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Business directory (continued)

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
Auditor:	Grant Thornton New Zealand Audit Partnership L3, Grant Thornton House 152 Fanshawe Street Auckland
Accountants:	Grant Thornton New Zealand Ltd L4, Grant Thornton House 152 Fanshawe Street Auckland

Business directory (continued)

Chair: Terry Gould

Deputy Chair: Jason Copus

Treasurer: Jason Copus

Board Members: Gary Langsford
Allan Matson (resigned 29 October 2014)
John Courtney (resigned 24 February 2015)
Chris Cherry
Paddy Stafford-Bush
Shane McMahon
Sarah Hull
Denise L'Estrange-Corbet (resigned 29 October 2014)
Andrew Stringer (resigned 29 October 2014)
Regan Hall (appointed 29 October 2014)

Associate members appointed to the Board in a non-voting capacity: Denise L'Estrange-Corbet (appointed 12 November 2014)
Andrew Stringer (appointed 12 November 2014)

Local Board Representatives: Shale Chambers

Independent Auditor's Report

Audit

Grant Thornton New Zealand Audit Partnership
L4, Grant Thornton House
152 Fanshawe Street
PO Box 1961
Auckland 1140
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To the Members of Heart of the City Incorporated**Report on the financial statements**

We have audited the financial statements of Heart of the City Incorporated on pages 5 to 15, which comprise the statement of financial position as at 30 June 2014, 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.

Board Members' responsibilities

The Board Members are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that present fairly the matters to which they relate, and for such internal control as the Board Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

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 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.

Our firm carries out other assignments for Heart of the City Incorporated in the area of accounting services and preparation of financial statements. The firm has no other interest in Heart of the City Incorporated.

Basis for Qualified Opinion on Financial Performance

As explained in Note 2, at the date the financial statements were authorised for issue, no adjustments have been made to the financial statements as the Society is still in the early stages of its civil proceedings and there is fundamental uncertainty around the total value of the outcome of the civil action made by Heart of the City against its former chief executive.

The Serious Fraud Office (SFO) was called in to investigate the fraud and to quantify the amount of loss for Board Members. The SFO then laid charges against the former chief executive on the 21 April 2015 and he pleaded guilty to a quantum of loss amounting to \$2.527 million.

A suppression order has also been issued by the High Court of New Zealand preventing the Board Members from disclosing any details pertaining to the fraud.

Any confirmed losses arising from fraudulent activity would require adjustments to be made to a number of line items in the Statement of Financial Performance as presented for the year ended 30 June 2014 and to other reporting periods.

Given the circumstances, we are unable to determine whether further adjustments and reclassifications to the statement of financial performance are necessary for the year ended 30 June 2014.

Qualified Opinion on Financial Performance

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements on pages 5 to 15 fairly present the statement of financial performance of Heart of the City Incorporated for the year ended 30 June 2014.

Opinion on Financial Position

In our opinion, the financial statements on pages 5 to 15 fairly present the statement of financial position of Heart of the City Incorporated as at 30 June 2014.



Grant Thornton New Zealand Audit Partnership
Auckland, New Zealand
20 May 2015

Statement of financial performance for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
Income			
Auckland City Contributions		4,269,853	4,258,523
Event and Sundry Income		22,167	8,654
Big Little City Campaign Funding		595,966	692,553
		<u>4,887,986</u>	<u>4,959,730</u>
Investment and Other Income			
Net Dividend Received		990	960
Interest Received		1,846	3,178
Profit on Sale of Fixed Assets		15,386	-
		<u>18,222</u>	<u>4,138</u>
Total Income		<u>4,906,208</u>	<u>4,963,868</u>

The accompanying notes form part of these financial statements.

Statement of financial performance for the year ended 30 June 2014

	Note	2014	2013
Expenses		\$	\$
ACC Levy		5,095	5,650
Accountancy Fees		27,660	32,791
Advocacy		270,671	141,141
AGM Expenses		785	8,053
Ambassadors		238,721	216,490
Amortisation of Intangible Assets		30,790	61,580
Audit Fees		14,285	12,447
Bank Fees		287	237
Committee Expenses		1,325	1,388
Committee Wages		14,846	19,691
Community Donations		1,200	-
Computer/Phone Maintenance		26,739	24,346
Contractor Expenses		286,911	252,680
Couriers		-	1,384
Depreciation	7	104,578	109,088
Education/Seminars		370	398
Events, Sponsorship & Advertising		3,306,660	3,012,944
Forgiveness of Loan		4,400	-
General Expenses		36,505	34,307
Insurance		42,466	17,340
Interest		22	-
Legal Fees		13,251	15,238
Loss on Sale of Fixed Assets		-	9,132
Membership Communication		7,821	7,083
Office Services		28,973	28,522
Parking (Staff)		6,259	10,091
Payroll Processing		3,389	3,125
Pedicabs		7,091	15,545
Penalties		323	300
Printing, Postage & Stationery		19,149	12,169
Rates & OPEX		3,965	4,823
Rent		106,417	108,494
Salary and Wages		903,821	698,009
Security		121,012	36,241
Subscriptions/Memberships		-	476
Telephone/Internet		15,938	15,257
Website Management		25,610	25,054
Total Expenses		5,677,335	4,941,514

The accompanying notes form part of these financial statements.

Statement of financial performance
for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
Net (Deficit)/Surplus		<u>(771,127)</u>	<u>22,354</u>

The accompanying notes form part of these financial statements.

Statement of movements in equity for the year ended 30 June 2014

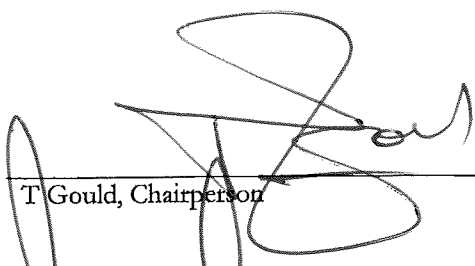
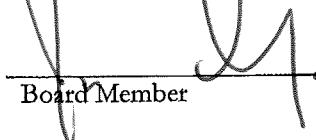
	Note	2014	2013
		\$	\$
Equity at 1 July		839,249	816,895
Net (Deficit)/Surplus for the Year		(771,127)	22,354
Total Equity at 30 June		<u>68,122</u>	<u>839,249</u>

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2014

	Note	2014	2013
		\$	\$
Equity			
Retained Earnings		68,122	839,249
Current Liabilities			
Accounts Payable		640,488	359,289
Income Received in Advance		142,373	205,833
		<u>782,861</u>	<u>565,122</u>
Total Equity & Liabilities		<u>850,983</u>	<u>1,404,371</u>
Current Assets			
Cash & Cash Equivalents		41,918	398,453
Term Investments		57,901	56,216
Other Receivables		107,597	361,006
Accounts Receivable		80,210	97,942
Ferry Building Suspensory Loan - Current		4,400	4,400
		<u>292,026</u>	<u>918,017</u>
Non Current Assets			
Property, Plant and Equipment	3	330,367	385,173
Intangible Assets	9	193,390	61,581
Ferry Building Suspensory Loan - Non-current		35,200	39,600
		<u>558,957</u>	<u>486,354</u>
Total Assets		<u>850,983</u>	<u>1,404,371</u>

For and on behalf of the Board who approved these financial statements for issue.


 T. Gould, Chairperson

 Board Member

20/5/15
 Date

20th May 2015.
 Date

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2014

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 principles.

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 the Society in the preparation of these financial statements.

Property, Plant and Equipment

Property, plant and equipment is 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 and 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	36% - 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.

Notes to the financial statements for the year ended 30 June 2014

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 lives, 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.

	Rate	Method
Website	50%	DV
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 2014

2 Fundamental Uncertainty Surrounding Legal Proceedings

Subsequent 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.

No adjustments have been made to the financial statements as a result of the fraud as the Society is still in the early stages of its civil action. At the date of authorising these financial statements for issue, there is a fundamental uncertainty around the total value of the outcome of the civil action made by Heart of the City against its former chief executive.

The Serious Fraud Office (SFO) was called in to investigate the fraud and to quantify the amount of the loss for Board Members. The SFO then laid charges against the former chief executive on the 21 April 2015 and he pleaded guilty to a quantum of loss amounting to \$2.527 million.

A suppression order has also been issued by the High Court of New Zealand preventing the Board Members from disclosing any details pertaining to the fraud. This is specifically on the civil action by Heart of the City against its former chief executive.

Any confirmed losses arising from fraudulent activity would require adjustments to be made to a number of line items in the Statement of Financial Performance as presented for the year ended 30 June 2014 and to other reporting periods.

A contingent asset has not been disclosed in relation to amounts that could potentially be recoverable from the former chief executive's personal assets due to the suppression order and the current status of legal proceedings against him.

3 Property Plant and Equipment

Year Ended 30 June 2014	Cost \$	Accum Depn \$	Book Value \$
Office Equipment	31,168	22,363	8,805
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>
Year Ended 30 June 2013			
Office Equipment	31,168	19,830	11,338
Computer Equipment	64,428	38,847	25,581
Office Fittings & Furniture	130,288	63,869	66,419
Promotional Assets	1,032,379	750,544	281,835
	<u>1,258,263</u>	<u>873,090</u>	<u>385,173</u>

4 Contingent Liabilities

There are no contingent liabilities at year end (2013: \$Nil).

5 Capital Commitments

There are no capital commitments at year end (2013: \$Nil).

Notes to the financial statements for the year ended 30 June 2014

6 Related Parties

The society has conducted transactions with related parties as follows:

Party	Relationship	Transaction
Terry Gould	Chairman	Honorarium
Jason Copus	Treasurer	Honorarium
Gary Langsford	Board Member	Landlord (Part Owner), Honorarium, Funding paid to related party
Chris Cherry	Board Member	Honorarium
John Courtney	Board Member	Honorarium, Partnership fee received from related party
Alan Matson	Board Member	Honorarium
Paddy Stafford-Bush	Board Member	Honorarium
Shane McMahon	Board Member	Honorarium
Sarah Hull	Board Member	Honorarium, Funding paid to related party, Partnership fee received from related party
Denise L'Estrange-Corbet	Board Member	Honorarium
Andrew Stringer	Board Member	Honorarium
Alex Swney	Secretary	Contractor Services - Provided via AGS Services Limited

Notes to the financial statements for the year ended 30 June 2014

6 Related Parties (continued)

Total rent paid to the 26 Lorne Street Limited where Gary Langsford (Board Member) is a part owner was \$106,417 (2013: \$108,494). Gary Langsford is also a board member of NZ Contemporary Arts Trust which received \$40,000 of funding for the Auckland Art Fair and \$20,000 for Art Week from Heart of the City Incorporated during the year.

John Courtney is a shareholder and director of Hotel De Brett building. Hotel De Brett paid a partnership fee of \$7,500 to Heart of the City Incorporated during the year.

Sarah Hull is an employee of Cooper and Company which paid a partnership fee of \$15,000 during the year. Cooper and Company also received sponsorship payments of \$15,000 from Heart of the City Incorporated toward Britomart Fashion Sessions.

No amounts are outstanding at year end.

No related party debts have been written off or forgiven during the year (2013: \$Nil).

7 Operating Expenses

Operating expenses include the following depreciation:

	2014	2013
	\$	\$
Depreciation Office Equipment	2,532	3,624
Depreciation Computer Equipment	13,129	4,596
Depreciation Office Fittings & Furniture	9,943	11,549
Depreciation Promotional Assets	78,974	89,319
	<u>104,578</u>	<u>109,088</u>

8 Lease Commitments

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

	2014	2013
	\$	\$
Current	198,948	179,564
Non current	513,951	147,706
	<u>712,899</u>	<u>327,270</u>

Notes to the financial statements for the year ended 30 June 2014

9 Intangible Assets

Year Ended 30 June 2014	Cost	Accum Depn	Book Value
	\$	\$	\$
Website at Cost	330,894	300,104	30,790
App at Cost	162,600	-	162,600
	<u>493,494</u>	<u>300,104</u>	<u>193,390</u>
Year Ended 30 June 2013	Cost	Accum Depn	Book Value
	\$	\$	\$
Website at Cost	330,894	269,313	61,581
App at Cost	-	-	-
	<u>330,894</u>	<u>269,313</u>	<u>61,581</u>

10 Ferry Building Partnership Suspensory Loan

There is a suspensory loan to the Ferry Building Partnership for the amount of \$39,600 (2013: \$44,000). 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 Events Occurring After Balance Date

The Board Members are not aware of any other matters or circumstances since the end of the reporting period, not otherwise dealt with in the financial statements that have significantly, or may significantly, affect the operations of Heart of the City Incorporated (2013: Nil).