1,033,814	2,057,688	3,636,859	1,764,684	648,670
Repairs and maintenance	32,445,349	14,671,915	12,873,118	696,054	1,131,018	1,729,149	917,969	426,126
State of Hawaii surcharge on gross receipts (Note 2)	13,576,235	13,576,235	-	-	-	-	-	-
Special maintenance	9,911,265	1,987,747	2,657,066	(1,901,159)	3,524,154	(224,793)	429,594	3,438,656
Materials and supplies	6,179,969	156,291	2,964,544	512,954	726,387	897,378	489,038	433,377
Department of Transportation general administration expenses	5,919,473	5,919,473	-	-	-	-	-	-
Insurance	2,632,629	2,634,096	-	-	(1,392)	-	-	(75)
Claims and benefits	3,262,352	2,001,548	890,099	31,597	77,152	180,662	19,424	61,870
Travel	410,379	112,919	75,144	34,603	41,793	57,169	36,774	51,977
Communication	362,894	75,372	61,881	50,836	28,541	65,575	45,247	35,442
Rent	361,885	83,893	199,995	11,378	13,919	22,375	13,655	16,670
Dues and subscriptions	281,758	247,033	13,746	2,892	13,962	2,081	-	2,044
Bad debt expense (Note 3)	454,587	454,587	-	-	-	-	-	-
Freight and delivery	12,605	226	484	418	1,974	4,328	4,247	928
Printing and advertising	16,273	14,416	733	32	-	-	458	634
Miscellaneous	767,241	346,153	188,751	56,456	108,823	14,734	36,071	16,253
	288,643,564	74,970,458	124,775,487	11,360,232	20,223,375	23,612,859	16,283,630	17,417,523
Allocation of statewide expenses (Note 4)	-	(74,970,458)	43,779,377	3,985,910	7,095,679	8,284,930	5,713,359	6,111,203
Total operating expenses other than depreciation for statement of revenue, expenses and changes in net position	$ 288,643,564	$ -	$ 168,554,864	$ 15,346,142	$ 27,319,054	$ 31,897,789	$ 21,996,989	$ 23,528,726

Notes:
(1) Statewide miscellaneous revenue is allocated to the airports based upon their respective current year miscellaneous revenue to total current year miscellaneous revenue for all airports.
(2) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.
(3) Bad debt expense is allocated primarily by individually identifiable bad debts with the remainder allocated to the airports based upon their respective current year revenue to total current year revenue for all airports.
(4) Statewide expenses are allocated to the airports based upon their respective current year operating expenses to total current year operating expenses for all airports.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Calculations of Net Revenue and Taxes and Debt Service Requirement
Year Ended June 30, 2017

Revenue and taxes	
Concession fees	$ 161,226,921
Airport landing fees	77,858,188
Aeronautical rentals	
Nonexclusive joint-use premise charges	70,655,449
Exclusive-use premise charges	55,489,627
Nonaeronautical rentals	22,995,616
Aviation fuel tax	2,156,017
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $859,352 on capital improvement projects	8,855,805
Federal operating grants	2,925,054
Miscellaneous	7,225,891
Total revenue and taxes	409,388,568
Deductions	
Operating expenses other than depreciation for net revenue and taxes (Schedule 1)	288,643,564
Annual reserve required on major maintenance, renewal and replacement account	-
Total deductions	288,643,564
Net revenue and taxes	120,745,004
Add funded coverage per bond certificate	22,337,869
Adjusted net revenue and taxes	143,082,873
Debt service requirement	
Airports system revenue bonds	
Principal	38,935,000
Interest (Note 1)	45,182,047
Total debt service	84,117,047
Less funds deposited into the Airport Revenue Fund for credit to interest account (Note 2)	(650,817)
Total debt service requirement	83,466,230
Debt service coverage percentage	125
Total debt service with coverage requirement	104,332,788
Excess of net revenue and taxes over debt service requirement	$ 38,750,085

Notes:

(1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes, and amounts from the Series 2015 bond proceeds used to pay interest on the Series 2015 bonds until the projects funded by the Series 2015 bonds are in service.

(2) Pursuant to the provisions in Section 6.01 of the Certificate and Hawaii Revised Statutes Section 261-5.5, the Airports Division transferred $650,817 of Passenger Facility Charge revenue into the Airport Revenue Fund for credit to the interest account for Passenger Facility Charge eligible debt service. The transfer is approved by the Federal Aviation Administration.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Summary of Debt Service Requirements to Maturity – Airports System Revenue Bonds

Year Ended June 30, 2017

	Annual Principal and Interest Requirements		
	Airports System Revenue Bonds		
Year Ending June 30,	Principal	Interest	Total
2018	$ 38,935,000	$ 49,506,501	$ 88,441,501
2019	40,755,000	47,681,101	88,436,101
2020	42,585,000	45,713,876	88,298,876
2021	44,690,000	43,604,114	88,294,114
2022	46,805,000	41,359,358	88,164,358
2023	49,175,000	38,972,064	88,147,064
2024	51,580,000	36,462,114	88,042,114
2025	54,195,000	33,819,389	88,014,389
2026	18,440,000	32,010,804	50,450,804
2027	19,395,000	31,027,735	50,422,735
2028	20,400,000	29,991,676	50,391,676
2029	21,460,000	28,902,164	50,362,164
2030	22,570,000	27,750,854	50,320,854
2031	23,755,000	26,537,559	50,292,559
2032	25,010,000	25,289,112	50,299,112
2033	26,255,000	24,007,487	50,262,487
2034	27,575,000	22,661,737	50,236,737
2035	28,945,000	21,248,737	50,193,737
2036	30,395,000	19,765,237	50,160,237
2037	31,910,000	18,205,807	50,115,807
2038	33,520,000	16,566,357	50,086,357
2039	35,195,000	14,844,597	50,039,597
2040	36,955,000	13,034,869	49,989,869
2041	35,945,000	11,215,256	47,160,256
2042	37,725,000	9,387,531	47,112,531
2043	39,600,000	7,469,006	47,069,006
2044	41,565,000	5,455,056	47,020,056
2045	43,630,000	3,340,956	46,970,956
2046	45,795,000	1,129,128	46,924,128
Total	$ 1,014,760,000	$ 726,960,182	$ 1,741,720,182

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Debt Service Requirements to Maturity – Airports System Revenue Bonds
Year Ended June 30, 2017

Year Ending June 30,	Refunding Series of 2010A, 2.00% to 5.25%	Refunding Series of 2010B, 3.00% to 5.00%	Refunding Series of 2011, 2.00% to 5.00%	New Issue Series 2015A, 4.12% to 5.25%	New Issue Series 2015B, 4.00%	Total	Interest	Total Requirements
2018	$ 340,000	$ 19,975,000	$ 18,620,000	$ -	$ -	$ 38,935,000	$ 49,506,501	$ 88,441,501
2019	355,000	20,980,000	19,420,000	-	-	40,755,000	47,681,101	88,436,101
2020	255,000	22,165,000	20,165,000	-	-	42,585,000	45,713,876	88,298,876
2021	7,720,000	21,650,000	15,320,000	-	-	44,690,000	43,604,114	88,294,114
2022	14,510,000	-	32,295,000	-	-	46,805,000	41,359,358	88,164,358
2023	18,005,000	-	31,170,000	-	-	49,175,000	38,972,064	88,147,064
2024	16,650,000	-	34,930,000	-	-	51,580,000	36,462,114	88,042,114
2025	17,510,000	-	36,685,000	-	-	54,195,000	33,819,389	88,014,389
2026	18,440,000	-	-	-	-	18,440,000	32,010,804	50,450,804
2027	19,395,000	-	-	-	-	19,395,000	31,027,735	50,422,735
2028	20,400,000	-	-	-	-	20,400,000	29,991,676	50,391,676
2029	21,460,000	-	-	-	-	21,460,000	28,902,164	50,362,164
2030	22,570,000	-	-	-	-	22,570,000	27,750,854	50,320,854
2031	23,755,000	-	-	-	-	23,755,000	26,537,559	50,292,559
2032	25,010,000	-	-	-	-	25,010,000	25,289,112	50,299,112
2033	26,255,000	-	-	-	-	26,255,000	24,007,487	50,262,487
2034	27,575,000	-	-	-	-	27,575,000	22,661,737	50,236,737
2035	28,945,000	-	-	-	-	28,945,000	21,248,737	50,193,737
2036	30,395,000	-	-	-	-	30,395,000	19,765,237	50,160,237
2037	31,910,000	-	-	-	-	31,910,000	18,205,807	50,115,807
2038	33,520,000	-	-	-	-	33,520,000	16,566,357	50,086,357
2039	35,195,000	-	-	-	-	35,195,000	14,844,597	50,039,597
2040	36,955,000	-	-	-	-	36,955,000	13,034,869	49,989,869
2041	-	-	-	34,570,000	1,375,000	35,945,000	11,215,256	47,160,256
2042	-	-	-	36,295,000	1,430,000	37,725,000	9,387,531	47,112,531
2043	-	-	-	38,110,000	1,490,000	39,600,000	7,469,006	47,069,006
2044	-	-	-	40,020,000	1,545,000	41,565,000	5,455,056	47,020,056
2045	-	-	-	42,020,000	1,610,000	43,630,000	3,340,956	46,970,956
2046	-	-	-	44,120,000	1,675,000	45,795,000	1,129,128	46,924,128
	$ 477,125,000	$ 84,770,000	$ 208,605,000	$ 235,135,000	$ 9,125,000	$ 1,014,760,000	$ 726,960,182	$ 1,741,720,182

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Airports System Charges – Fiscal Year 2008 Lease Extension
Year Ended June 30, 2017

	Airline Activity			Airports System Charges														
						Nonexclusive Joint-use Premise Charges										Exclusive		
	Approved Maximum Revenue Landing Weights (1,000-pound units)	Revenue Passenger Landings	Deplaning International Passengers	Airports Landing Fees	Airports System Support Charges	Joint-use Charges - Overseas Baggage	Joint-use Charges - Overseas Holdroom	Joint-use Charges - Overseas Baggage Make Up	Joint-use Charges - Overseas	Joint-use Charges - Interisland Baggage	Joint-use Charges - Interisland Holdroom	Joint-use Charges - Commuter Baggage	Joint-use Charges - Commuter Holdroom	International Arrivals Building Charges	Preferential Use	Use Premise Charges - Terminal Space	Other Aeronautical Rentals	Total
Signatory airlines																		
Aeko Kula, Inc.	$ 1,206,634	$ -	$ -	$ 2,143,208	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 123,173	$ -	$ 2,266,381
Air Canada	206,400	645	-	747,168	-	365,324	310,712	106,154	-	-	-	-	-	-	-	790,237	-	2,319,595
Air China Limited	72,472	181	30,036	262,350	-	-	42,049	38,268	-	-	-	-	-	209,651	-	155,612	-	707,930
Air Japan Co., Ltd.	104,960	328	60,723	379,955	-	-	91,368	83,152	-	-	-	-	-	423,847	-	-	-	978,322
Air New Zealand, Ltd.	81,600	192	48,219	295,392	-	-	66,527	60,545	-	-	-	-	-	336,569	-	-	-	759,033
Air Pacific, Ltd.	21,888	157	15,397	79,235	-	-	21,619	19,670	-	-	-	-	-	107,471	-	-	-	227,995
Alaska Airlines, Inc.	1,154,901	7,924	-	4,180,743	-	2,307,734	984,859	438,883	-	-	-	-	-	-	577,905	825,819	-	9,315,943
All Nippon Airways Co., Ltd.	299,128	776	172,441	1,082,843	-	-	233,763	212,743	-	-	-	-	-	1,203,638	-	152,112	-	2,885,099
Allegiant Air LLC	37,422	189	-	135,468	-	128,909	53,310	48,516	-	-	-	-	-	-	-	88,450	-	454,653
American Airlines, Inc.	1,416,271	6,915	-	5,126,901	-	2,666,965	2,073,968	669,241	-	-	-	-	-	-	-	1,336,812	-	11,873,887
Asiana Airlines, Inc.	108,013	262	62,401	391,008	-	-	86,174	78,425	-	-	-	-	-	435,559	-	(36,328)	-	954,838
China Airlines, Ltd.	200,581	480	121,832	726,104	-	-	175,555	159,768	-	-	-	-	-	850,387	-	83,634	-	1,995,448
Continental Airlines, Inc.	40,955	280	-	148,256	-	42,445	224,816	-	-	-	-	-	-	-	-	603,501	-	1,019,018
Delta Air Lines, Inc.	1,834,631	6,841	336,987	6,641,363	-	2,842,374	2,283,597	1,296,041	-	-	-	-	-	2,352,169	-	5,776,374	-	21,191,918
Federal Express Corporation	658,197	-	-	2,382,671	-	-	-	-	-	-	-	-	-	-	-	7,708	-	2,390,379
Hawaii Island Air, Inc.	768,115	14,953	-	1,252,027	-	-	-	-	-	358,535	52,266	273,157	370,301	-	192,207	968,257	-	3,466,750
Hawaiian Airlines, Inc.	11,226,176	82,248	604,843	25,972,742	-	-	2,254,618	-	-	13,935,304	63,781	-	-	4,221,804	7,610,921	9,885,806	-	63,944,976
Japan Airlines International Co., Ltd.	986,700	2,448	501,375	3,571,854	-	-	717,360	652,853	-	-	-	-	-	3,499,598	-	1,392,208	-	9,833,873
Jetstar Airways Pty Limited	193,257	487	136,105	699,591	-	-	203,259	184,981	-	-	-	-	-	950,013	-	-	-	2,037,844
Jin Air Co., Ltd.	89,700	195	61,710	324,714	-	-	85,623	77,924	-	-	-	-	-	430,736	-	39,514	-	958,511
Kalitta Air, LLC	252,278	-	-	886,612	-	-	-	-	-	-	-	-	-	-	-	-	-	886,612
Korean Airlines Company, Ltd.	407,395	784	214,512	1,474,770	-	-	301,175	274,092	-	-	-	-	-	1,497,294	-	387,797	-	3,935,128
Mokulele Flight Services, Inc.	278,613	32,778	-	454,139	-	-	-	-	-	-	-	38,946	50,358	-	-	73,306	-	616,749
Philippine Airlines, Inc.	106,948	256	55,622	387,152	-	-	75,286	68,516	-	-	-	-	-	388,242	-	166,564	-	1,085,760
Polar Air Cargo, LLC	34,632	-	-	125,368	-	-	-	-	-	-	-	-	-	-	-	-	-	125,368
Qantas Airways, Ltd.	230,871	260	56,739	835,753	-	-	84,879	77,247	-	-	-	-	-	396,037	-	570,706	-	1,964,622
United Airlines, Inc.	2,698,249	10,529	216,769	9,765,055	-	4,632,778	3,388,328	1,731,662	-	-	-	-	-	1,513,047	-	4,709,878	-	25,740,748
United Parcel Service Co.	886,799	-	-	2,853,585	-	-	-	-	-	-	-	-	-	-	-	48,735	-	2,902,320
US Airways, Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	286,193	-	286,193
Virgin America, Inc.	201,088	1,382	-	727,937	-	391,188	374,387	106,241	-	-	-	-	-	-	-	335,618	-	1,935,371
WestJet	254,002	1,550	-	919,486	-	485,939	468,585	111,634	-	-	-	-	-	-	-	244,516	-	2,230,160
Total Signatory Airlines	26,058,876	173,040	2,695,711	74,973,450	-	13,863,656	14,601,817	6,496,556	-	14,293,839	116,047	312,103	420,659	18,816,062	8,381,033	29,016,202	10,789,413	192,080,837
Nonsignatory airlines	1,646,558	576	56,684	3,182,142	-	254,995	186,509	205,284	-	-	-	-	-	481,632	-	1,296,082	14,581,592	20,188,236
Total airports system charges billed	27,705,434	173,616	2,752,395	78,155,592	-	14,118,651	14,788,326	6,701,840	-	14,293,839	116,047	312,103	420,659	19,297,694	8,381,033	30,312,284	25,371,005	212,269,073
Signatory airlines requirements				76,388,788	-	12,455,543	12,335,981	5,798,379	-	12,673,554	97,249	312,103	420,659	17,108,466	8,325,095	28,822,540	10,789,413	185,527,770
Nonsignatory airlines requirements				3,182,142	-	254,995	186,509	205,284	-	-	-	-	-	481,632	-	1,296,082	14,581,592	20,188,236
Fiscal year 2017 overpayment (underpayment)				$ (1,415,338)	$ -	$ 1,408,113	$ 2,265,836	$ 698,177	$ -	$ 1,620,285	$ 18,798	$ -	$ -	$ 1,707,596	$ 55,938	$ 193,662	$ -	$ 6,553,067

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Summary of Billed Airport Landing Fees

Year Ended June 30, 2017

	Signatory Airlines	Nonsignatory Airlines	Total
Gross airport landing fees billed	$ 74,973,452	$ 3,182,140	$ 78,155,592
Less aviation fuel tax credit	(1,581,712)	(131,029)	(1,712,741)
Net airport landing fees billed	$ 73,391,740	$ 3,051,111	$ 76,442,851

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Signatory Airlines
Year Ended June 30, 2017

	Approved Maximum Revenue Landing Weights (1,000-pount units)				Daniel K. Inouye International and Hilo International Airport – Gross Airport Landing Fees					All Other Airports			
	Daniel K. Inouye International Airport	Hilo International Airport	All Other Airports	Total	Daniel K. Inouye International Airport	Hilo International Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Total Adjusted Airport Landing Fees
Aeko Kula, Inc.	684,762	175,880	345,992	1,206,634	$ 1,292,556	$ 286,684	$ 1,579,240	$ (76,756)	$ 1,502,484	$ 563,967	$ -	$ 563,967	$ 2,066,451
Air Canada	100,480	-	105,920	206,400	363,738	-	363,738	-	363,738	383,430	-	383,430	747,168
Air China Limited	72,472	-	-	72,472	262,350	-	262,350	-	262,350	-	-	-	262,350
Air Japan Co., Ltd.	104,960	-	-	104,960	379,955	-	379,955	-	379,955	-	-	-	379,955
Air New Zealand, Ltd.	81,600	-	-	81,600	295,392	-	295,392	-	295,392	-	-	-	295,392
Air Pacific, Ltd.	21,888	-	-	21,888	79,235	-	79,235	-	79,235	-	-	-	79,235
Alaska Airlines, Inc.	329,364	-	825,537	1,154,901	1,192,297	-	1,192,297	(254,063)	938,234	2,988,446	-	2,988,446	3,926,680
All Nippon Airways Co., Ltd.	299,128	-	-	299,128	1,082,843	-	1,082,843	-	1,082,843	-	-	-	1,082,843
Allegiant Air LLC	37,422	-	-	37,422	135,468	-	135,468	(16,378)	119,090	-	-	-	119,090
American Airlines, Inc.	631,275	-	784,996	1,416,271	2,285,216	-	2,285,216	(108,108)	2,177,108	2,841,686	-	2,841,686	5,018,794
Asiana Airlines, Inc.	108,013	-	-	108,013	391,008	-	391,008	-	391,008	-	-	-	391,008
China Airlines, Ltd.	200,581	-	-	200,581	726,104	-	726,104	-	726,104	-	-	-	726,104
Continental Airlines, Inc.	-	40,955	-	40,955	-	148,256	148,256	-	148,256	-	-	-	148,256
Delta Air Lines, Inc.	1,400,526	-	434,105	1,834,631	5,069,903	-	5,069,903	(97,770)	4,972,133	1,571,460	-	1,571,460	6,543,593
Federal Express Corporation	658,197	-	-	658,197	2,382,671	-	2,382,671	-	2,382,671	-	-	-	2,382,671
Hawaii Island Air, Inc.	383,940	-	384,175	768,115	625,822	-	625,822	(20,884)	604,938	626,206	-	626,206	1,231,144
Hawaiian Airlines, Inc.	6,277,276	682,797	4,266,099	11,226,172	16,261,389	1,113,596	17,374,985	(772,342)	16,602,643	8,597,756	-	8,597,756	25,200,399
Japan Airlines International Co., Ltd.	986,700	-	-	986,700	3,571,854	-	3,571,854	-	3,571,854	-	-	-	3,571,854
Jetstar Airways Pty Limited	193,257	-	-	193,257	699,591	-	699,591	-	699,591	-	-	-	699,591
Jin Air Co., Ltd.	89,700	-	-	89,700	324,714	-	324,714	-	324,714	-	-	-	324,714
Kalitta Air, LLC	238,894	-	13,384	252,278	864,796	-	864,796	-	864,796	21,816	-	21,816	886,612
Korean Airlines Company, Ltd.	407,395	-	-	407,395	1,474,770	-	1,474,770	-	1,474,770	-	-	-	1,474,770
Mokulele Flight Services, Inc.	53,227	-	225,386	278,613	86,760	-	86,760	(12,101)	74,659	367,379	-	367,379	442,038
Philippine Airlines, Inc.	106,948	-	-	106,948	387,152	-	387,152	-	387,152	-	-	-	387,152
Polar Air Cargo, LLC	34,632	-	-	34,632	125,368	-	125,368	-	125,368	-	-	-	125,368
Qantas Airways, Ltd.	230,871	-	-	230,871	835,753	-	835,753	-	835,753	-	-	-	835,753
United Airlines, Inc.	1,866,496	-	831,753	2,698,249	6,756,717	-	6,756,717	(214,736)	6,541,981	3,008,338	-	3,008,338	9,550,319
United Parcel Service Co.	713,959	-	172,840	886,799	2,424,592	-	2,424,592	(3,185)	2,421,407	428,993	(495)	428,498	2,849,905
Virgin America, Inc.	90,068	-	111,020	201,088	326,045	-	326,045	-	326,045	401,894	-	401,894	727,939
WestJet	90,104	-	163,898	254,002	326,175	-	326,175	(4,894)	321,281	593,311	-	593,311	914,592
Total	16,494,135	899,632	8,665,105	26,058,872	$ 51,030,234	$ 1,548,536	$ 52,578,770	$ (1,581,217)	$ 50,997,553	$ 22,394,682	$ (495)	$ 22,394,187	$ 73,391,740

Summary of revenue landing weights:	
Overseas	16,331,269
Interisland	9,727,603
	26,058,872

Aviation fuel tax of $ 2,156,017 was paid by the users for the year ended June 30, 2017. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $ 1,712,741 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 1,581,712
Nonsignatory airlines	131,029
	$ 1,712,741

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2017.

Schedule 8

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Nonsignatory Airlines
Year Ended June 30, 2017

	Approved Maximum Revenue Landing Weights (1,000-pount units)				Daniel K. Inouye International Airport and Hilo International Airport: Gross Airport Landing Fees					All Other Airports			
	Daniel K. Inouye International Airport	Hilo International Airport	All Other Airports	Total	Daniel K. Inouye 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
Aero Micronesia, Inc.	34,576	-	-	34,576	$ 153,834	$ -	$ 153,834	$ -	$ 153,834	$ -	$ -	$ -	$ 153,834
Air Service Hawaii, Inc.	64,935	2,188	89,781	156,904	147,247	3,797	151,044	(28,820)	122,224	184,789	(44,280)	140,509	262,733
Air Transport International LLC	29,700	-	-	29,700	132,276	-	132,276	-	132,276	-	-	-	132,276
Air Ventures Hawaii, LLC	-	-	2,858	2,858	-	-	-	-	-	2,692	-	2,692	2,692
Alexair, Inc.	-	-	13,300	13,300	-	-	-	-	-	11,305	-	11,305	11,305
Aris, Inc.	-	-	21,451	21,451	-	-	-	-	-	18,233	(1,817)	16,416	16,416
Atlas Air Inc.	96,392	-	-	96,392	434,641	-	434,641	-	434,641	-	-	-	434,641
Big Island Air, Inc.	16	-	3,814	3,830	13	-	13	-	13	3,242	-	3,242	3,255
Bradley Pacific Aviation, Inc.	33,228	621	87,291	121,140	74,187	925	75,112	-	75,112	189,718	-	189,718	264,830
Castle & Cooke Homes Hawaii, Inc.	45,169	309	552	46,030	89,094	-	89,094	-	89,094	1,444	-	1,444	90,538
Corporate Air	26,665	357	33,209	60,231	52,058	690	52,748	-	52,748	64,883	-	64,883	117,631
Delta Air Lines, Inc.	117,063	-	-	117,063	519,472	-	519,472	-	519,472	-	-	-	519,472
George's Aviation Services, Inc.	1,596	35	511	2,142	1,357	30	1,387	(554)	833	434	(52)	382	1,215
Hawaii Air Ambulance, Inc.	24,662	-	-	24,662	20,963	-	20,963	(922)	20,041	-	(90)	(90)	19,951
Hawaii Helicopters, Inc.	-	739	11,220	11,959	-	628	628	-	628	10,515	-	10,515	11,143
Hawaii Pacific Aviation, Inc.	-	-	-	-	-	-	-	-	-	9,705	(759)	8,946	8,946
Hawaii Wilderness Adventures LLC	-	125	-	125	-	106	106	-	106	-	-	-	106
Helicopter Consultants Of Maui, Inc.	25,754	95,396	114,255	235,405	21,891	81,087	102,978	-	102,978	96,140	(10,694)	85,446	188,424
International Life Support, Inc.	11,622	145	368	12,135	9,879	123	10,002	-	10,002	313	-	313	10,315
Island Helicopters, Inc.	-	-	26,999	26,999	-	-	-	-	-	22,949	(1,888)	21,061	21,061
Jack Harter Helicopters, Inc.	-	-	20,082	20,082	-	-	-	-	-	17,070	(1,090)	15,980	15,980
K&S Helicopters, Inc.	5,512	22,312	11,945	39,769	4,685	18,965	23,650	(3,852)	19,798	10,153	(425)	9,728	29,526
Kamaka Air, Inc.	13,364	51	14,691	28,106	11,359	43	11,402	-	11,402	12,487	-	12,487	23,889
Makani Kai Helicopters, Ltd.	37,155	7	56,191	93,353	31,582	6	31,588	(336)	31,252	47,763	(671)	47,092	78,344
Manuiwa Airways, Inc.	-	133	-	133	-	113	113	-	113	-	-	-	113
Niihau Helicopters, Inc.	-	-	504	504	-	-	-	-	-	390	-	390	390
Novictor Aviation, LLC	16,052	-	-	16,052	13,644	-	13,644	-	13,644	-	-	-	13,644
Omni Air International, Inc.	78,330	-	1,410	79,740	349,250	-	349,250	-	349,250	6,385	-	6,385	355,635
Pacific Air Charters, Incorporated	2,470	173	1,685	4,328	1,985	147	2,132	(100)	2,032	1,366	(185)	1,181	3,213
Pacific Helicopter Tours, Inc.	1,441	3	1,375	2,819	1,370	2	1,372	(49)	1,323	1,307	(231)	1,076	2,399
Pofolk Aviation Hawaii, Inc.	-	-	34,247	34,247	-	-	-	-	-	29,110	(347)	28,763	28,763
Resort Air, LLC	491	13	960	1,464	417	11	428	(47)	381	816	(200)	616	997
Safari Aviation, Inc.	-	10,666	14,804	25,470	-	9,066	9,066	-	9,066	12,583	-	12,583	21,649
Sky-med, Inc.	-	-	33,873	33,873	-	-	-	-	-	28,792	-	28,792	28,792
Sunshine Helicopters, Inc.	5	175	31,187	31,367	4	149	153	-	153	26,510	(3,523)	22,987	23,140
Trans Executive Airlines Of Hawaii, Inc.	50,127	23,091	143,751	216,969	38,190	19,559	57,749	(9,866)	47,883	125,029	(20,231)	104,798	152,681
Wings Over Kauai LLC	-	-	1,380	1,380	-	-	-	-	-	1,173	-	1,173	1,173
Total	716,325	156,539	773,694	1,646,558	$ 2,109,398	$ 135,447	$ 2,244,845	$ (44,546)	$ 2,200,299	$ 937,296	$ (86,483)	$ 850,813	$ 3,051,112

Summary of revenue landing weights:	
Overseas	612,206
Interisland	1,034,352
	1,646,558

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2017.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Single Audit Reports

June 30, 2017

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

June 30, 2017

Table of Contents

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Total Federal Expenditures
U.S. Department of Transportation		
Federal Aviation Administration - Airport Improvement Program	20.106	$ 20,368,305
U.S. Department of Agriculture		
Animal and Plant Health Inspection Service (APHIS)	10.025	380,192
Total federal expenditures		$ 20,748,497

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Notes to Schedule

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Airports Division, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Airports Division.

(2) Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indiana Tribal Governments* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Airports Division has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

(3) Federal Loans

The Airports Division had no federal loans that they were administering as of June 30, 2017.

BKD LLP
CPAs & Advisors

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii
Oahu, Hawaii

We have audited, 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, the financial statements of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2017, which contained an "Emphasis of Matters" paragraph for the identification of the financial statements as individual fund statements not representing the State of Hawaii as a whole.

Internal Control Over Financial Reporting

Management of the Airports Division is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Airports Division's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airports Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airports Division's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Airports Division's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airports Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Airports Division's Response to Findings

The Airports Division's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Airports Division's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Airports Division's management in a separate letter dated December 8, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airports Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airports Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
December 8, 2017

BKD LLP
CPAs & Advisors

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Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards as Required by the Uniform Guidance

The Auditor
State of Hawaii
Oahu, Hawaii

Report on Compliance for Each Major Federal Program

We have audited the Airports Division's, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Airports Division's major federal program for the year ended June 30, 2017. The Airports Division's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airports Division's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airports Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Airports Division's compliance.

Opinion on the Major Federal Program

In our opinion, the Airports Division complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Airports Division is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airports Division's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airports Division's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The Auditor
State of Hawaii

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Airports Division as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Airports Division's basic financial statements. We issued our report thereon dated December 8, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Denver, Colorado
February 23, 2018

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Material weakness(es) identified?	☒ Yes	☐ No
Significant deficiency(ies) identified?	☐ Yes	☒ None Reported

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Material weakness(es) identified?	☐ Yes	☒ No
Significant deficiency(ies) identified?	☐ Yes	☒ None Reported

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings that are required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2017

7. Identification of major programs:

Cluster/Program	CFDA Number
U.S. Department of Transportation – Federal Aviation Administration – Airport Improvement Program	20.106

8. Other threshold used to distinguish between Type A and Type B programs: $750,000.

9. Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II – Financial Statement Findings

Reference Number	Summary of Finding	Status
2017-001	**Criteria or Specific Requirement:** Management is responsible for establishing and maintaining effective internal controls over financial reporting to support the preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles. Timely accounting tasks such as cross-checks and reviews play a key role in proving the accuracy of accounting data and financial information that comprise year-end financial statements.	

Condition: During the 2017 audit, a number of variances between account balances and supporting documentation provided were identified. In the aggregate, the variances identified below could be indicative of a larger internal control issue. The following conditions were noted:

Recorded audit adjustments:

(1) To decrease revenue erroneously recognized in fiscal year 2017 ($8.5 million)
(2) To record principal payments on lease revenue certificates of participation as an offset to the liability rather than as an expense ($6.3 million)
(3) To decrease the principal on the lease revenue certificates of participation balance for amounts erroneously recorded twice ($4.7 million)
(4) To increase expense for costs inappropriately capitalized as construction in progress ($4.5 million)

Proposed audit adjustments not recorded:

(1) To increase depreciation for construction in progress projects completed in the period ($4.0 million)
(2) To decrease construction in progress for excess interest capitalized ($3.0 million)
(3) To increase federal grant revenue ($0.9 million)

Context: The Airports Division's Finance Department is primarily responsible for the financial reporting process. Financial records are maintained on a cash basis throughout the year, and the year-end close process requires financial information to be captured that is only compiled and analyzed annually. During the year-end close process, the Finance Department converts the cash basis financial records to the accrual basis of accounting for reporting requirements in the audited financial statements.

The Airports Division experienced significant turnover in the Finance Department over the past few years. There was a loss of employees who had institutional knowledge of the Airports Division and, more specifically,

Reference Number	Summary of Finding	Status

primary responsibility for the preparation of reconciliations. These issues were exacerbated by an overall lack of personnel resources. In an attempt to address the lack of resources, the Airports Division hired contract accountants to assist with the preparation of account reconciliations.

Effect: If left uncorrected, these errors would have materially misstated the financial statements.

Cause: As mentioned above, the Airports Division has experienced significant turnover in the finance department, including several individuals who had been employed for many years. The Airports Division has also experienced difficulty in replacing these positions and has been forced to operate with reduced staffing for the majority of the fiscal year. This has placed considerable pressure on the Airports Division Finance Department. To help alleviate this situation the Airports Division hired contract accountants to assist with preparation for the audit; however, the contract was executed very late in the fiscal year and not long before the audit started. Therefore, Finance Department personnel and contract accountants, who were not previously responsible for the year-end close process or preparation of the financial statements, were assigned account reconciliations and financial analyses to complete. These analyses were not subject to a timely secondary review, given personnel constraints and the timing of year-end deadlines. As a result, errors were made in compiling information for financial reporting purposes.

Recommendation: We recommend the Airports Division continue to cross-train Finance Department employees on the roles and responsibilities within the accounting and financial reporting cycles. We also recommend the Airports Division continue to develop and complete written policies and procedures documenting all accounting employees' roles and responsibilities in relation to accounting procedures, as well as audit workpaper preparation. This would include a formal, documented review where all reconciliations and analyses are reviewed by a secondary employee with knowledge of the subject matter. These combined recommendations will aid in transition of primary responsibilities to new personnel should turnover in Finance Department positions occur again in the future and assist in proving the accuracy of financial data supporting the annual financial statements.

Views of Responsible Officials and Planned Corrective Action: We agree with the finding. See separate report for corrective action plan.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Summary of Finding	Questioned Costs

No matters are reportable.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Status of Prior Audit Findings

Year Ended June 30, 2017

Reference Number	Summary of Finding	Questioned Costs
	No matters are reportable.	