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

**WAIKIKI BEACH
SPECIAL
IMPROVEMENT
DISTRICT
ASSOCIATION**

Independent Auditor's Report and
Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of the,
Waikiki Beach Special Improvement District Association:

Report on the Financial Statements

We have audited the accompanying financial statements of the Waikiki Beach Special Improvement District Association (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the year then ended June 30, 2017 and for the period from inception May 20, 2015 through June 30, 2016, 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 Beach Special Improvement District Association as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year ended June 30, 2017 and for the period from inception May 20, 2015 through June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Jay Miyaki, CPA, LLC

Honolulu, Hawaii
April 2, 2018

WAIKIKI BEACH SPECIAL IMPROVEMENT DISTRICT ASSOCIATION
FINANCIAL STATEMENTS
AND NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017 and 2016,
and for the Year Ended June 30, 2017,
and for the Period from Inception May 20, 2015 through June 30, 2016

WAIKIKI BEACH SPECIAL IMPROVEMENT DISTRICT ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$1,136,740	\$545,401
Assessments receivable	12,382	8,558
Prepaid expenses	<u>715</u>	<u>946</u>
Total current assets	<u>1,149,837</u>	<u>554,905</u>
TOTAL ASSETS	<u>\$1,149,837</u>	<u>\$554,905</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,991	\$ 561
Accrued City and County of Honolulu fee	<u>41,606</u>	<u>36,363</u>
Total current liabilities	<u>44,597</u>	<u>36,924</u>
TOTAL LIABILITIES	<u>44,597</u>	<u>36,924</u>
NET ASSETS		
Unrestricted	<u>1,105,240</u>	<u>517,981</u>
Total net assets	<u>1,105,240</u>	<u>517,981</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,149,837</u>	<u>\$554,905</u>

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

WAIKIKI BEACH SPECIAL IMPROVEMENT DISTRICT ASSOCIATION

STATEMENTS OF ACTIVITIES

**For the Year Ended June 30, 2017 and,
For the Period from Inception May 20, 2015 through June 30, 2016**

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Member assessments	\$ 832,132	\$727,000
Less City and County of Honolulu fee	<u>(41,522)</u>	<u>(36,362)</u>
Member assessments – net	790,610	690,638
Interest and other income	<u>182</u>	<u>109</u>
Total revenue and support	<u>790,792</u>	<u>690,747</u>
Expenses		
Program services		
Waikiki beach coordinator	122,481	96,356
Projects	<u>11,846</u>	<u>-</u>
Total program services	<u>134,327</u>	<u>96,356</u>
Management and general		
Waikiki Improvement Association administrative fee	42,000	30,000
Communications	9,547	9,220
Professional fees	8,010	-
Other expenses	3,183	695
Insurance	3,091	1,894
Annual membership meeting	2,112	1,585
Parking	1,165	423
Board meetings	98	285
Start-up expenses	<u>-</u>	<u>32,308</u>
Total management and general	<u>69,206</u>	<u>76,410</u>
Total expenses	<u>203,533</u>	<u>172,766</u>
INCREASE IN NET ASSETS	587,259	517,981
NET ASSETS – Beginning of period	<u>517,981</u>	<u>-</u>
NET ASSETS – End of period	<u>\$1,105,240</u>	<u>\$517,981</u>

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

WAIKIKI BEACH SPECIAL IMPROVEMENT DISTRICT ASSOCIATION

STATEMENTS OF CASH FLOWS

**For the Year Ended June 30, 2017 and,
For the Period from Inception May 20, 2015 through June 30, 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 587,259	\$517,981
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
(Increase) decrease in:		
Assessments receivable	(3,824)	(8,558)
Prepaid expenses	231	(946)
Increase (decrease) in:		
Accounts payable	2,430	561
Accrued City and County of Honolulu fee	<u>5,243</u>	<u>36,363</u>
Net cash provided by operating activities	<u>591,339</u>	<u>545,401</u>
NET INCREASE IN CASH	591,339	545,401
CASH – Beginning of period	<u>545,401</u>	<u>-</u>
CASH – End of period	<u>\$1,136,740</u>	<u>\$545,401</u>

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

WAIKIKI BEACH SPECIAL IMPROVEMENT DISTRICT ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A – ORGANIZATION

The Waikiki Beach Special Improvement District Association (Association) is a nonprofit Hawaii corporation chartered on May 20, 2015. The Association is dedicated to carrying out and executing the following responsibilities and activities prescribed in the Waikiki Beach Special Improvement District Plan for the City and County of Honolulu Special Improvement District No. 3, established by ordinance of the City Council, City and County of Honolulu, and prepared and sponsored by the Waikiki Improvement Association pursuant to Hawaii Revised Statute 46-80.5 and revised ordinances of Honolulu 1990, Chapter 36: To relieve the burdens of government and enhance the quality of life in Waikiki by ensuring the coordinated management and long term sustainability of Waikiki Beach; to work in partnership with government and the private sector to develop and implement programs that promote the overall vitality of Waikiki Beach and the State of Hawaii by strengthening their roles on behalf of all residents of Hawaii and as a world-class resort destination for visitors; to operate exclusively for charitable, religious, literary, educational and scientific purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code, including for such purposes, the making of distributions to organizations that qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code of 1986 (or any future corresponding provisions). The initial term of the Association is for five years, and will be renewed automatically unless an ordinance terminating the Association is adopted, in which case operations of the Association shall cease, except that the term of the Association cannot expire until all debt service on bonds and incidental expenses and supplemental services expenses are fully paid or an irrevocable provision for such payment has been made. 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 is related by common governing board members and management to the Waikiki Improvement Association (WIA), a nonprofit Hawaii corporation, chartered on November 16, 1967 for businesses and individuals to focus on physical improvements for Waikiki. The Association's President serves as the President of WIA and the Association's Secretary is the Vice-President of WIA. Both did not receive compensation from the Waikiki Beach Special Improvement District Association. During the year ended June 30, 2017, the Waikiki Beach Special Improvement District Association paid WIA \$42,000 for management support services. During the period ended June 30, 2016, the Waikiki Beach Special Improvement District Association paid WIA \$30,000 for management support services.

The Association has a professional services agreement with the University of Hawaii on behalf of its sea grant college program. The agreement provides the Association a project manager to oversee development and implementation of the Waikiki Beach Management Plan.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The Association prepares its financial statements on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Revenues are recognized when earned, and expenses are recognized when the related liability is incurred. The Association also 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 commercial, nonresidential properties in Waikiki, within the Association’s district. 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 recognized when the related liability is incurred and 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.

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 \$647,000 and \$124,300, 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.

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 Beach Special 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.

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.

Financial Statement Presentation – Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Total net assets and change in net assets are unchanged due to these reclassifications.

NOTE C – ROYAL HAWAIIAN GROIN IMPROVEMENT PROJECT

On February 23, 2017, the Association entered into a memorandum of understanding with the State of Hawaii, Department of Land and Natural Resources regarding the Royal Hawaiian Groin Improvement Project in Waikiki. The project will entail joint funding for the planning, design, permitting, construction, construction monitoring, environmental monitoring, and after-action report of the Royal Hawaiian Groin Project.

NOTE D – COMMITMENTS AND CONTIGENCIES

The Association is involved in a claim arising in the normal course of business. The claim was settled in March 2018, with no financial impact to the Association. The Association's insurance paid the claim in full. Therefore, no amounts were recorded in the accompanying financial statements.

NOTE E – 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.
