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J<sup>ay</sup> M<sup>iyaki</sup>, CPA, LLC

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**WAIKIKI  
BUSINESS  
IMPROVEMENT  
DISTRICT  
ASSOCIATION**

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**Financial Statements**

For the Year Ended June 30, 2022

*(With Prior Year Summarized*

*Comparative Information)*

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of the Waikiki Business Improvement District Association (a Hawaii Nonprofit Corporation) which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Waikiki Business Improvement District Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Waikiki Business Improvement District Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Waikiki Business Improvement District Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Waikiki Business Improvement District Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **Report on Summarized Comparative Information**

We have previously audited the Waikiki Business Improvement District Association's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2021. In our opinion, the prior year summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Honolulu, Hawaii  
October 15, 2022

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

**For the Year Ended June 30, 2022**  
*(With Prior Year Summarized Comparative Information)*

**WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION**

**STATEMENT OF FINANCIAL POSITION**

**As of June 30, 2022**

*(With Prior Year Summarized Comparative Information)*

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash	\$3,178,939	\$2,308,191
Contribution receivable	100,000	-
Member assessments receivable – net	89,273	1,167,528
Prepaid expenses	<u>30,244</u>	<u>13,858</u>
Total current assets	<u>3,398,456</u>	<u>3,489,577</u>
PROPERTY AND EQUIPMENT		
Office furniture, fixtures, and equipment	81,792	78,854
Accumulated depreciation	<u>(76,170)</u>	<u>(73,522)</u>
Property and equipment – net	<u>5,622</u>	<u>5,332</u>
TOTAL ASSETS	<u>\$3,404,078</u>	<u>\$3,494,909</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 312,810	\$ 265,389
Landowner refunds payable	<u>20,045</u>	<u>-</u>
Total current liabilities	<u>332,855</u>	<u>265,389</u>
TOTAL LIABILITIES	<u>332,855</u>	<u>265,389</u>
NET ASSETS		
Without donor restrictions	2,971,223	3,229,520
With donor restrictions	<u>100,000</u>	<u>-</u>
Total net assets	<u>3,071,223</u>	<u>3,229,520</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$3,404,078</u>	<u>\$3,494,909</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, 2022**

*(With Prior Year Summarized Comparative Information)*

	<u>2022</u>	<u>2021</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Member assessments	\$3,632,838	\$4,259,057
Paycheck Protection Program loan forgiveness	-	62,500
Donated facilities	47,520	46,800
Interest and other income	<u>1,869</u>	<u>1,442</u>
Total revenue and support	<u>3,682,227</u>	<u>4,369,799</u>
Expenses		
Program services		
Streetscape maintenance	1,861,802	1,740,853
Hospitality	1,420,169	1,116,846
Security	236,761	198,310
Research and planning	87,269	74,997
Public improvements	<u>47,340</u>	<u>40,918</u>
Total program services	3,653,341	3,171,924
Management and general	<u>287,183</u>	<u>258,574</u>
Total expenses	<u>3,940,524</u>	<u>3,430,498</u>
(Decrease) increase in net assets without donor restrictions	<u>(258,297)</u>	<u>939,301</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions with donor restrictions	<u>100,000</u>	<u>-</u>
Increase in net assets with donor restrictions	<u>100,000</u>	<u>-</u>
(DECREASE) INCREASE IN NET ASSETS	(158,297)	939,301
NET ASSETS – Beginning of year	<u>3,229,520</u>	<u>2,290,219</u>
NET ASSETS – End of year	<u>\$3,071,223</u>	<u>\$3,229,520</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, 2022**

*(With Prior Year Summarized Comparative Information)*

	<u>Program Services</u>								
	<u>Streetscape Maintenance</u>	<u>Hospitality</u>	<u>Security</u>	<u>Research and Planning</u>	<u>Public Improvements</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>2022 Total</u>	<u>2021 Total</u>
Contract services	\$1,777,080	\$1,336,295	\$165,565	\$7,382	\$ -	\$3,286,322	\$ -	\$3,286,322	\$2,873,914
Salaries and related expenses	63,002	31,138	52,942	59,406	35,204	241,692	213,557	455,249	404,314
Occupancy	9,116	46,506	7,661	8,596	5,094	76,973	30,900	107,873	96,357
Meetings	4,788	2,366	4,024	4,515	2,675	18,368	16,230	34,598	6,061
Professional fees	1,632	807	1,372	1,539	912	6,262	5,533	11,795	9,185
Insurance	1,457	720	1,224	1,373	814	5,588	4,937	10,525	9,502
Telephone	982	485	825	925	548	3,765	3,327	7,092	5,722
Equipment rental and maintenance	851	421	715	803	476	3,266	2,886	6,152	6,651
Printing and supplies	819	405	688	772	457	3,141	2,775	5,916	6,969
Travel	524	259	440	494	293	2,010	1,776	3,786	-
Professional development	387	191	326	365	216	1,485	1,313	2,798	1,805
Depreciation	366	181	308	346	205	1,406	1,242	2,648	2,880
Postage and shipping	366	181	308	345	205	1,405	1,242	2,647	4,055
Other expenses	<u>432</u>	<u>214</u>	<u>363</u>	<u>408</u>	<u>241</u>	<u>1,658</u>	<u>1,465</u>	<u>3,123</u>	<u>3,083</u>
Total expenses	<u>\$1,861,802</u>	<u>\$1,420,169</u>	<u>\$236,761</u>	<u>\$87,269</u>	<u>\$47,340</u>	<u>\$3,653,341</u>	<u>\$287,183</u>	<u>\$3,940,524</u>	<u>\$3,430,498</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, 2022**

*(With Prior Year Summarized Comparative Information)*

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) increase in net assets	\$ (158,297)	\$ 939,301
Adjustments to reconcile (decrease) increase in net assets to net cash provided (used) by operating activities:		
Paycheck Protection Program loan forgiveness	-	(62,500)
Depreciation	2,648	2,880
(Increase) decrease in:		
Contributions receivable	(100,000)	-
Member assessments receivable – net	1,078,255	(1,145,146)
Prepaid expenses	(16,386)	(12,964)
Increase (decrease) in:		
Accounts payable	47,421	38,984
Landowner refunds payable	<u>20,045</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>873,686</u>	<u>(239,445)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(2,938)</u>	<u>-</u>
Net cash used by investing activities	<u>(2,938)</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	870,748	(239,445)
<b>CASH – Beginning of year</b>	<u>2,308,191</u>	<u>2,547,636</u>
<b>CASH – End of year</b>	<u>\$3,178,939</u>	<u>\$2,308,191</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Noncash financing activity:		
Paycheck Protection Program loan forgiveness	\$ -	\$ 62,500

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



## WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS

**For the Year Ended June 30, 2022**

*(With Prior Year Summarized Comparative 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 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 supports enhanced police patrols of the District's public sidewalks and beaches. The Association also has a *Public Improvements* program which develops guidelines and action programs for systematic, integrated, and ongoing district-wide improvements. The *Research and Planning* program conducts studies of public sidewalks, street usage, and the homeless population in Waikiki, as well as general research on Waikiki indicators and best practices utilizing data from other business improvement districts.

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, 2023. 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

Basis of Accounting – The financial statements are prepared on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recognized when the related liability is incurred. The Association reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Support and contributions receivable are recorded when pledged as net assets without donor restrictions, which is net assets not subject to donor restriction and available for use in general operations; or net assets with donor restrictions, which is net assets subject to donor imposed restrictions. Any successful appeal, including member assessments already collected, may constitute a liability. Expenses are recognized when the related liability is incurred.

Functional Allocation of Expenses – The cost of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Allocated expenses include salaries and related expenses, and the allocation is based on actual and estimated time and effort. Other expenses are allocated on a functional basis among various programs and supporting 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.

Revenue and Revenue Recognition – The Association recognizes revenue from member assessments over the assessment period, which is generally one year. Member assessments are recognized ratably over the Association's fiscal year and are derived from real property assessment on 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. The assessments are used to cover the costs of maintaining a safe and clean environment in the district. The Association recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received.

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 member assessments receivable. At June 30, 2022 and 2021, cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$3,247,900 and \$2,117,300, respectively. Management periodically evaluates the relative credit standing of such institutions to ensure the cash on deposit is adequately safeguarded. Member assessments receivable, which has been adjusted for all known doubtful accounts, is determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

Other Concentrations – 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.

Cash and Cash Equivalents – For purposes of reporting cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Association did not have any cash equivalents at June 30, 2022 and 2021.

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. Repair and maintenance costs are expensed. Expenditures for property and equipment in excess of \$5,000 are capitalized.

Income Taxes – The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes. The Association's tax filings are subject to examination by federal and state tax authorities, generally for three years after they were filed. Interest and penalties, if any, are classified as income tax expense. 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.

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 \$9,925 and \$9,901 for the years ended June 30, 2022 and 2021, respectively.

Financial Statement Presentation – The financial statements include prior year summarized comparative 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, 2021, from which the summarized comparative information was derived.

#### NOTE C – LEASES

The Association leases office facilities under an operating lease agreement expiring on July 2024. The Association also utilized donated facilities from related parties which amounted to \$47,520 and \$46,800 for the years ended June 30, 2022 and 2021, respectively. The Association leases office equipment under an operating lease through March 2027. Office and equipment lease expense (including donated facilities) amounted to \$110,650 and \$99,396, for the years ended June 30, 2022 and 2021, respectively. At June 30, 2022, future minimum lease payments by fiscal years ending June 30th approximated \$55,800 in 2023 and 2024, \$1,900 in 2025 and 2026 and \$1,200 in 2027.

#### NOTE D – LIQUIDITY AND AVAILABILITY

The Association's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022 and 2021, are comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash	\$3,178,939	\$2,308,191
Contribution receivable	100,000	-
Member assessments receivable - net	89,273	1,167,528
With donor restrictions	<u>(100,000)</u>	<u>-</u>
Total financial assets available	<u>\$3,268,212</u>	<u>\$3,475,719</u>

A reserve balance is maintained on a rolling basis through a Bank of Hawaii account, with the objective of representing 4-6 months of operating expenses. Adjustments to the reserve balance are recorded and updates are provided to the WBIDA Board of Directors at a minimum annually, and more frequent, if needed or requested.

#### NOTE E – NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2022 and 2021, net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Operating expenses for crime reduction	<u>\$100,000</u>	<u>\$ -</u>
Total net assets with donor restrictions	<u>\$100,000</u>	<u>\$ -</u>

#### NOTE F – COVID-19

In February 2020, the impact of a world-wide pandemic due to COVID-19 severely slowed the economy of the United States of America, including Hawaii. For the year ended June 30, 2021, the Association's services had been decreased, due to the COVID-19 pandemic. For the year ended June 30, 2022, The Association's services have come back to pre-pandemic levels to coincide with the return of tourism to the Waikiki.

#### NOTE G – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2022, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosures is the date of the independent auditor's report, which is the date on which the financial statements were available to be issued.