



**WAIKIKI BUSINESS IMPROVEMENT
DISTRICT ASSOCIATION**

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
P.O. Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Board of Directors
Waikiki Business Improvement District Association:

We have audited the accompanying statements of financial position of Waikiki Business Improvement District Association (Association) as of June 30, 2004 and 2003, and the related statements of activities, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 Waikiki Business Improvement District Association as of June 30, 2004 and 2003, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 10, 2004

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

Statements of Financial Position

June 30, 2004 and 2003

| Assets (Note 5) | 2004 | 2003 |
|--|-------------------|----------------|
| Cash and cash equivalents | \$ 442,957 | 443,915 |
| Assessments receivable | 9,027 | 14,540 |
| Prepaid expenses | 3,577 | 3,270 |
| Furniture and equipment, less accumulated depreciation of \$12,803 and \$8,644 in 2004 and 2003, respectively | 7,993 | 12,152 |
| Total assets | <u>\$ 463,554</u> | <u>473,877</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$ 127,039 | 135,684 |
| Other | 1,899 | 19,884 |
| Total liabilities | 128,938 | 155,568 |
| Unrestricted net assets | 334,616 | 318,309 |
| Commitments (notes 3, 4, and 5) | | |
| Total liabilities and net assets | <u>\$ 463,554</u> | <u>473,877</u> |

See accompanying notes to financial statements.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

Statements of Activities

Years ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|------------------|
| Support and revenues: | | |
| Member assessments | \$ 1,735,129 | 1,624,740 |
| Interest and other | 4,149 | 5,533 |
| Total support and revenues | <u>1,739,278</u> | <u>1,630,273</u> |
| Expenses (notes 3 and 4): | | |
| Program services | 1,636,397 | 1,579,096 |
| Management and general | 86,574 | 84,210 |
| Total expenses | <u>1,722,971</u> | <u>1,663,306</u> |
| Change in unrestricted net assets | 16,307 | (33,033) |
| Unrestricted net assets at beginning of year | <u>318,309</u> | <u>351,342</u> |
| Unrestricted net assets at end of year | <u>\$ 334,616</u> | <u>318,309</u> |

See accompanying notes to financial statements.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

Statements of Cash Flows

Years ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|----------------|
| Cash flows from operating activities: | | |
| Change in unrestricted net assets | \$ 16,307 | (33,033) |
| Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 4,159 | 3,964 |
| Decrease in assessments receivable | 5,513 | 125,301 |
| Increase in prepaid expenses | (307) | (756) |
| Decrease in accounts payable | (8,645) | (5,409) |
| Increase (decrease) in other liabilities | <u>(17,985)</u> | <u>19,884</u> |
| Net cash provided by (used in) operating activities | (958) | 109,951 |
| Cash flows used in investing activity: | | |
| Purchases of furniture and equipment | <u>—</u> | <u>(2,237)</u> |
| Net increase (decrease) in cash and cash equivalents | (958) | 107,714 |
| Cash and cash equivalents at beginning of year | <u>443,915</u> | <u>336,201</u> |
| Cash and cash equivalents at end of year | <u>\$ 442,957</u> | <u>443,915</u> |

See accompanying notes to financial statements.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

Notes to Financial Statements

June 30, 2004 and 2003

(1) Organization

In June 2000, the City Council of the City and County of Honolulu established the Waikiki Special Improvement District No. 1, commonly referred to as Waikiki Business Improvement District (District). The District was established to implement programs that enhance the quality of life in Waikiki by providing residents and visitors a safe, clean, and enjoyable environment.

Waikiki Business Improvement District Association (Association) is a not-for-profit organization established specifically to manage the programs of the District. Funding is derived primarily from assessments paid by commercial, nonresidential property owners in the District, as prescribed by law. The Association provides streetscape maintenance, security, and hospitality services to the District. The Association was chartered as a nonprofit corporation under the laws of the state of Hawaii on September 13, 2000.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The Association's financial statements have been prepared on the accrual basis of accounting and are presented in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. All net assets of the Association are classified and reported as unrestricted net assets as none are subject to donor-imposed stipulations.

(b) *Cash Equivalents*

The Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents of \$200,000 as of June 30, 2004 and 2003, consist of a time certificate of deposit.

(c) *Furniture and Equipment*

Furniture and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets.

(d) *Income Taxes*

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as evidenced by a tax determination letter. Accordingly, no provision for income taxes has been recorded for fiscal years 2004 and 2003.

WAIKIKI BUSINESS IMPROVEMENT DISTRICT ASSOCIATION

Notes to Financial Statements

June 30, 2004 and 2003

(e) Use of Estimates

The preparation of the financial statements requires management of the Association to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amounts of furniture and equipment and the valuation allowances of assessments receivable. Actual results could differ from those estimates.

(f) Impairment of Long-Lived Assets

Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement 144), provides a single accounting model for long-lived assets to be disposed of. Statement 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Association adopted Statement 144 on July 1, 2002. The adoption of Statement 144 did not affect the Association's financial statements.

In accordance with Statement 144, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the recognized amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statements of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statements of financial position.

(3) Lease

The Association is jointly obligated with the Waikiki Improvement Association (a related entity) under an operating lease for office space that continues on a month-to-month basis through December 31, 2010. The lease is cancelable upon 30 days written notice by the lessees or lessor. Monthly rent is \$2,500 plus Hawaii general excise tax. The Association's share of rent expense amounted to \$14,323 for each of the years ended June 30, 2004 and 2003.

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Notes to Financial Statements

June 30, 2004 and 2003

(4) Retirement Plan

The Association has a defined contribution retirement plan (the Plan). Employees are allowed to contribute a portion of their compensation to the Plan, up to a stipulated maximum. The Association matches employee contributions up to 3% of annual compensation. The Association's contribution expense under the Plan totaled \$2,957 and \$2,910 for fiscal years 2004 and 2003, respectively.

(5) Commitments

The Association is committed under contracts for security and hospitality, and streetscape maintenance services through December 31, 2004 and June 30, 2005, respectively, which may be terminated by the Association with 30 days advance written notice.

The Association has available a \$375,000 line of credit for working capital with a bank through August 2018, subject to annual review by the bank. Drawings on the line of credit will accrue interest at the bank's base rate plus 1.5% per annum and is secured by substantially all of the assets of the Association. There have been no drawings made on the line of credit.