



KPMG LLP  
PO Box 4150  
Honolulu, HI 96812-4150

## Independent Auditors' Report

The Board of Directors  
Waikiki Business Improvement District Association:

We have audited the accompanying statements of financial position of Waikiki Business Improvement District Association (Association) as of June 30, 2005 and 2004, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waikiki Business Improvement District Association as of June 30, 2005 and 2004, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*KPMG LLP*

August 5, 2005

**WAIKIKI BUSINESS IMPROVEMENT  
DISTRICT ASSOCIATION**

Statements of Financial Position

June 30, 2005 and 2004

<b>Assets (Note 5)</b>	<b>2005</b>	<b>2004</b>
Cash and cash equivalents	\$ 761,777	442,957
Assessments receivable	1,480	9,027
Prepaid expenses	3,922	3,577
Furniture and equipment, less accumulated depreciation of \$17,073 and \$12,803 in 2005 and 2004, respectively	7,339	7,993
Total assets	\$ 774,518	463,554
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 104,354	127,039
Other	—	1,899
Total liabilities	104,354	128,938
Unrestricted net assets	670,164	334,616
Commitments (notes 3, 4, and 5)		
Total liabilities and net assets	\$ 774,518	463,554

See accompanying notes to financial statements.

**WAIKIKI BUSINESS IMPROVEMENT  
DISTRICT ASSOCIATION**

Statements of Activities

Years ended June 30, 2005 and 2004

	2005	2004
Support and revenues:		
Member assessments	\$ 1,734,244	1,735,129
Interest and other	7,360	4,149
Total support and revenues	1,741,604	1,739,278
Expenses (notes 3 and 4):		
Program services	1,311,985	1,636,397
Management and general	94,071	86,574
Total expenses	1,406,056	1,722,971
Change in unrestricted net assets	335,548	16,307
Unrestricted net assets at beginning of year	334,616	318,309
Unrestricted net assets at end of year	\$ 670,164	334,616

See accompanying notes to financial statements.

**WAIKIKI BUSINESS IMPROVEMENT  
DISTRICT ASSOCIATION**

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 335,548	16,307
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	4,270	4,159
Decrease in assessments receivable	7,547	5,513
Increase in prepaid expenses	(345)	(307)
Decrease in accounts payable	(22,685)	(8,645)
Decrease in other liabilities	(1,899)	(17,985)
Net cash provided by (used in) operating activities	322,436	(958)
Cash flows used in investing activity:		
Purchases of furniture and equipment	(3,616)	—
Net increase (decrease) in cash and cash equivalents	318,820	(958)
Cash and cash equivalents at beginning of year	442,957	443,915
Cash and cash equivalents at end of year	\$ 761,777	442,957

See accompanying notes to financial statements.

**WAIKIKI BUSINESS IMPROVEMENT  
DISTRICT ASSOCIATION**

Notes to Financial Statements

June 30, 2005 and 2004

**(1) Organization**

In June 2000, the City Council of the City and County of Honolulu established the Waikiki Special Improvement District No. 1, commonly referred to as Waikiki Business Improvement District (District). The District was established to implement programs that enhance the quality of life in Waikiki by providing residents and visitors a safe, clean, and enjoyable environment.

Waikiki Business Improvement District Association (Association) is a not-for-profit organization established specifically to manage the programs of the District. Funding is derived primarily from assessments paid by commercial, nonresidential property owners in the District, as prescribed by law. The Association provides streetscape maintenance, security, and hospitality services to the District. The Association was chartered as a nonprofit corporation under the laws of the state of Hawaii on September 13, 2000. Pursuant to its articles of incorporation, the Association's board of directors have resolved to continue operations of the Association through June 30, 2010.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The Association's financial statements have been prepared on the accrual basis of accounting and are presented in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. All net assets of the Association are classified and reported as unrestricted net assets as none are subject to donor-imposed stipulations.

**(b) Cash Equivalents**

The Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents of \$300,000 and \$200,000 as of June 30, 2005 and 2004, respectively, consist of a time certificate of deposit.

**(c) Furniture and Equipment**

Furniture and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives is 5 years.

**(d) Income Taxes**

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as evidenced by a tax determination letter. Accordingly, no provision for income taxes has been recorded for fiscal years 2005 and 2004.

**WAIKIKI BUSINESS IMPROVEMENT  
DISTRICT ASSOCIATION**

Notes to Financial Statements

June 30, 2005 and 2004

**(e) Use of Estimates**

The preparation of the financial statements requires management of the Association to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amounts of furniture and equipment and the valuation allowances of assessments receivable. Actual results could differ from those estimates.

**(f) Impairment of Long-Lived Assets**

The Association accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement 144). In accordance with Statement 144, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the recognized amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statements of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statements of financial position.

**(3) Lease**

The Association is jointly obligated with the Waikiki Improvement Association (a related entity) under an operating lease for office space that continues on a month-to-month basis through December 31, 2010. The lease is cancelable upon 30 days written notice by the lessees or lessor. Monthly rent is \$2,500 plus Hawaii general excise tax. The Association's share of rent expense amounted to \$14,323 for each of the years ended June 30, 2005 and 2004.

**(4) Retirement Plan**

The Association has a defined contribution retirement plan (the Plan). Employees are allowed to contribute a portion of their compensation to the Plan, up to a stipulated maximum. The Association matches employee contributions up to 3% of annual compensation. The Association's contribution expense under the Plan totaled \$3,405 and \$2,957 for fiscal years 2005 and 2004, respectively.

**WAIKIKI BUSINESS IMPROVEMENT  
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Notes to Financial Statements

June 30, 2005 and 2004

**(5) Commitments**

The Association is committed under contracts for security and hospitality, and streetscape maintenance services through June 30, 2007 and October 31, 2005, respectively, which may be terminated by the Association with 30 days advance written notice.

The Association has available a \$375,000 line of credit for working capital with a bank through August 2018, subject to annual review by the bank. Drawings on the line of credit will accrue interest at the bank's base rate (6% at June 30, 2005) plus 1.5% per annum and is secured by substantially all of the assets of the Association. There have been no drawings made on the line of credit.