2018 Financial Statements

The University of Auckland Foundation & Group

Contents

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As at 31 December 2018

TRUSTEES	
AUDITOR	Ernst & Young 2 Takutai Square Auckland 1010
SOLICITOR	TGT Legal Level 7, 3-13 Shortland Street Auckland 1140
BANKER	Bank of New Zealand Cnr Queen and Shortland Streets Auckland 1010
PRINCIPAL ACTIVITY	The raising and stewardship of funds for charitable purposes as defined by the Trust Deed.
TRUST ADDRESS	University House 19A Princes Street Auckland 1010

Statement of responsibility

- The trustees and management of the University of Auckland Foundation accept responsibility for the preparation of the Financial Statements and the judgements used in them.
- The trustees and management of the University of Auckland Foundation accept responsibility for establishing and maintaining a system of internal control which has been designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- In the opinion of the trustees and management of the University of Auckland Foundation, the financial statements for the year ended 31 December 2018 fairly reflect the financial position and operations of the University of Auckland Foundation.
- The trustees of the University of Auckland Foundation have reviewed these financial statements at its meeting on 8 March 2019 and formally adopted these financial statements for issue on 8 March 2019.

Geoff Ricketts
CHAIRPERSON

Elizabeth Hickey
TRUSTEE

Statement of comprehensive revenue and expenses

For the year ended 31 December 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Foundation 2018 $'000	Foundation 2017 $'000
Revenue					
Gifts and legacies	2	40,131	23,134	19,472	13,757
Gain on investments	3	2,118	21,745	1,439	17,809
Reversal of impairment loss on Entrepreneurial Challenge investment		150	82	150	82
Total revenue		42,399	44,961	21,061	31,648
Expenses					
Distributions and grants	4	24,790	18,757	15,412	9,740
Administration costs	5	399	357	280	272
Total expenses		25,189	19,114	15,692	10,012
Net surplus		**17,210**	**25,847**	**5,369**	**21,636**
Total comprehensive revenue and expense		**17,210**	**25,847**	**5,369**	**21,636**

The accompanying Notes to the Financial Statements on pages 9 to 22 form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

As at 31 December 2018

		Group		Foundation	
		2018	2017	2018	2017
	Notes	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents		8,865	2,171	5,413	1,554
Short term bank deposits		31,959	29,084	21,343	19,933
Entrepreneurial Challenge investments		175	255	175	255
Derivative financial instruments		247		195	
Total current assets	10	41,246	31,510	27,126	21,742
Non-current assets					
Long term bank deposits		36,484	40,782	25,658	29,010
Managed investments		169,022	152,424	131,643	125,103
Unsettled trade		1,500		1,185	
Total non-current assets	10	207,006	193,206	158,486	154,113
Total assets		**248,252**	**224,716**	**185,612**	**175,855**
Current liabilities					
Accounts payable		105	101	86	81
Grants payable		24,560	18,069	11,404	6,875
Derivative financial instruments			169		142
Total current liabilities	10	24,665	18,339	11,490	7,098
Net assets		**223,587**	**206,377**	**174,122**	**168,757**
Trust equity	7	**223,587**	**206,377**	**174,122**	**168,757**

The accompanying Notes to the Financial Statements on pages 9 to 22 form part of and should be read in conjunction with these financial statements.

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Statement of changes in equity

For the year ended 31 December 2018

		Group		Foundation	
		2018	2017	2018	2017
	Notes	$'000	$'000	$'000	$'000
Trust equity as at 1 January		206,377	180,931	168,757	147,492
Total comprehensive revenue and expense		17,210	25,847	5,369	21,636
Transfer from/(to) controlled entity*	9			(4)	30
Transfer from/(to) controlling entity**	9		(401)		(401)
Trust equity as at 31 December	7	**223,587**	**206,377**	**174,122**	**168,757**

* The University of Auckland School of Medicine Foundation
** The University of Auckland

The accompanying Notes to the Financial Statements on pages 9 to 22 form part of and should be read in conjunction with these financial statements.

Statement of cash flows

For the year ended 31 December 2018

		Group		Foundation	
		2018	2017	2018	2017
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Gifts and legacies		39,685	22,928	19,140	13,633
Interest received		2,907	2,147	1,968	1,588
Distributions and grants		(18,271)	(14,204)	(10,855)	(9,171)
Payments to suppliers		(26)	(88)	(19)	(75)
Net cash provided by/(used in) operating activities	8	24,295	10,783	10,234	5,975
Cash flows from investing activities					
Sale of financial assets		29,211	17,132	20,141	11,198
Purchase of financial assets		(46,812)	(27,867)	(26,512)	(17,480)
Net cash provided by/(used in) investing activities		(17,601)	(10,735)	(6,371)	(6,282)
Cash flows from financing activities					
Transfer from/(to) controlled entity*				(4)	30
Net cash provided by/(used in) financing activities				(4)	30
Net increase/(decrease) in cash and cash equivalents		**6,694**	**48**	**3,859**	**(277)**
Cash and cash equivalents as at 1 January		2,171	2,123	1,554	1,831
Cash and cash equivalents as at 31 December		**8,865**	**2,171**	**5,413**	**1,554**

* The University of Auckland School of Medicine Foundation

The accompanying Notes to the Financial Statements on pages 9 to 22 form part of and should be read in conjunction with these financial statements.

Cash flows are classified into three sources:

Operating activities

- Operating activities include all transactions and other events that are not investing or financing activities

Investing activities

- Those activities relating to the acquisition holding and disposal of fixed and financial assets (being investments not falling within the definition of cash or cash equivalents).

Financing activities

- Those activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Cash and cash equivalents comprise cash on hand, cash in banks and investments in highly liquid investments with original maturities of 90 days or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The carrying value of cash at bank, call deposits, and term deposits with maturities less than three months approximates their fair value.

Notes to the Financial Statements

For the year ended 31 December 2018

1. Statement of accounting policies

1.1 Reporting entity

The University of Auckland Foundation (the Foundation) and The University of Auckland School of Medicine Foundation (SOMF) together comprise the consolidated entity (the Group). Each is a charitable entity domiciled in New Zealand and registered under the Charities Act 2005. The Foundation was established by deed of trust dated 28 November 2002 and subsequently amended on 13 September 2013. A variation to the trust deed establishing the School of Medicine Foundation granted the Foundation the power to appoint the SOMF Trustees. This power of appointment was formally accepted with effect from 1 January 2008.

The Group and Foundation are designated as not-for-profit public benefit entities for the purpose of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The financial statements of the Group and the Foundation for the year ended 31 December 2018 were authorised for issue by the Trustees on 8 March 2019.

The principal activity of the Group is to assist in the raising and to undertake the stewardship of funds for charitable purposes as defined by the respective deeds of trust being every purpose that is charitable at law in New Zealand and includes the advancement of education and health care, assistance of students to pursue courses of study at The University of Auckland (the University) and the general advancement of the University.

1.2 Controlling entity

These financial statements recognise that the University coordinates the fundraising and is the main beneficiary of the assets held in trust by the Foundation and Group. While the University does not have power to appoint the majority of the trustees to the Foundation board, in terms of PBE IPSAS 35 Consolidated Financial Statements it is considered to have control over the Foundation and Group by being exposed, or having the rights, to variable benefits from its involvement with the Foundation and has the ability to affect the nature and amount of those benefits through its power over the Foundation, subject to the exercise by the Trustees of their fiduciary duties.

1.3 Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

GST is excluded from the financial statements except for Accounts Payable which are stated inclusive of GST. The balance of GST payable to the Inland Revenue Department is included in Accounts Payable.

Statement of compliance

These financial statements have been prepared in accordance with NZ GAAP and the requirements of the Charities Act 2005.

These financial statements comply with Public Benefit Entity (PBE) Standards and other applicable Financial Reporting Standards appropriate for Tier 1 not-for-profit Public Benefit Entities.

Basis of measurement

These financial statements have been prepared on a historical cost basis except for financial assets and liabilities which are designated at fair value through surplus or deficit.

Functional and presentational currency

These financial statements are presented in New Zealand dollars (NZD) which is the functional currency for both the Foundation and SOMF. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars.

Comparatives

When the presentation or classification of items is changed, comparative amounts are reclassified, unless reclassification is impracticable. Refer to note 11.

Standards issued but not yet effective

There have been no new standards issued and effective in 2018 that impact the financial statements.

The External Reporting Board issued PBE IFRS 9: Financial Instruments (PBE IFRS 9) on 12 January 2017 that PBEs will need to apply from 1 January 2021. The impact of the adoption of this accounting standard has not yet been assessed.

The External Reporting Board also issued PBE FRS 48: Service Performance Reporting which is effective from

1 January 2021. The impact of the adoption of this accounting standard has not yet been assessed.

While there are other amendments issued and not yet effective, the Foundation and Group does not consider these to be relevant and therefore no information has been disclosed about these amendments.

Changes in accounting policies

There have been no changes in accounting policies.

Critical estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Judgements that are material are the valuation and impairment of financial instruments described in notes 10.2 and 10.3. These critical estimates and judgements rely on the advice of the Group's investment advisor and fund managers.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

1.4 Basis of consolidation

The consolidated financial statements includes the financial statements of the Foundation and its controlled entity, SOMF. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements. All material inter-entity transactions and balances are eliminated on consolidation.

For financial reporting purposes the Foundation controls SOMF, as it has the power to appoint SOMF trustees and is appointed as the administrator and custodian of investments held by SOMF.

1.5 Significant accounting policies

Significant accounting policies which are pervasive throughout the financial statements or where there is no dedicated note disclosure are set out below. Other significant accounting policies which are specific to certain transactions or balances are disclosed within the particular note to which they relate.

Exchange and non-exchange transactions (as defined in PBE IPSAS standards)

Exchange transactions are transactions in which the Group receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange. Revenue from exchange transactions is recognised at fair value of consideration received or receivable.

Non-exchange transactions are those where the Group receives an inflow of resources but provides nominal (or nil) direct consideration in exchange. Revenue from non-exchange transactions is recognised at fair value upon receipt unless there are substantive conditions in the gift agreement. If there are substantive conditions, a gift return liability is initially recognised and revenue is subsequently recognised when the conditions are satisfied. A condition is a stipulation that specify that the resource received is to be returned to the donor if it is not consumed in the way stipulated.

Most of the Group's transactions are non-exchange in nature with the exception of the following transactions which are classified as exchange:

- Interest received
- Accounts payable

Income tax

The Foundation and SOMF are registered as charitable entities under the Charities Act 2005 and are exempt from income tax.

2. Gifts and legacies

Gifts and legacies are recognised when the control of cash, financial assets or other donated assets passes to the Group. Donated assets are recognised at their fair value on the date of the donation.

An assessment is carried out on the nature of any stipulations attached to gifts and legacies received. Stipulations may be ‘conditions’ or ‘restrictions’, as those terms are defined in PBE IPSAS 23. Where there are specific conditions that require the Group to return the resources received if they are not utilised in the way stipulated this will result in the recognition of a liability that is subsequently recognised as revenue as and when the ‘conditions’ are satisfied. Gift and legacies with restrictions that do not specifically require the Group to return the resources received if they are not utilised in the way stipulated are recognised as restricted revenue upon receipt.

Gifts and legacies have been received during the financial year by the Group and the Foundation for the restricted purposes as detailed below:

	Group		Foundation	
	2018	2017	2018	2017
Restricted purpose	$'000	$'000	$'000	$'000
Capital expenditure	156	87	150	72
Academic staff compensation	4,180	4,199	346	1,002
Fellowships	2,218	2,042	1,208	1,440
Programmes	5,030	5,670	3,195	4,062
Research	23,916	6,759	10,824	3,266
Scholarships and prizes	1,667	2,152	1,486	1,787
Student projects	270	207	270	207
Operating revenue	377	304	264	222
Multiple restrictions	2,317	1,714	1,729	1,699
Total gifts and legacies	**40,131**	**23,134**	**19,472**	**13,757**

The classification 'multiple restrictions' represents funds that are restricted to more than one of the purpose categories as described above.

3. Gain on investments

Gain on investments include:

- interest received from term deposits, Entrepreneurial Challenge investments and fixed interest investments are recognised on an accrual basis using the effective interest rate method;
- the movement in the Net Asset Value (NAV) of the investments held with fund managers. This is comprised of distributions recognised on declaration date, interest, realised and unrealised gains/(losses) including foreign exchange; and
- the movement in the fair value of Entrepreneurial Challenge investments.

	Group		Foundation	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Interest received	3,023	2,995	2,147	2,182
Change in financial assets	(905)	18,750	(708)	15,627
Gain on investments	**2,118**	**21,745**	**1,439**	**17,809**

4. Distributions and grants

Distributions and grants are recognised once the respective Trustees of the Foundation and SOMF have approved the grant applications from the beneficiary and/or payment of distributions and grants. Applications for funding are assessed to ensure that they are consistent with each entity's charitable purpose and the donors' intentions. A grants payable liability is recognised for any grants that have been approved by the Trustees but have yet to be paid to the beneficiary at year end.

	Group		Foundation	
	2018	2017	2018	2017
Restricted purpose	$'000	$'000	$'000	$'000
Capital expenditure	999	65	999	65
Academic staff compensation	1,422	1,070	888	628
Fellowships	2,517	978	1,662	388
Programmes	4,648	2,829	3,156	2,687
Research	9,295	11,686	3,163	4,128
Scholarships and prizes	5,770	1,671	5,408	1,386
Student projects	139	458	136	458
Total distributions and grants	**24,790**	**18,757**	**15,412**	**9,740**

5. Administration costs

Administration costs are funded by donations received for this purpose and investment income earned on funds held for operations.

	Group		Foundation	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Staff resources	233	163	156	112
Audit fees	55	58	43	45
Investment consultancy fees	73	71	55	59
Operating expenses	38	65	26	56
Total administration costs	**399**	**357**	**280**	**272**

6. Capital management

The Foundation and Group's capital is its net assets which are held in trust for the purposes as outlined in note 7. The objective of managing capital is to ensure net assets are managed and accounted for in accordance with conditions imposed by the donors and to provide sufficient funding to support the intended activities of the beneficiaries. The trustees have employed prudent investment and spending policies for this purpose.

Compliance with donor imposed conditions and the Group's policies are monitored by the trustees and management. During the course of the year, the Group and Foundation were in compliance with these requirements.

7. Trust equity

Trust equity comprises funds held both as endowments and as current use funds for specific purposes as summarised below.

	Group		Foundation	
	2018	2017	2018	2017
Restricted equity	$'000	$'000	$'000	$'000
Capital expenditure	195	787	195	774
Academic staff compensation	38,183	39,242	24,927	27,331
Fellowships	15,725	16,511	12,130	12,786
Programmes	25,089	24,110	20,090	19,791
Research	29,636	15,502	11,462	2,481
Scholarships and prizes	55,160	57,018	52,996	54,779
Student projects	902	754	850	683
Multiple restrictions	58,697	52,453	51,472	50,132
Total trust equity	**223,587**	**206,377**	**174,122**	**168,757**

The classification 'multiple restrictions' represents funds that are restricted to more than one of the purpose categories as described above.

Each application for funding is assessed to ensure consistency with the charitable purposes defined by the trust deed and the donor's intentions.

8. Reconciliation of net surplus and net cash flow from operating activities

	Group		Foundation	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Net surplus for the year	17,210	25,847	5,369	21,636
Add/(less) non cash items:				
Gifts in kind	(40)	(15)	(40)	(15)
Unrealised (gain)/loss on investments	896	(19,120)	701	(15,939)
Accrued interest on bank accounts and investments	(116)	(507)	(180)	(308)
Impairment/(reversal of impairment loss) on Entrepreneurial Challenge investments	(150)	(82)	(150)	(82)
	590	(19,724)	331	(16,344)
Adjust for movements in other working capital items:				
Increase/(decrease) in accounts payable	4	(6)	5	
Increase/(decrease) in grants payable*	6,491	4,666	4,529	683
	6,495	4,660	4,534	683
Net cash inflow/(outflow) from operating activities	**24,295**	**10,783**	**10,234**	**5,975**

*In 2017 it excludes reclassificaton of the transfer from controlling equity as a payable $401k

9. Related parties

The Foundation and SOMF are independent Charitable Trusts with the University being the controlling entity and the main beneficiary from their charitable activities.

The University Council appoints two of the 10 trustees of the Foundation. The appointed trustees at reporting date were Ms Cecilia Tarrant and Ms Sarah Roberts. Ms Cecilia Tarrant is a member of the University Council and the University Audit and Risk Committee.

A Licence to Use Logo agreement between the Foundation and the University grants the Foundation a licence of copyright to use the University's logo.

During 2016 the Trustees entered into an agreement with the University to transfer trusts and restricted equity totalling $19.3m held by the University to the Foundation. The funding was previously held by the University for scholarships, awards and restricted purposes as stipulated by gift records. The Foundation in accordance with transfer agreements now holds the funds for the same purposes. The transfer was recognised directly in equity as a contribution from a controlling entity for financial reporting purposes. In 2017, the University advised the Trustees that $401k of this transfer is to be returned to fund activities at the University. This amount has been reclassified as grants payable.

The University annually donates administrative and associated services to assist the Group with its operations. In 2018 this donation was assessed for the Group and Foundation respectively as $377k and $264k (2017: $304k and $222k). This donation includes the salaries of key management personnel for the Group of $80k (2017: $80k) and Foundation $53k (2017: $53k).

During the year, the trustees approved grants to the University amounting to $24.7m (2017: $18.7m) for the Group and $15.3m (2017: $9.7m) for the Foundation. At reporting date grants payable to the University amounted to $24.1m (2017: $17.6m) for the Group and $10.9m (2017: $6.4m) for the Foundation.

The Foundation was granted the power to appoint the SOMF trustees with the execution of the variation to the Trust Deed establishing SOMF. This power of appointment was formally accepted with effect from 1 January 2008. Professor John Fraser is the Dean of the Faculty of Medical and Health Sciences at the University of Auckland and a trustee on the SOMF board.

The Administration and Management Agreements between SOMF and the Foundation appointed the Foundation as administrator and custodian of investments held by SOMF in the Foundation's Current Use Investment Pool (CUIP) and Endowment Investment Pool (EIP). At reporting date the Foundation's CUIP and EIP investment pools held $61.3m in custodial assets on behalf of SOMF (2017: $48.8m).

There were no transfer of funds from SOMF to the Foundation in 2018 (2017: $30k). In line with donors' intentions, the Foundation trustees approved the transfer of funds to SOMF of $4k (2017: nil).

During the year ended 31 December 2018 the Group received gifts for charitable purposes from trustees totalling $219k (2017: $333k) and the Foundation received $45k (2017: $249k). No remuneration has been paid to trustees.

10. Financial Instruments

10.1 Financial instrument categories

The Group holds financial assets/liabilities in the following specified categories:

- Held to maturity investments;
- Loans and receivables;
- Financial assets/liabilities at fair value through surplus or deficit;
- Financial liabilities at amortised cost.

Financial assets are recognised when the Foundation or SOMF becomes party to a financial contract. The classification depends on the purpose of the financial asset or liability and is determined at the time of initial recognition.

The carrying value is equivalent to the fair value for all financial assets and liabilities.

Held to maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. They are measured initially at fair value, and subsequently carried at amortised cost less impairment losses.

Held-to-maturity investments are Entrepreneurial Challenge investments. Entrepreneurial Challenge investments comprise loans to growth-oriented small to medium sized New Zealand businesses that are managed and accounted for separately from the other investment activities of the Foundation. Successful investees are selected by a committee appointed by the Foundation's Trustees in association with the University's Vice Chancellor and Dean of the Business School. The Icehouse Limited manages both the Entrepreneurial Challenge and the investments, and provides quarterly reports to the Foundation including details of each investment, financial statements and the progress of each investee against their business plan. No new Entrepreneurial Challenge loans were issued in 2017 and 2018.

Loans and receivables
Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method less any impairment. Interest is recognised by applying the effective interest rate.

Loans and Receivables include cash and cash equivalents and bank term deposits. Cash and cash equivalents include cash on hand, deposits held on call with banks and other short term investments with original maturities of ninety days or less, which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. They form part of the Group's day to day cash management.

Financial assets/liabilities at fair value through surplus or deficit
The Group holds investments which have been designated as financial assets at fair value through surplus or deficit on initial recognition. These assets are stated at fair value and comprise of investments held in managed funds and foreign currency forward exchange contracts. Fair value is determined in the manner described in note 10.2. Any resultant gain or loss is recognised in the surplus or deficit in the statement of comprehensive revenue and expenses.

Foreign currency forward exchange contracts are entered into to reduce exposure to fluctuations in foreign currency denominated financial assets.

All foreign currency transactions during the year are accounted for using the exchange rate in effect at the date of the transaction. Foreign currency monetary and non-monetary items are translated at the exchange

10.1 Financial instrument categories (continued)

rate at each reporting date. Realised and unrealised gains and losses on foreign currency are recognised in the statement of comprehensive revenue and expense in the period in which they arise.

Financial liabilities measured at amortised cost
Accounts payable and grants payable are measured at amortised cost using the effective interest rate method. Refer to note 9 for grants payable to related parties.

	Group		Foundation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Financial Assets				
At fair value through surplus or deficit				
New Zealand fixed interest*	40,193	37,378	29,674	28,702
International fixed interest*	13,703	8,637	10,825	7,227
Australasian equities*	22,364	27,572	17,668	23,071
International equities*	60,482	57,071	47,785	47,756
Emerging markets*	12,563	11,118	9,925	9,303
New Zealand property*	13,197	7,500	10,426	6,276
Private equity*^	6,520	3,148	5,340	2,768
Derivative financial instruments**	247		195	
Total at fair value through surplus or deficit	**169,269**	**152,424**	**131,838**	**125,103**
Held to maturity at amortised cost				
Entrepreneurial Challenge investments	175	255	175	255
Total held to maturity at amortised cost	**175**	**255**	**175**	**255**
Loans and receivables				
Cash and cash equivalents	8,865	2,171	5,413	1,554
Short term bank deposits	31,959	29,084	21,343	19,933
Long term bank deposits	36,484	40,782	25,658	29,010
Total loans and receivables	**77,308**	**72,037**	**52,414**	**50,497**
Financial Liabilities				
At fair value through surplus or deficit				
Derivative financial instruments**		169		142
Total at fair value through surplus or deficit		**169**		**142**
At amortised cost				
Accounts payable	105	101	86	81
Grants payable	24,560	18,069	11,404	6,875
Total financial liabilities at amortised cost	**24,665**	**18,170**	**11,490**	**6,956**

* These assets are classified as managed investments in the statement of financial position.

** Derivative financial instruments comprise of foreign currency forward contracts.

^ The Group and Foundation are limited partners in private equity partnerships which include commitments to make periodic contributions in future periods. At the reporting date, the future commitments for these investments totalled $9.3m for the Group (2017: $12.1m) and $7.4m for the Foundation (2017: $10.1m) over an estimated remaining life for the partnerships of nine years.

10.2 Fair value measurement hierarchy

For those instruments recognised at fair value in the statement of financial position, fair values are based on the Net Asset Value (NAV) unit price excluding adjustments for buy/sell spreads as reported by the respective fund managers. The fund managers' assessments of NAV of the managed funds through which investments are held on behalf of the Foundation and Group use the following methods:

- Level 1: the fair value is calculated using quoted prices in active markets;
- Level 2: the fair value is calculated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices) in active markets and;
- Level 3: the fair value is an estimate using inputs for the asset or liability that are not based on observable market data.

There were no transfers between the different levels in 2018 (2017: nil).

	Valuation Technique			
	Quoted market price Level 1 $'000	Market observable inputs Level 2 $'000	Non market observable inputs Level 3 $'000	Total fair value $'000
Group 2018				
Financial assets				
New Zealand fixed interest		40,193		40,193
International fixed interest		13,703		13,703
Australasian equities	22,364			22,364
International equities	42,541	17,941		60,482
Emerging markets		12,563		12,563
New Zealand property		13,197		13,197
Private equity			6,520	6,520
Derivative financial instrument		247		247
Total financial assets	**64,905**	**97,844**	**6,520**	**169,269**
Group 2017				
Financial assets				
New Zealand fixed interest		37,378		37,378
International fixed interest		8,637		8,637
Australasian equities	27,572			27,572
International equities	46,670	10,401		57,071
Emerging markets		11,118		11,118
New Zealand property		7,500		7,500
Private equity			3,148	3,148
Total financial assets	**74,242**	**75,034**	**3,148**	**152,424**
Financial liability				
Derivative financial instrument		169		169
Total financial liability		**169**		**169**

10.2 Fair value measurement hierarchy (continued)

	Quoted market price Level 1 $'000	Valuation Technique: Market observable inputs Level 2 $'000	Valuation Technique: Non market observable inputs Level 3 $'000	Total fair value $'000
Foundation 2018				
Financial assets				
New Zealand fixed interest		29,674		29,674
International fixed interest		10,825		10,825
Australasian equities	17,668			17,668
International equities	33,611	14,174		47,785
Emerging markets		9,925		9,925
New Zealand property		10,426		10,426
Private equity			5,340	5,340
Derivative financial instrument		195		195
Total financial assets	**51,279**	**75,219**	**5,340**	**131,838**
Foundation 2017				
Financial assets				
New Zealand fixed interest		28,702		28,702
International fixed interest		7,227		7,227
Australasian equities	23,071			23,071
International equities	39,053	8,703		47,756
Emerging markets		9,303		9,303
New Zealand property		6,276		6,276
Private equity			2,768	2,768
Total financial assets	**62,124**	**60,211**	**2,768**	**125,103**
Financial liability				
Derivative financial instrument		142		142
Total financial liability		**142**		**142**

Valuation techniques with significant non-observable inputs (level 3)

Level 3 fair value is comprised of:

- Limited partnerships in private equity: the nature of these partnership interests is that distributions are received through the liquidation of the underlying assets of the partnership over its remaining life. The fair value of these investments has been estimated as the capital account balance with each partnership which includes an assessment of the net asset value from the managers of the underlying assets. The managers are required to adopt valuation methodologies that comply with fair value principles and industry best practice as set out in the guidelines issued by the International Private Equity and Venture Capital Valuation and European Private Equity and Venture Capital Association. The adherence to these guidelines is monitored by the partnership manager and investment consultant quarterly.

  At reporting date these investments totalled $5.7m (2017: $2.3m) and $4.5m (2017: $2m) for the Group and Foundation respectively.

10.2 Fair value measurement hierarchy (continued)

- Direct private equity investments acquired as a result of Entrepreneurial Challenge Loan conversions. The fair value of these investments have been estimated using the number of shares held and the last traded price.

  At reporting date these investments totalled $857k (2017: $808k) for the Group and Foundation.

The following table provides a reconciliation of changes in the net fair value of private equity which are classified as level 3 in the fair value hierarchy:

	Group		Foundation	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Balance at 1 January	3,148	1,239	2,768	1,142
Investments purchased	3,171	1,628	2,411	1,372
Distributions received	(435)	(57)	(342)	(48)
Gains/(losses) recognised in surplus or deficit	636	338	503	302
Balance at 31 December	**6,520**	**3,148**	**5,340**	**2,768**

10.3 Impairment of financial assets

Financial assets other than those at fair value through surplus or deficit are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that have occurred after initial recognition of the financial asset, the estimated future cash flows of the investment has been adversely impacted. Objective evidence of impairment could include default or delinquency in interest or principal payments of Entrepreneurial Challenge loans, or it becomes probable an investee will enter bankruptcy or financial reorganisation.

Prior period impairments are reversed when there is objective evidence that events adversely impacting on future cash flows have improved.

Movements in the provision for Entrepreneurial Challenge investment impairment are as follows:

	Group/Foundation	
	2018	2017
	$'000	$'000
Balance as at 1 January	(765)	(787)
Additional provisions made during the year	(30)	(60)
Provisions reversed during the year	180	82
Balance as at 31 December	**(615)**	**(765)**

10.4 Risks associated with financial instruments

The Foundation and Group are exposed to a variety of financial risks, which arise from investment in financial assets (i.e. credit risk, market risk and liquidity risk).

Investments are made in accordance with the Group's Strategic Asset Allocation policies in two diversified portfolios of financial assets, the Current Use Investment Pool (CUIP) and Endowment Investment Pool (EIP). These asset allocations recognise the risks and expected returns associated with the nature of the investments held. CUIP consists of funding required in the short term and holds investments in highly liquid assets such as bank term deposits while the EIP is invested for the long term in growth and income assets.

The Trustees have established a series of policies to manage the risks associated with each investment portfolio. These are detailed in Statements of Investment Policy and Objectives (SIPO) for the respective Pools and are implemented through:

- A diversified and non-correlated range of investments across traditional and alternative classes;
- The use of a multi-fund manager approach to investments in the portfolios;
- The quarterly monitoring of fund managers' compliance with investment mandates and the SIPO by the Group's investment advisor.

Credit risk

Credit risk is the risk that counterparties will default on their contractual obligations to the Group. To reduce credit exposure the Group has invested in diversified asset classes and within each of these classes there is a maximum limit that can be invested in any one institution or entity.

Cash and cash equivalents, bank term deposits and accounts receivable, are managed by the Foundation. Credit risk is managed by restricting cash and term deposits to New Zealand registered banks with a credit rating of at least Standard and Poor's A or Moody's A2. The credit ratings are monitored periodically.

New Zealand and International fixed interest securities are managed by fund managers who adopt risk management procedures aimed at limiting credit risk exposure. Their portfolios are monitored for compliance with the individual mandate requirements of each investment class.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate due to changes in foreign currency exchange rates.

The Group holds a diversified portfolio of international fixed interest and equities investments through managed funds in the EIP. These investments are denominated in foreign currencies and accordingly are exposed to currency risk. In accordance with the EIP SIPO forward contracts have been entered into to hedge specific proportions of the currency risk. The SIPO restricts the total exposure to foreign currency to 30% of the portfolio's asset value.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial assets. The Group's exposure to the risk of changes in market interest rates relates primarily to the investment in New Zealand and international fixed interest bonds. This risk is managed through applying maximum limits to approved counterparties to mitigate concentration of interest rate risk.

10.4 Risks associated with financial instruments (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of financial assets will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk). The Group's investment policies acknowledge that the market prices of financial assets will fluctuate. Risk is minimised by ensuring that investment activities are undertaken in accordance with established mandated limits and the investment strategies set out in the SIPO.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. Liquidity requirements are managed by managing the cash flows of granting activities and the duration of term deposits. In general the timing of grant obligations is at the discretion of the Group and they are not contractual obligations.

Sensitivity Analysis

Value at risk analysis (VaR) is a tool used to measure the market risk exposure of an investment portfolio. The VaR of a portfolio estimates the potential loss that may arise over a given holding period from an adverse market movement within a specified probability (confidence) level. The VaR analysis is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recording offsetting asset class exposures and correlations between asset classes.

The VaR model used by the Group reflects that at a 95% confidence level there is a 5.0% probability over a one year period (i.e. one year in twenty probability) that the portfolio will perform in line or worse than the stated VaR. The VaR of the Group's total investment portfolio at 31 December 2018 is estimated at 5.47% (2017: 5.7%), the estimated impact of which represents a potential loss of $13.2m (2017: $11.5m). The VaR of the Foundation's total investment portfolio at 31 December 2018 is estimated at 5.92% (2017: 5.81%), the estimated impact of which represents a potential loss of $10.8m (2017: $10.1m).

This VaR analysis is performed by the Group's investment advisor, Cambridge Associates, and is based on the following underlying asset class assumptions:

	Real Arithmetic Return	Standard Deviation	***Range Contains 50% of 25-Year Periods*** [1]			*Implied Real Compound Return*
Australasian Equity	6.0	18.0	**3.7**	**-**	**8.4**	*4.5*
Developed Market Equity	7.0	18.0	**4.7**	**-**	**9.4**	*5.5*
Emerging Market Equity	9.5	26.3	**6.2**	**-**	**12.9**	*6.5*
Private Equity	10.0	24.4	**6.9**	**-**	**13.2**	*7.4*
Real Estate	7.0	21.1	**4.3**	**-**	**9.8**	*5.0*
New Zealand Government Bonds	3.0	7.0	**2.1**	**-**	**3.9**	*2.8*
Developed Market Government Bonds	3.0	13.3	**1.3**	**-**	**4.8**	*2.2*
Term Deposits	2.0	2.0	**1.7**	**-**	**2.3**	*2.0*
Cash	1.0	2.0	**0.7**	**-**	**1.3**	*1.0*

The relative portfolio weightings utilised for the Group's VaR calculation are as at 31 December 2018. The portfolio weights are calculated from the Group's underlying asset class exposure as at 31 December 2018. In cases where cash assets were held within an investment sector these assets have been judged as likely to be invested in that asset class and so included as an exposure to that asset class.

While VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- asset class assumptions used are equilibrium assumptions and designed as inputs to mean-variance analysis and therefore may not capture the risk of possible extreme adverse market movements;
- VaR using a 95% confidence level does not reflect the extent of losses beyond that percentile.

11. Reclassification of comparative figures

Certain comparative line items have been reclassified in line with the requirements of PBE IPSAS:

- Investment consultancy fees of $71k for the Group and $59k for the Foundation have been reclassified from net gain on investments to administration costs in accordance with the requirement of PBE IPSAS 1 that revenue and expenses should not be offset unless permitted by a PBE standard.
- Short term and long term bank deposits of $69.9m for the Group and $48.9m for the Foundation have been reclassified from held to maturity to loans and receivables in Note 10.1 as it is a requirement of PBE IPSAS 29 that assets that meet the definition of loans and receivables cannot be classified as held to maturity.
- The net amount of the derivative financial instruments of ($169k) for the Group and ($142k) for the Foundation have been separately disclosed due to the requirement of PBE IPSAS 30 to disclose classes of financial instruments that take into account the characteristics of those financial instruments. This was previously part of managed investments (international equities).

The interest and penalties received on Entrepreneurial Challenge investments of $67k for the Group and $67k for the Foundation have been reclassified as gain on investment so that all gains/(losses) on all investments are consolidated into one line item on the Statement of Comprehensive Revenue and Expenses.

INDEPENDENT AUDITOR'S REPORT

TO THE TRUSTEES OF THE UNIVERSITY OF AUCKLAND FOUNDATION'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Auditor-General is the auditor of The University of Auckland Foundation (the Trust). The Auditor-General has appointed me, Susan Jones, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Trust on his behalf.

Opinion

We have audited the financial statements of the Trust on pages 5 to 22, that comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements of the Trust:

- present fairly, in all material respects:
  - its financial position as at 31 December 2018; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity International Public Sector Accounting Standards.

Our audit was completed on 8 March 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Trustees and our responsibilities relating to the financial statements, we comment on other information and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Trustees for the financial statements

The Trustees are responsible on behalf of the Trust for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Trustees are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible on behalf of the Trust for assessing the Trust's ability to continue as a going concern. The Trustees are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Trustees intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so. The Trustees' responsibilities arise from clause 20 of the Trust Deed of the Trust.

Responsibilities of the auditor 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 a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

- We 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 Trust's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Trust audit. We remain solely responsible for our audit opinion.

We communicate with the Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Trustees are responsible for the other information. The other information comprises the information included on pages 1 to 4, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Trust in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Trust.

Susan E Jones

Susan Jones
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand