
Jay Miyaki, CPA, LLC

**WAIKIKI
BUSINESS
IMPROVEMENT
DISTRICT
ASSOCIATION**

FINANCIAL STATEMENTS
And Independent Auditor's Report
For the Year Ended June 30, 2008

INDEPENDENT AUDITORS' REPORT

Waikiki Business Improvement District Association:

I have audited the accompanying statement of financial position of the Waikiki Business Improvement District Association (a nonprofit Hawaii corporation) as of June 30, 2008, 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. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of the Waikiki Business Improvement District Association as of and for the year ended June 30, 2007, were audited by other auditors whose report dated October 31, 2007, expressed an unqualified opinion on those financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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, 2008, 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.

Jay Miyaki, CPA, LLC

October 22, 2008

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$892,726	\$1,132,439
Assessments receivable – net	10,856	4,602
Prepaid expenses	<u>576</u>	<u>21,956</u>
Total current assets	<u>904,158</u>	<u>1,158,997</u>
PROPERTY AND EQUIPMENT		
Office furniture, fixtures, and equipment	52,207	29,081
Accumulated depreciation	<u>(13,119)</u>	<u>(23,305)</u>
Property and equipment – net	<u>39,088</u>	<u>5,776</u>
TOTAL ASSETS	<u>\$943,246</u>	<u>\$1,164,773</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$188,148	\$ 148,302
Total current liabilities	<u>188,148</u>	<u>148,302</u>
NET ASSETS		
Unrestricted	<u>755,098</u>	<u>1,016,471</u>
Total net assets	<u>755,098</u>	<u>1,016,471</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$943,246</u>	<u>\$1,164,773</u>

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Member assessments	\$2,021,943	\$1,869,349
Visitor center project	-	67,500
Donated facilities	24,600	-
Interest and other income	<u>28,355</u>	<u>38,937</u>
Total revenue and support	<u>2,074,898</u>	<u>1,975,786</u>
Expenses		
Program services		
Streetscape Maintenance	1,013,391	996,567
Hospitality	976,499	-
Security	164,732	527,111
Research and Planning	67,341	119,024
Public Improvements	<u>38,356</u>	<u>143,754</u>
Total program services	2,260,319	1,786,456
Management and general	<u>75,952</u>	<u>48,844</u>
Total expenses	<u>2,336,271</u>	<u>1,835,300</u>
INCREASE (DECREASE) IN NET ASSETS	(261,373)	140,486
NET ASSETS – Beginning of year	<u>1,016,471</u>	<u>875,985</u>
NET ASSETS – End of year	<u>\$ 755,098</u>	<u>\$1,016,471</u>

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2008

	Program Services					Total Program Services	Management and General	2008 Total
	Streetscape Maintenance	Hospitality	Security	Research and Planning	Public Improvements			
Contract services	\$ 931,366	\$888,396	\$149,542	\$40,000	\$23,166	\$2,032,470	\$ -	\$2,032,470
Salaries and related expenses	48,238	51,811	8,933	16,079	8,933	133,994	44,664	178,658
Occupancy	16,773	18,015	3,106	5,591	3,106	46,591	15,531	62,122
Professional fees	4,465	4,796	827	1,488	827	12,403	4,135	16,538
Depreciation	2,104	2,260	390	701	390	5,845	1,949	7,794
Equipment rental and maintenance	2,021	2,171	374	674	374	5,614	1,873	7,487
Printing and supplies	1,877	2,016	348	626	348	5,215	1,735	6,950
Insurance	1,827	1,963	338	609	338	5,075	1,693	6,768
Travel	1,517	1,630	281	506	281	4,215	1,405	5,620
Telephone	1,507	1,619	279	502	279	4,186	1,396	5,582
Meetings	513	551	95	171	95	1,425	474	1,899
Postage and shipping	357	384	66	119	66	992	332	1,324
Other expenses	<u>826</u>	<u>887</u>	<u>153</u>	<u>275</u>	<u>153</u>	<u>2,294</u>	<u>765</u>	<u>3,059</u>
Total expenses	<u>\$1,013,391</u>	<u>\$976,499</u>	<u>\$164,732</u>	<u>\$67,341</u>	<u>\$38,356</u>	<u>\$2,260,319</u>	<u>\$75,952</u>	<u>\$2,336,271</u>

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2007

	Program Services					Total Program Services	Management and General	2007 Total
	Streetscape Maintenance	Hospitality	Security	Research and Planning	Public Improvements			
Contract services	\$925,521	\$ -	\$451,624	\$ 83,501	\$108,231	\$1,568,877	\$ -	\$1,568,877
Salaries and related expenses	54,327	-	57,723	27,164	27,164	166,378	37,350	203,728
Occupancy	3,830	-	4,070	1,915	1,915	11,730	2,633	14,363
Professional fees	3,204	-	3,404	1,602	1,602	9,812	2,203	12,015
Depreciation	592	-	629	296	296	1,813	408	2,221
Equipment rental and maintenance	631	-	670	315	315	1,931	433	2,364
Printing and supplies	482	-	512	241	241	1,476	331	1,807
Insurance	1,969	-	2,092	984	984	6,029	1,354	7,383
Travel	2,141	-	2,275	1,071	1,071	6,558	1,472	8,030
Telephone	1,437	-	1,527	719	719	4,402	988	5,390
Meetings	407	-	433	204	204	1,248	280	1,528
Postage and shipping	366	-	389	183	183	1,121	252	1,373
Other expenses	<u>1,660</u>	<u>-</u>	<u>1,763</u>	<u>829</u>	<u>829</u>	<u>5,081</u>	<u>1,140</u>	<u>6,221</u>
Total expenses	<u>\$996,567</u>	<u>\$ -</u>	<u>\$527,111</u>	<u>\$119,024</u>	<u>\$143,754</u>	<u>\$1,786,456</u>	<u>\$48,844</u>	<u>\$1,835,300</u>

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (261,373)	\$ 140,486
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	7,794	2,221
Gain on sale of property and equipment	(1,500)	-
(Increase) decrease in:		
Assessments receivable	(6,254)	8,125
Prepaid expenses	21,380	(17,967)
Increase (decrease) in:		
Accounts payable	<u>39,846</u>	<u>27,669</u>
Net cash provided (used) by operating activities	<u>(200,107)</u>	<u>160,534</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of property and equipment	1,500	-
Purchases of property and equipment	<u>(41,106)</u>	<u>-</u>
Net cash used by investing activities	<u>(39,606)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(239,713)	160,534
CASH – Beginning of year	<u>1,132,439</u>	<u>971,905</u>
CASH – End of year	<u>\$ 892,726</u>	<u>\$1,132,439</u>

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS

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. Under the *Streetscape Maintenance* program that was launched in March 2001, custodial and landscape maintenance services are provided daily to keep the public areas of Waikiki clean and attractive. The *Security* program was also launched in March 2001 to provide daily beach and sidewalk patrols within the district to assist visitors and serve as a visible presence to deter criminal activity. In July 2007, the Security program was replaced by the *Hospitality* program which is staffed by Aloha Ambassadors who serve as hosts of Waikiki and provide information, assistance and aloha to everyone they encounter. The Ambassadors are also alert to safety and security issues and work closely with the Honolulu Police Department. The Association also has a *Public Improvements* program to develop guidelines and an action program for systematic, integrated and on-going district-wide improvements. The *Research and Planning* program includes the study of public sidewalks, street usage and the homeless population in Waikiki, as well as general research on Waikiki indicators, and best practices from other business improvement districts.

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 shared certain office and administrative costs, which were allocated 50% to the Association and 50% to the Waikiki Improvement Association for the year ended June 30, 2007 based on management's estimate of their relative usage.

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; for its hospitality program under an agreement expiring on June 30, 2009; and its landscaping and streetscape maintenance programs under agreements expiring on June 30, 2010. 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 2008 and 2007), and permanently restricted net assets (none in 2008 and 2007). 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. Any successful appeal, including assessments already collected, may constitute a liability. 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, 2008 and 2007, cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$802,500 and \$1,071,900, 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 \$500 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, from a related party, under an operating lease agreement expiring on July 2012. The Association also utilized donated facilities from related parties which amounted to \$24,600 for the year ended June 30, 2008. The Association leases office equipment under an operating lease through June 2012. Office and equipment lease expense amounted to \$66,412 (including donated facilities of \$24,600) and \$14,363 for the years ended June 30, 2008 and 2007, respectively. At June 30, 2008, future minimum lease payments by fiscal years ending June 30th approximated \$42,200 in 2009, \$43,200 in 2010, \$44,500 in 2011, \$45,700 in 2012 and \$3,500 in 2013.

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.

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 \$4,370 and \$5,079 for the years ended June 30, 2008 and 2007, respectively.

NOTE E – FINANCIAL STATEMENT 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.