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

**WAIKIKI
BUSINESS
IMPROVEMENT
DISTRICT
ASSOCIATION**

Independent Auditor's Report and
Financial Statements – As of and for the
Year Ended June 30, 2017
*(With Prior Year Summarized
Financial Information)*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of the Waikiki Business Improvement District Association:

Report on the Financial Statements

We have audited the accompanying financial statements of the Waikiki Business Improvement District Association, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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. 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 organization'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 organization'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.

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Summarized Financial Information

We have previously audited the Waikiki Business Improvement District Association's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2016. In our opinion, the prior year summarized financial information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Jay Miyaki, CPA, LLC

Honolulu, Hawaii
October 20, 2017

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION
FINANCIAL STATEMENTS
AND NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2017
(With Prior Year Summarized Financial Information)

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

STATEMENT OF FINANCIAL POSITION

As of June 30, 2017

(With Prior Year Summarized Financial Information)

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$1,709,308	\$1,435,621
Member assessments receivable – net	44,061	21,824
Prepaid expenses	<u>565</u>	<u>588</u>
Total current assets	<u>1,753,934</u>	<u>1,458,033</u>
PROPERTY AND EQUIPMENT		
Office furniture, fixtures, and equipment	71,053	82,913
Accumulated depreciation	<u>(61,574)</u>	<u>(76,326)</u>
Property and equipment – net	<u>9,479</u>	<u>6,587</u>
TOTAL ASSETS	<u>\$1,763,413</u>	<u>\$1,464,620</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	<u>\$ 249,354</u>	<u>\$ 232,645</u>
Total current liabilities	<u>249,354</u>	<u>232,645</u>
NET ASSETS		
Unrestricted	<u>1,514,059</u>	<u>1,231,975</u>
Total net assets	<u>1,514,059</u>	<u>1,231,975</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,763,413</u>	<u>\$1,464,620</u>

The accompanying notes are an integral part of these financial statements.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

(With Prior Year Summarized Financial Information)

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Member assessments	\$3,290,898	\$2,936,683
Donated facilities	46,800	46,800
Interest and other income	<u>2,920</u>	<u>1,138</u>
Total revenue and support	<u>3,340,618</u>	<u>2,984,621</u>
Expenses		
Program services		
Streetscape maintenance	1,381,047	1,250,085
Hospitality	1,143,760	1,063,716
Security	168,945	184,422
Research and planning	138,262	132,877
Public improvements	<u>30,355</u>	<u>35,259</u>
Total program services	2,862,369	2,666,359
Management and general	<u>196,165</u>	<u>146,454</u>
Total expenses	<u>3,058,534</u>	<u>2,812,813</u>
INCREASE IN NET ASSETS	282,084	171,808
NET ASSETS – Beginning of year	<u>1,231,975</u>	<u>1,060,167</u>
NET ASSETS – End of year	<u>\$1,514,059</u>	<u>\$1,231,975</u>

The accompanying notes are an integral part of these financial statements.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

(With Prior Year Summarized Financial Information)

	Program Services								
	Streetscape Maintenance	Hospitality	Security	Research and Planning	Public Improvements	Total Program Services	Management and General	2017 Total	2016 Total
Contract services	\$1,335,743	\$1,056,456	\$146,291	\$ 25,000	\$ -	\$2,563,490	\$ -	\$2,563,490	\$2,330,550
Salaries and related expenses	32,161	32,161	16,081	80,403	21,548	182,354	139,257	321,611	322,426
Occupancy	5,740	47,740	2,870	14,350	3,846	74,546	24,854	99,400	98,972
Professional fees	3,425	3,425	1,712	8,562	2,295	19,419	14,830	34,249	6,106
Insurance	929	929	465	2,323	623	5,269	4,024	9,293	8,654
Travel	607	607	304	1,518	407	3,443	2,629	6,072	11,590
Equipment rental & maintenance	567	567	283	1,417	380	3,214	2,454	5,668	4,361
Telephone	555	555	278	1,388	372	3,148	2,402	5,550	5,506
Meetings	391	391	196	978	262	2,218	1,693	3,911	14,218
Postage and shipping	272	272	136	679	182	1,541	1,175	2,716	2,113
Printing and supplies	207	207	104	519	139	1,176	898	2,074	1,176
Depreciation	187	187	94	468	125	1,061	811	1,872	4,555
Other expenses	<u>263</u>	<u>263</u>	<u>131</u>	<u>657</u>	<u>176</u>	<u>1,490</u>	<u>1,138</u>	<u>2,628</u>	<u>2,586</u>
Total expenses	<u>\$1,381,047</u>	<u>\$1,143,760</u>	<u>\$168,945</u>	<u>\$138,262</u>	<u>\$30,355</u>	<u>\$2,862,369</u>	<u>\$196,165</u>	<u>\$3,058,534</u>	<u>\$2,812,813</u>

The accompanying notes are an integral part of these financial statements.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

(With Prior Year Summarized Financial Information)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 282,084	\$ 171,808
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,872	4,555
(Increase) decrease in:		
Assessments receivable	(22,237)	(6,545)
Prepaid expenses	23	(91)
Increase (decrease) in:		
Accounts payable	<u>16,709</u>	<u>38,042</u>
Net cash provided by operating activities	<u>278,451</u>	<u>207,769</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(4,764)</u>	<u>(5,064)</u>
Net cash used by investing activities	<u>(4,764)</u>	<u>(5,064)</u>
NET INCREASE IN CASH	273,687	202,705
CASH – Beginning of year	<u>1,435,621</u>	<u>1,232,916</u>
CASH – End of year	<u>\$1,709,308</u>	<u>\$1,435,621</u>

The accompanying notes are an integral part of these financial statements.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

(With Prior Year Summarized Financial Information)

NOTE A – ORGANIZATION

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. The Association 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 execute and carry out 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 accomplish 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 original *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, that 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 ongoing 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 to enable businesses and individuals to facilitate 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 through June 30, 2018. Such contracts may be terminated by the Association for nonperformance or upon written notice, as provided in the agreements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2017 and 2016), and permanently restricted net assets (none in 2017 and 2016). 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, 2017 and 2016, cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$1,461,800 and \$1,202,500, 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 three to 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, 2016, 2015, and 2014 are subject to examination by federal and state tax authorities, generally for three years after they were filed. Management is not aware of uncertain tax positions required to be recognized and disclosed in the financial statements in accordance with generally accepted accounting principles. Interest and penalties, if any, are classified as income tax expense.

NOTE C – LEASES

The Association leases office facilities under an operating lease agreement expiring on July 2022. The Association also utilized donated facilities from related parties which amounted to \$46,800 and \$46,800 for the years ended June 30, 2017 and 2016, respectively. The Association leases office equipment under an operating lease through January 2022. Office and equipment lease expense (including donated facilities) amounted to \$102,757 and \$102,244 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, future minimum lease payments by fiscal years ending June 30th approximated \$53,700 in 2018, \$54,000 in 2019, \$56,500 in 2020, \$55,300 in 2021 and \$4,500 in 2022.

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 amounted to \$8,240 and \$8,205 for the years ended June 30, 2017 and 2016, respectively.

NOTE E – FINANCIAL STATEMENT PRESENTATION

The financial statements include prior year summarized financial information that is not in sufficient detail to constitute a complete presentation in conformity with generally accepted accounting principles. Accordingly, the financial statements should be read together with the Association's financial statements as of and for the year ended June 30, 2016, from which the summarized financial information was derived.

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 F – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2017, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is the date of the review report, which is the date on which the financial statements were available to be issued.
