

**WAIKIKI  
BUSINESS IMPROVEMENT DISTRICT  
ASSOCIATION**

**FINANCIAL STATEMENTS  
And Independent Auditors' Report**

**For the Year Ended June 30, 2007**



*Certified Public Accountants | A Professional Corporation*

## INDEPENDENT AUDITORS' REPORT

Waikiki Business Improvement District Association:

We have audited the accompanying statement of financial position of the Waikiki Business Improvement District Association (a nonprofit Hawaii corporation) as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Association's financial statements as of and for the year ended June 30, 2006 and, in our report dated September 8, 2006 we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waikiki Business Improvement District Association as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended are in conformity with accounting principles generally accepted in the United States of America.

*Detor & Williams*

October 31, 2007

**WAIKIKI  
BUSINESS IMPROVEMENT DISTRICT  
ASSOCIATION**

**STATEMENT OF FINANCIAL POSITION**

**As of June 30, 2007  
(With Prior Year Summarized Comparative Information)**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash (including interest-bearing accounts)	\$1,132,439	\$971,905
Assessments receivable - net	4,602	12,727
Prepaid expenses	<u>21,956</u>	<u>3,989</u>
Total current assets	<u>1,158,997</u>	<u>988,621</u>
<b>PROPERTY AND EQUIPMENT</b>		
Office furniture, fixtures, and equipment	29,081	29,081
Accumulated depreciation	<u>(23,305)</u>	<u>(21,084)</u>
Property and equipment - net	<u>5,776</u>	<u>7,997</u>
<b>TOTAL ASSETS</b>	<b><u>\$1,164,773</u></b>	<b><u>\$996,618</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ <u>148,302</u>	\$ <u>120,633</u>
Total current liabilities	<u>148,302</u>	<u>120,633</u>
<b>NET ASSETS</b>		
Unrestricted	<u>1,016,471</u>	<u>875,985</u>
Total net assets	<u>1,016,471</u>	<u>875,985</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$1,164,773</u></b>	<b><u>\$996,618</u></b>

See accompanying notes to financial statements.

**WAIKIKI  
BUSINESS IMPROVEMENT DISTRICT  
ASSOCIATION**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2007  
(With Prior Year Summarized Comparative Information)**

	<u>2007</u>	<u>2006</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Revenue and support		
Member assessments	\$1,869,349	\$1,675,015
Visitor center project	67,500	-
Publication rack maintenance	-	49,200
Interest and other income	<u>38,937</u>	<u>14,954</u>
Total revenue and support	<u>1,975,786</u>	<u>1,739,169</u>
Expenses		
Program services		
Streetscape Maintenance	996,567	896,656
Security	527,111	444,864
Public Improvements	143,754	141,562
Research and Planning	<u>119,024</u>	<u>-</u>
Total program services	1,786,456	1,483,082
Management and general	<u>48,844</u>	<u>50,266</u>
Total expenses	<u>1,835,300</u>	<u>1,533,348</u>
<b>INCREASE IN NET ASSETS</b>	140,486	205,821
NET ASSETS – Beginning of year	<u>875,985</u>	<u>670,164</u>
NET ASSETS – End of year	<u>\$1,016,471</u>	<u>\$ 875,985</u>

See accompanying notes to financial statements.

**WAIKIKI  
BUSINESS IMPROVEMENT DISTRICT  
ASSOCIATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2007  
(With Prior Year Summarized Comparative Information)**

	<u>Program Services</u>				Management and General	2007 Total	2006 Total
	<u>Streetscape Maintenance</u>	<u>Security</u>	<u>Public Improvements</u>	<u>Research and Planning</u>			
Contract services	\$925,521	\$451,624	\$108,231	\$ 83,501	\$ -	\$1,568,877	\$1,286,138
Salaries and related expenses	54,327	57,723	27,164	27,164	37,350	203,728	191,481
Occupancy	3,830	4,070	1,915	1,915	2,633	14,363	14,323
Professional fees	3,204	3,404	1,602	1,602	2,203	12,015	11,618
Travel	2,141	2,275	1,071	1,071	1,472	8,030	4,349
Insurance	1,969	2,092	984	984	1,354	7,383	6,143
Telephone	1,437	1,527	719	719	988	5,390	5,600
Equipment rental and maintenance	631	670	315	315	433	2,364	2,321
Depreciation	592	629	296	296	408	2,221	4,011
Printing and supplies	482	512	241	241	331	1,807	1,433
Meetings	407	433	204	204	280	1,528	2,077
Postage and shipping	366	389	183	183	252	1,373	1,361
Other expenses	<u>1,660</u>	<u>1,763</u>	<u>829</u>	<u>829</u>	<u>1,140</u>	<u>6,221</u>	<u>2,493</u>
Total expenses	<u>\$996,567</u>	<u>\$527,111</u>	<u>\$143,754</u>	<u>\$119,024</u>	<u>\$48,844</u>	<u>\$1,835,300</u>	<u>\$1,533,348</u>

See accompanying notes to financial statements.

**WAIKIKI  
BUSINESS IMPROVEMENT DISTRICT  
ASSOCIATION**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2007  
(With Prior Year Summarized Comparative Information)**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 140,486	\$205,821
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,221	4,011
(Increase) decrease in:		
Assessments receivable	8,125	(11,247)
Prepaid expenses	(17,967)	(67)
Increase (decrease) in:		
Accounts payable	<u>27,669</u>	<u>16,279</u>
Net cash provided by operating activities	<u>160,534</u>	<u>214,797</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>-</u>	<u>(4,669)</u>
Net cash used by investing activities	<u>-</u>	<u>(4,669)</u>
<b>NET INCREASE IN CASH</b>	160,534	210,128
CASH – Beginning of year	<u>971,905</u>	<u>761,777</u>
CASH – End of year	<u>\$1,132,439</u>	<u>\$971,905</u>

See accompanying notes to financial statements.

**WAIKIKI  
BUSINESS IMPROVEMENT DISTRICT  
ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS  
(With Prior Year Summarized Comparative Information)**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

The Waikiki Business Improvement District Association is a nonprofit Hawaii corporation chartered on September 13, 2000 to enhance the quality of life in Waikiki by providing businesses, visitors, employees, and residents of Waikiki with a safe, clean, and enjoyable environment in which to live, work, and play. The Association works in partnership with business and government to develop and implement programs that will strengthen the physical and economic vitality of Waikiki in order to help maintain its position as a world class resort destination. It is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Association are tax deductible.

The Association was organized to carry out and execute the responsibilities and activities prescribed in the Waikiki Business Improvement District Plan for the City and County of Honolulu Business Improvement District No. One (Waikiki) dated June 20, 2000, to improve neighborhood conditions and the environment within the Waikiki Business Improvement District, and to supplement municipal services within the District through such methods as information and safety officers, supplemental landscaping and maintenance crews, and other services and improvements consistent with its charitable purposes. The duration of the Association is perpetual, except that it shall be wound up and dissolved in accordance with its articles of incorporation in the event that the Waikiki Business Improvement District is terminated by the City Council of the City and County of Honolulu.

The Association implements and manages programs to meet its mission. The *Streetscape Maintenance* program was launched in March 2001 to beautify and establish Waikiki as a cleaner and more environmentally friendly place to be. The *Security* program was also launched in March 2001 to provide daily beach and sidewalk patrols within the district to deter criminal activity. The Association also has a *Public Improvements* program to develop guidelines and an action program for systematic, integrated and on-going district-wide improvements. This includes the development of way-finding signage and maps to unify the destination area, enhance visitor mobility in and around Waikiki, and increase awareness of area attractions, activities, and businesses. *Research and Planning* includes the study of public sidewalks, street usage, and the homeless population in Waikiki.

The Waikiki Business Improvement District Association is related by certain common governing body members to The Waikiki Improvement Association, a nonprofit Hawaii corporation, chartered on November 16, 1967 for businesses and individuals to focus on physical improvements for Waikiki. The Association and The Waikiki Improvement Association share certain office and administrative costs, which were allocated 50% to the Association and 50% to The Waikiki Improvement Association for the years ended June 30, 2007 and 2006 based on management's estimate of their relative usage. It is at least reasonably possible that management's estimates may change within the near-term.

The members of the Association are the assessed property owners and tenants of the Waikiki Business Improvement District. The Association contracts with others for its security services under an agreement that expired on June 30, 2007, and for its landscaping and streetscape maintenance programs under agreements expiring on June 30, 2008. Effective July 2007, the Association entered into a contract for its hospitality program, which will replace its security program. Such contracts may be terminated by the Association for nonperformance or upon written notice, as provided in the agreements.

#### Basis of Accounting

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2007 and 2006), and permanently restricted net assets (none in 2007 and 2006). Support is recorded when pledged as unrestricted, temporarily restricted, or permanently restricted depending on any donor restrictions.

Member assessments are recognized ratably over the Association's fiscal year and are derived from real property assessment to all commercial, nonresidential properties in Waikiki. Rates vary depending on location. Properties in the Kalakaua/Kuhio corridor pay the full rate and receive primary services. Other areas receiving the indirect benefits of an improved neighborhood pay only a portion of the full rate. Assessments are also subject to credits based on an appeal by the property owner. Revenue from the maintenance of publication racks in Waikiki under an agreement with the City and County of Honolulu is recognized when the related services are performed. Expenses are allocated on a functional basis among various programs and support services based on estimates by management. Expenses incurred for membership and development (included in management and general expenses) are material to the financial statements.

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions are allocated by various bases. Expenses are recognized when the related liability is incurred.

#### Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is at least reasonably possible that such differences will occur in the near-term.

#### Concentrations of Credit Risk

Financial instruments that potentially subject the Association to credit risk include cash and assessments receivable. At June 30, 2007 and 2006, cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$1,071,900 and \$871,900, respectively. Management periodically evaluates the relative credit standing of such institutions to be sure the cash on deposits is adequately safeguarded. Assessments receivable, which have been adjusted for all known doubtful accounts, are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.



### Property and Equipment

Property and equipment consists of office furniture, fixtures, and equipment stated at cost or, if contributed, at estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of five years. Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Repairs and maintenance are expensed. Expenditures for property and equipment in excess of \$100 are capitalized.

### NOTE B – LEASES

In July 2007, the Association cancelled an office facilities lease it shared with The Waikiki Improvement Association and on August 1, 2007 began leasing its own office facilities under an operating lease agreement expiring July 2012. Lease rent expense amounted to \$14,363 and \$14,323 for the years ended June 30, 2007 and 2006, respectively. At June 30, 2007, future minimum lease payments by fiscal years ending June 30th approximated \$34,200 in 2008, \$38,500 in 2009, \$39,500 in 2010, \$40,700 in 2011, and \$42,000 in 2012.

### NOTE C – LINE-OF-CREDIT

In September 2007, the Association cancelled its \$375,000 working capital line-of-credit with Bank of Hawaii. There were no advances outstanding on the line-of-credit at June 30, 2007 and 2006.

### NOTE D – RETIREMENT PLAN

The Association sponsors a defined contribution, Simple-IRA salary reduction retirement plan, covering substantially all of its employees to which it contributes 3% of each employee's annual salary, up to the maximum allowed under Internal Revenue Code Section 408(p). Retirement plan expense allocated to the Association amounted to \$5,079 and \$3,507 for the years ended June 30, 2007 and 2006, respectively.

### NOTE E – FINANCIAL STATEMENT PRESENTATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

Certain amounts in the prior year summarized comparative information have been reclassified to conform to the current year presentation. The Association operates in Honolulu, Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the financial statements of the Waikiki Business Improvement District Association from such changes in economic conditions are not presently determinable.