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Business directory

Chair:	Terry Gould
Deputy Chair:	Jason Copus
Treasurer:	Jason Copus
Board Members:	Gary Langsford Chris Cherry Paddy Stafford-Bush Shane McMahon Sarah Hull Regan Hall
Local Board Representatives:	Shale Chambers
Associate Members Appointed to the Board in a Non-Voting Capacity:	Denise L'Estrange-Corbet Andrew Stringer
Nature of Business:	Promotes Inner City Business
Registered Office:	Level 2, 26 Lorne Street Auckland
Bankers:	ASB Bank Limited 138-142 Queen Street Auckland
Solicitors:	Buddle Findlay PricewaterhouseCoopers Tower 188 Quay Street Auckland Russell McVeagh Vero Centre Level 25, 48 Shortland Street Auckland
Auditors:	RSM Hayes Audit Level 1, 1 Broadway Newmarket Auckland
Accountants:	Grant Thornton New Zealand Ltd Level 4, Grant Thornton House 152 Fanshawe Street Auckland

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

HEART OF THE CITY INCORPORATED

We have audited the financial statements of Heart of the City Incorporated on pages 5 to 14, which comprise the statement of financial position as at 30 June 2015 and the statement of financial performance, and statement of movements in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the members, as a body, in accordance with the rules of Heart of the City Incorporated. Our audit has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body, for our work, for this report, or for the opinions we have formed.

Board's Responsibility for the Financial Statements

The board of Heart of the City Incorporated is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and applicable Statements of Standard Accounting Practice and for such internal control as the board determines is necessary to enable the preparation 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 International Standards on Auditing (New Zealand).

Those standards require that we comply with ethical requirements and 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 judgement, 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 entity's preparation of financial statements that present fairly the matters to which they relate 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, 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 qualified audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Heart of the City Incorporated.

Basis for Qualified Opinion on Financial Performance

The 2014 audit opinion was qualified by the previous auditors due to uncertainty surrounding the quantification of the extent of fraudulent activity.

Given the circumstances, the previous auditors were unable to determine whether further adjustments and reclassifications to the statement of financial performance were necessary for the year ended 30 June 2014. Our opinion on the current period's statement of financial performance is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Qualified Opinion on Financial Performance

In our opinion, except for the possible effects on the corresponding 2014 figures of the matter described in the Basis for Qualified Opinion paragraph, the financial statements on pages 5 to 14 present fairly, in all material respects, the financial performance of Heart of the City Incorporated for the year ended 30 June 2015 in accordance with Financial Reporting Standards and applicable Statements of Standard Accounting Practice.

Opinion on Financial Position

In our opinion, the financial statements on pages 5 to 14 present fairly, in all material respects, the Statement of Financial Position of Heart of the City Incorporated as at 30 June 2015.

Other Matter

The financial statements of Heart of the City Incorporated for the year ended 30 June 2014 were audited by another audit firm who expressed their qualified opinion dated 20 May 2015. Their qualification in respect of financial performance on the 2014 financial statements was for the reasons noted in the Basis for Qualified Opinion above.

A handwritten signature in dark ink, appearing to read 'RSM'.**RSM Hayes Audit**

29 October 2015

Auckland

Statement of financial performance for the year ended 30 June 2015

	Note	2015	2014
		\$	\$
Income			
Auckland City Contributions		4,322,839	4,269,853
Event and Sundry Income		-	22,167
Big Little City Campaign Funding		673,734	595,966
		4,996,573	4,887,986
Investment and Other Income			
Net Dividend Received		1,005	990
Interest Received		7,175	1,846
Other Income	11	429,484	-
Profit on Sale of Fixed Assets		-	15,386
		437,664	18,222
Total Income	1	5,434,237	4,906,208

The accompanying notes form part of these financial statements.

Statement of financial performance for the year ended 30 June 2015

	Note	2015	2014
		\$	\$
Expenses			
ACC Levy		4,453	5,095
Accountancy Fees		14,039	27,660
Advocacy		239,134	270,671
AGM Expenses		1,818	785
Ambassadors		216,561	238,721
Amortisation of Intangible Assets	7	117,354	30,790
Audit Fees – Grant Thornton New Zealand Audit		10,866	14,285
Audit Fees – RSM Hayes Audit		14,500	-
Bank Fees		1,248	287
Committee Expenses		1,150	1,325
Committee Wages		450	14,846
Community Donations		-	1,200
Computer/Phone Maintenance		20,273	26,739
Contractor Expenses		254,472	286,911
Depreciation	6	94,304	104,578
Education/Seminars		-	370
Events, Sponsorship & Advertising	8	1,910,018	3,306,660
Forensic Accounting and Legal Expenses	12	401,861	-
Forgiveness of Loan	10	4,400	4,400
General Expenses		15,525	36,505
Insurance		17,203	42,466
Interest		73	22
Legal Fees		11,408	13,251
Loss on Sale of Fixed Assets		9,830	-
Membership Communication		20,122	7,821
Office Services		24,823	28,973
Parking (Staff)		4,835	6,259
Payroll Processing		2,756	3,389
Pedicabs		-	7,091
Penalties		-	323
Power		2,996	3,965
Printing, Postage & Stationery		11,927	19,149
Prior Period Assets Written Down	2	48,879	-
Recruitment Expense		84,013	-
Rent & OPEX		118,162	106,417
Salary and Wages		736,939	903,821
Security		55,306	121,012

The accompanying notes form part of these financial statements.

Statement of financial performance for the year ended 30 June 2015

	Note	2015	2014
		\$	\$
Expenses (continued)			
Telephone/Internet		13,254	15,938
Website Management		21,780	25,610
Where Next App Operational Expenses		122,350	-
Total Expenses		<u>4,629,082</u>	<u>5,677,334</u>
Net Surplus (Deficit)		<u>805,155</u>	<u>(771,126)</u>

The accompanying notes form part of these financial statements.

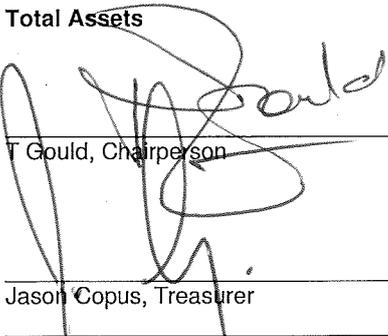
Statement of movements in equity for the year ended 30 June 2015

	2015	2014
	\$	\$
Equity at 1 July	68,123	839,249
Net Surplus/(Deficit) for the Year	805,155	(771,126)
Total Equity at 30 June	<u>873,278</u>	<u>68,123</u>

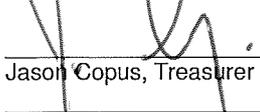
The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2015

	Note	2015	2014
		\$	\$
Equity			
Retained Earnings		873,278	68,123
Current Liabilities			
Accounts Payable		264,173	640,488
Income Received in Advance		223,333	142,372
		<u>487,506</u>	<u>782,860</u>
Total Equity & Liabilities		<u>1,360,784</u>	<u>850,983</u>
Current Assets			
Cash & Cash Equivalents		408,835	41,919
Short Term Deposits		319,613	57,901
Other Receivables		59,542	107,597
Settlement Receivables	14	115,000	-
Accounts Receivable		54,191	80,210
Ferry Building Suspensory Loan - Current	10	4,400	4,400
		<u>961,581</u>	<u>292,026</u>
Non Current Assets			
Property, Plant and Equipment		186,839	330,367
Capital Work in Progress		10,000	-
	2	<u>196,839</u>	<u>330,367</u>
Investments			
Ferry Building Suspensory Loan – Non Current	10	30,800	35,200
Intangible Assets			
Website		134,012	193,390
Trademarks		5,125	-
Intangible Work in Progress		32,427	-
	7	<u>171,564</u>	<u>193,390</u>
		<u>399,203</u>	<u>558,957</u>
Total Assets		<u>1,360,784</u>	<u>850,983</u>


T. Gould, Chairperson

29/10/15
Date


Jason Copus, Treasurer

29/10/2015
Date

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2015

1 Statement of Accounting Policies

These are the financial statements of Heart of the City Incorporated. Heart of the City Incorporated is an Incorporated Society established under the Incorporated Societies Act 1908. The financial statements have been prepared in accordance with generally accepted accounting practice.

The Society has chosen not to adopt the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"). The decision not to adopt is consistent with exemption provided by External Reporting Board ("XRB") A1. XRB A1 provides a choice to certain qualifying entities to either adopt NZ IFRS or to continue to apply New Zealand Financial Reporting Standards ("NZ FRS"). The Society is a qualifying entity on the basis that it is not considered large (less than \$20m revenue and \$10m total assets).

Heart of the City Incorporated has adopted all available differential reporting exemptions.

Measurement System

The measurement system adopted is that of historical cost.

Particular Accounting Policies

The following is a summary of the significant accounting policies adopted by Heart of the City Incorporated in the preparation of these financial statements.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation.

Depreciation is recognised in the Statement of financial performance to write off the cost of an item of property, plant & equipment, less any residual value, over its expected useful life, at the rates listed below.

Gains and losses on disposal of property, plant and equipment are taken into account in determining the financial performance for the year.

	Rate	Method
Office Equipment	16% - 67%	DV
Computer Equipment	16% - 60%	DV
Fittings and Furniture	11.4% - 30%	DV
Promotional Assets	10% - 48%	DV

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Operating Leases

Leases under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged as an expense in the periods in which they are incurred.

Accounts Receivable

Accounts receivable are valued at anticipated realisable value. An estimate is made for doubtful debts based on a review of all outstanding amounts at year end. Bad debts are written off during the period in which they are identified.

Investments

Investments are stated at cost.

Notes to the financial statements for the year ended 30 June 2015

Goods and Services Tax

Financial information in these accounts is recorded exclusive of GST with the exception of receivables and payables, which include GST. GST payable or receivable at balance date is included in the appropriate category in the Statement of Financial Position.

Intangibles

The website and app are accounted for using the cost model whereby capitalised costs are amortised on a diminishing value basis over their estimated useful life, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset which it relates. Other expenditure is recognised in profit or loss when incurred.

The trademarks are recognised at cost and are not amortised as they are not considered to have a finite useful life.

	Rate	Method
Website/Where Next App	50%	DV

Accounts Payable

Trade and other payables represent liabilities for goods and services provided to Heart of the City Incorporated prior to the end of the financial year which are unpaid. The amounts are unsecured.

Cash and Cash Equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Revenue

Revenue shown in the Statement of Financial Performance comprises the amounts received and receivable by way of grants and sponsorship.

Investment Income

Interest is accounted for as earned.

Income Received in Advance

Income received in advance relates to campaign income received where there are unfulfilled obligations for Heart of the City Incorporated to provide services in the future. These are recorded as revenue as the obligations are fulfilled.

Tax

From 1 July 1999 the entity was exempt from income tax under section CW 40(1) of the Income Tax Act 2007.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year. The Financial Reporting Act 2013 ("FRA 2013") applies to any reporting periods beginning on or after 1 April 2014 and entities can no longer report under NZ FRS for accounting periods beginning on or after 1 April 2015. As Heart of the City Incorporated does not have a statutory obligation to prepare general purpose financial statements, it has the option to either elect to prepare Special Purpose Financial Statements or General Purpose Financial Statements. As at the date the financial statements were approved for issue, management has not made any decision as to which approach it will take.

Notes to the financial statements for the year ended 30 June 2015

2 Property Plant and Equipment

Year Ended 30 June 2015	Cost \$	Accum Depn \$	Book Value \$
Office Equipment	18,300	11,917	6,383
Computer Equipment	52,178	37,826	14,352
Office Fittings & Furniture	122,582	74,161	48,421
Promotional Assets	523,387	405,705	117,682
	<u>716,448</u>	<u>529,609</u>	<u>186,839</u>
Capital Work in Progress – MFP Banners	10,000	-	10,000
	<u>726,448</u>	<u>529,609</u>	<u>196,839</u>
Year Ended 30 June 2014			
Office Equipment	31,168	22,362	8,806
Computer Equipment	67,450	51,975	15,475
Office Fittings & Furniture	130,288	73,812	56,476
Promotional Assets	999,781	750,170	249,611
	<u>1,228,687</u>	<u>898,320</u>	<u>330,367</u>

A review was undertaken of the asset schedule during the year which resulted in impairment or additional depreciation adjustments to some assets, primarily of a promotional nature. The net effect of these changes has been recorded in the Statement of Financial Performance as Prior Period Assets Written Down.

3 Related Parties

The society has conducted transactions with related parties as follows:

Party	Relationship	Transaction
Gary Langsford	Board Member	Landlord (Part Owner), Funding paid to related party
Sarah Hull	Board Member	Funding paid to related party, Partnership fee received from related party
Denise L'Estrange-Corbet	Board Member	Honorarium
John Courtney	Former Board Member	Partnership fee received from related party
Alex Swney	Chief Executive	Contractor Services - Provided via AGS Services Limited

Total rent paid to the 26 Lorne Street Limited where Gary Langsford (Board Member) is a part owner was \$118,612 (2014: \$106,417). Gary Langsford was also a board member of NZ Contemporary Arts Trust which received \$23,000 for Art Week from Heart of the City Incorporated during the year.

Notes to the financial statements for the year ended 30 June 2015

3 Related Parties (continued)

Sarah Hull is an employee of Britomart Association Company which paid a partnership fee of \$25,000 during the year. Britomart Association Company also paid \$1,100 to Heart of the City Incorporated for the production of an installation related to the Winter Campaign. This amount was outstanding as at 30 June 2015.

Alex Swney was dismissed from Heart of the City Incorporated as at 2 October 2014. He was subsequently convicted for misappropriation of funds from Heart of the City Incorporated.

No related party debts have been written off or forgiven during the year (2014: \$Nil).

4 Contingent Liabilities

There are no contingent liabilities at year end (2014: \$Nil).

5 Capital Commitments

There are no capital commitments at year end (2014: \$Nil).

6 Operating Expenses include the following:	2015	2014
	\$	\$
Depreciation Office Equipment	1,707	2,532
Depreciation Computer Equipment	8,755	13,129
Depreciation Office Fittings & Furniture	8,481	9,943
Depreciation Promotional Assets	75,361	78,974
	<u>94,304</u>	<u>104,578</u>

7 Intangible Assets	2015	2014
	\$	\$
Website and Where Next App at Cost	542,137	493,494
Less Accumulated Amortisation	<u>(408,125)</u>	<u>(300,104)</u>
Website and Where Next App	134,021	193,390
Trademarks	5,125	-
Where Next App Work in Progress	32,427	-
	<u>171,564</u>	<u>193,390</u>

Amortisation of Intangible Assets relates to the Website, Where Next App, and related assets. The significant increase is due to the assets brought into the register in 2014 and 2015 which total \$221,909 and were amortised at 50% from 1 July 2014. Of the total amortisation \$102,625 relates to these assets.

8 Events, Sponsorship and Advertising

Expenditure cuts were made to these areas given the need to manage costs prudently while the fraud was investigated.

Notes to the financial statements for the year ended 30 June 2015

9 Lease Commitments

Lease commitments from non-cancellable operating leases at balance date are:

	2015	2014
	\$	\$
Current	111,372	198,948
Non-Current	67,217	513,951
	<u>178,589</u>	<u>712,899</u>

10 Ferry Building Partnership Suspensory Loan

There is a suspensory loan to the Ferry Building Partnership for the amount of \$35,200. This loan is being forgiven in ten equal instalments of \$4,400 upon each anniversary of the initial payment. If the Ferry Building Partnership for any reason is not able to meet the terms of the agreement, the remaining loan balance will be payable to Heart of the City Incorporated.

11 Other Income

	2015	2014
	\$	\$
Insurance Claims	55,568	-
Recovery of Misappropriated Funds	373,916	-
	<u>429,484</u>	<u>-</u>

12 Forensic Accounting and Legal Expenses

Forensic work has been carried out by McGrathNicol and Russell McVeagh in relation to the ongoing proceedings against the former CEO.

13 Potential Fraud in 2015 Financial Year

As part of the investigation carried out, McGrathNicol identified potentially fraudulent payments for the year ended 30 June 2015 which total approximately \$96,000.

14 Events After Balance Date and Contingent Assets

Legal Proceedings

Prior to year end, Heart of the City Incorporated launched civil proceedings against its former Chief Executive as a result of an investigation into his actions by an independent forensic accountant. This included claims against two trusts which were alleged to have received Heart of the City Incorporated funds taken improperly by its former Chief Executive Alex Swney. As at 30 June 2015, \$258,916 had been received and a further \$115,000 was due at that date in respect of these claims, which was subsequently received.

In addition, a contingent asset existed at balance date relating to claims that had not yet been settled, with an uncertain amount of recovery. Subsequent to balance date Heart of the City Incorporated reached a final settlement in respect of its claims against these trusts and a further \$326,000 was recovered from the trusts, which will be recorded as income in the subsequent financial year.

As at the date the financial statements were authorised for issue further civil proceedings were ongoing.