
J^{ay} M_{iyaki}, CPA, LLC

**WAIKIKI
BUSINESS
IMPROVEMENT
DISTRICT
ASSOCIATION**

FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2012
and 2011, and Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Waikiki Business Improvement District Association:

I have audited the accompanying statements of financial position of the Waikiki Business Improvement District Association (a nonprofit Hawaii corporation) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

I conducted my audits 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 audits provide 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended are in conformity with accounting principles generally accepted in the United States of America.


October 26, 2012

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash (including interest-bearing accounts) | \$1,005,900 | \$1,055,389 |
| Member assessments receivable – net | 43,250 | 25,073 |
| Prepaid expenses | <u>304</u> | <u>419</u> |
| Total current assets | <u>1,049,454</u> | <u>1,080,881</u> |
| PROPERTY AND EQUIPMENT | | |
| Office furniture, fixtures, and equipment | 74,349 | 60,213 |
| Accumulated depreciation | <u>(52,644)</u> | <u>(42,822)</u> |
| Property and equipment – net | <u>21,705</u> | <u>17,391</u> |
| TOTAL ASSETS | <u>\$1,071,159</u> | <u>\$1,098,272</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 176,504 | \$ 167,695 |
| Landowner refund payable | <u>-</u> | <u>29,582</u> |
| Total current liabilities | <u>176,504</u> | <u>197,277</u> |
| NET ASSETS | | |
| Unrestricted | <u>894,655</u> | <u>900,995</u> |
| Total net assets | <u>894,655</u> | <u>900,995</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$1,071,159</u> | <u>\$1,098,272</u> |

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|-----------------------|-----------------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| Revenue and support | | |
| Member assessments | \$2,204,135 | \$2,080,239 |
| Donated facilities | 28,200 | 28,200 |
| Interest and other income | <u>2,178</u> | <u>1,631</u> |
| Total revenue and support | <u>2,234,513</u> | <u>2,110,070</u> |
| Expenses | | |
| Program services | | |
| Hospitality | 1,018,933 | 975,639 |
| Streetscape Maintenance | 985,156 | 964,555 |
| Security | 90,403 | 14,929 |
| Research and Planning | 50,806 | 49,863 |
| Public Improvements | <u>15,403</u> | <u>14,929</u> |
| Total program services | 2,160,701 | 2,019,915 |
| Management and general | <u>80,152</u> | <u>77,700</u> |
| Total expenses | <u>2,240,853</u> | <u>2,097,615</u> |
| INCREASE (DECREASE) IN NET ASSETS | (6,340) | 12,455 |
| NET ASSETS – Beginning of year | <u>900,995</u> | <u>888,540</u> |
| NET ASSETS – End of year | <u>\$ 894,655</u> | <u>\$ 900,995</u> |

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

| | Program Services | | | | | Total Program Services | Management and General | 2012 Total |
|----------------------------------|---------------------------|----------------------------|------------------------|-----------------------------|------------------------|------------------------------|------------------------------|---------------------------|
| | Hospitality | Streetscape Maintenance | Security | Research and Planning | Public Improvements | | | |
| Contract services | \$ 904,959 | \$908,228 | \$75,000 | \$20,000 | \$ - | \$1,908,187 | \$ - | \$1,908,187 |
| Salaries and related expenses | 61,870 | 53,254 | 10,663 | 21,326 | 10,663 | 157,776 | 55,484 | 213,260 |
| Occupancy | 38,394 | 11,874 | 2,377 | 4,755 | 2,377 | 59,777 | 12,372 | 72,149 |
| Depreciation | 2,849 | 2,453 | 491 | 982 | 491 | 7,266 | 2,556 | 9,822 |
| Travel | 1,982 | 1,706 | 342 | 683 | 342 | 5,055 | 1,777 | 6,832 |
| Professional fees | 1,810 | 1,558 | 312 | 624 | 312 | 4,616 | 1,622 | 6,238 |
| Equipment rental and maintenance | 1,469 | 1,264 | 253 | 506 | 253 | 3,745 | 1,318 | 5,063 |
| Insurance | 1,463 | 1,259 | 252 | 504 | 252 | 3,730 | 1,313 | 5,043 |
| Telephone | 1,436 | 1,236 | 247 | 495 | 247 | 3,661 | 1,288 | 4,949 |
| Meetings | 827 | 712 | 143 | 285 | 143 | 2,110 | 741 | 2,851 |
| Postage and shipping | 650 | 559 | 112 | 224 | 112 | 1,657 | 583 | 2,240 |
| Printing and supplies | 397 | 341 | 68 | 137 | 68 | 1,011 | 356 | 1,367 |
| Other expenses | 827 | 712 | 143 | 285 | 143 | 2,110 | 742 | 2,852 |
| Total expenses | <u>\$1,018,933</u> | <u>\$985,156</u> | <u>\$90,403</u> | <u>\$50,806</u> | <u>\$15,403</u> | <u>\$2,160,701</u> | <u>\$80,152</u> | <u>\$2,240,853</u> |

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

| | Program Services | | | | | Total Program Services | Management and General | 2011 Total |
|----------------------------------|------------------|----------------------------|-----------------|-----------------------------|------------------------|------------------------------|------------------------------|--------------------|
| | Hospitality | Streetscape Maintenance | Security | Research and Planning | Public Improvements | | | |
| Contract services | \$864,400 | \$890,010 | \$ - | \$20,000 | \$ - | \$1,774,410 | \$ - | \$1,774,410 |
| Salaries and related expenses | 59,188 | 50,926 | 10,200 | 20,400 | 10,200 | 150,914 | 53,083 | 203,997 |
| Occupancy | 38,135 | 11,646 | 2,332 | 4,665 | 2,332 | 59,110 | 12,139 | 71,249 |
| Depreciation | 2,851 | 2,453 | 491 | 983 | 491 | 7,269 | 2,556 | 9,825 |
| Travel | 1,609 | 1,384 | 277 | 555 | 277 | 4,102 | 1,443 | 5,545 |
| Professional fees | 2,414 | 2,077 | 416 | 832 | 416 | 6,155 | 2,165 | 8,320 |
| Equipment rental and maintenance | 1,578 | 1,358 | 272 | 544 | 272 | 4,024 | 1,414 | 5,438 |
| Insurance | 1,515 | 1,304 | 261 | 522 | 261 | 3,863 | 1,359 | 5,222 |
| Telephone | 1,387 | 1,193 | 239 | 478 | 239 | 3,536 | 1,244 | 4,780 |
| Meetings | 836 | 719 | 144 | 288 | 144 | 2,131 | 750 | 2,881 |
| Postage and shipping | 384 | 331 | 66 | 133 | 66 | 980 | 345 | 1,325 |
| Printing and supplies | 513 | 441 | 88 | 177 | 88 | 1,307 | 460 | 1,767 |
| Other expenses | <u>829</u> | <u>713</u> | <u>143</u> | <u>286</u> | <u>143</u> | <u>2,114</u> | <u>742</u> | <u>2,856</u> |
| Total expenses | <u>\$975,639</u> | <u>\$964,555</u> | <u>\$14,929</u> | <u>\$49,863</u> | <u>\$14,929</u> | <u>\$2,019,915</u> | <u>\$77,700</u> | <u>\$2,097,615</u> |

See accompanying notes to financial statements.

**WAIKIKI
BUSINESS IMPROVEMENT DISTRICT
ASSOCIATION**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (6,340) | \$ 12,455 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 9,822 | 9,825 |
| (Increase) decrease in: | | |
| Assessments receivable | (18,177) | 12,947 |
| Prepaid expenses | 115 | 27 |
| Increase (decrease) in: | | |
| Accounts payable | 8,809 | (4,861) |
| Landowner refund payable | <u>(29,582)</u> | <u>28,416</u> |
| Net cash provided (used) by operating activities | <u>(35,353)</u> | <u>58,809</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | <u>(14,136)</u> | <u>(5,692)</u> |
| Net cash used by investing activities | <u>(14,136)</u> | <u>(5,692)</u> |
| NET INCREASE (DECREASE) IN CASH | (49,489) | 53,117 |
| CASH – Beginning of year | <u>1,055,389</u> | <u>1,002,272</u> |
| CASH – End of year | <u>\$1,005,900</u> | <u>\$1,055,389</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 current *Security* program consists of supporting enhanced police patrols of the district's public sidewalks and beaches. 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 members of the Association are the assessed property owners and tenants of the Waikiki Business Improvement District. The Association contracts with others for its hospitality and streetscape maintenance programs under agreements expiring on June 30, 2013. 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 2012 and 2011), and permanently restricted net assets (none in 2012 and 2011). 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 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, 2012 and 2011, cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$732,600 and \$752,900, 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.

Fair Value Measurements

The Association records its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using valuation techniques consistent with the market approach, income approach and/or cost approach using observable and unobservable inputs and fall in three broad categories: Level 1 inputs are quoted market prices in active markets for identical the asset or liability that the Association has the ability to access at the valuation date; Level 2 inputs are other than quoted market prices included within Level 1 that are observable for the asset or liability either directly or indirectly; Level 3 inputs are unobservable inputs for the asset or liability and are used to the extent that observable inputs are not available. Observable inputs reflect assumptions market participants would use based on market data from sources independent of the Association. Unobservable inputs reflect the Association's own assumptions about the assumptions that market participants would use in pricing an asset or liability developed based on the best information available in the circumstances.

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.

Income Taxes

The Association's tax filings as of and for the years ended June 30, 2011, 2010 and 2009 are open for examination.

NOTE B – LEASES

The Association leases office facilities under an operating lease agreement expiring on July 2012. The Association also utilized donated facilities from related parties which amounted to \$28,200 for the years ended June 30, 2012 and 2011, respectively. The Association leases office equipment under an operating lease through May 2017. Office and equipment lease expense (including donated facilities) amounted to \$76,056 and \$75,556 for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012, future minimum lease payments by fiscal years ending June 30th approximated \$46,300 in 2013, \$46,400 in 2014 and 2015, \$50,300 in 2016 and \$54,500 thereafter.

NOTE C – 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 amounted to \$5,292 and \$5,040 for the years ended June 30, 2012 and 2011, respectively.

NOTE D – FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 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.

NOTE E – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2012, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is October 26, 2012, which is the date on which the financial statements were available to be issued.
