



2021 Financial Statements

**The University of
Auckland Foundation
& Group**

Contents

Directory 3

Statement of responsibility 5

Statement of comprehensive revenue and expenses 6

Statement of financial position 7

Statement of changes in equity 8

Statement of cash flows..... 9

Notes to the financial statements 10

Independent auditor’s report 25

Directory

As at 31 December 2021

THE FOUNDATION GROUP

Charities Number

The University of Auckland Foundation	CC10985
The University of Auckland Medical and Health Sciences Foundation	CC30871

TRUSTEES

Mr Geoff Ricketts (Chair)
Mr David Carter
Mr Roger France
Ms Elizabeth Hickey
Mr Jonathan Mason
Dr Arthur Morris
Ms Sarah Roberts
Ms Lyndy Sainsbury
Ms Cecilia Tarrant (up to 28 May 2021)

Trustees represent a combination of persons appointed by the University of Auckland Council, University Alumni who are not current staff or Council members, and general members of the public who are not on the University Council. Non-Council members form the majority of Trustees. The governance structure includes two committees covering audit and risk, and investment

AUDITOR

Ernst and 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

ADDRESS

University House
19A Princes Street
Auckland 1010

PRINCIPAL ACTIVITY	To raise, receive and steward funds, and make grants according to the wishes of the original donor, for (1) the advancement of knowledge and the dissemination thereof by teaching and research, (2) assisting students to pursue courses of study at the University of Auckland, and (3) general advancement of the University of Auckland
SOURCE OF FUNDS	The Foundation engages with potential and actual donors where possible to carry out the wishes of donors. Donors include individuals, commercial entities, or other charitable organisations. Endowment gifts are managed to maintain their real value over time and make available sustainable grants to the University in line with the wishes of the donor
VOLUNTEERS	The Trustees generously volunteer their time and expertise to the Foundation for no compensation. The University of Auckland makes available staff to provide operational support to the Foundation, and incurs some operational expenditure, without reimbursement from the Foundation

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 2021 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 their meeting on 4 March 2022 and formally adopted these financial statements for issue on 4 March 2022.



Geoff Ricketts
CHAIRPERSON



Elizabeth Hickey
TRUSTEE

Statement of comprehensive revenue and expenses

For the year ended 31 December 2021

	Notes	Group		Foundation	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Revenue					
Gifts and legacies	2	27,835	38,033	12,201	21,567
Gain on investments	3	36,966	23,632	27,429	17,194
Reversal of impairment loss on Entrepreneurial Challenge investment		34	402	34	402
Total revenue		64,835	62,067	39,664	39,163
Expenses					
Distributions and grants	4	31,888	29,772	16,248	19,813
Administration costs	5	640	932	461	688
Total expenses		32,528	30,704	16,709	20,501
Net surplus		32,307	31,363	22,955	18,662
Total comprehensive revenue and expense		32,307	31,363	22,955	18,662

The accompanying Notes to the Financial Statements on pages 10 to 24 form part of and should be read in conjunction with these financial statements.

Statement of financial position

As at 31 December 2021

	Notes	Group		Foundation	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Current assets					
Cash and cash equivalents		16,726	39,864	10,020	26,335
Short term bank deposits		18,545	14,290	12,197	9,355
Derivative financial instruments			3,000		2,222
Total current assets	10	35,271	57,154	22,217	37,912
Non-current assets					
Long term bank deposits		14,058	17,118	9,332	12,271
Managed investments		332,387	265,816	237,398	192,462
Total non-current assets	10	346,445	282,934	246,730	204,733
Total assets		381,716	340,088	268,947	242,645
Current liabilities					
Accounts payable		1,004	4,185	239	2,142
Grants payable		59,304	47,044	34,284	28,879
Derivative financial instruments		242		178	
Total current liabilities	10	60,550	51,229	34,701	31,021
Net assets		321,166	288,859	234,246	211,624
Trust equity	7	321,166	288,859	234,246	211,624

The accompanying Notes to the Financial Statements on pages 10 to 24 form part of and should be read in conjunction with these financial statements.

Statement of changes in equity

For the year ended 31 December 2021

	Notes	Group		Foundation	
		2021	2020	2021	2020
		\$'000	\$'000	\$'000	\$'000
Trust equity as at 1 January		288,859	257,496	211,624	193,055
Total comprehensive revenue and expense		32,307	31,363	22,955	18,662
Transfer from/(to) controlled entity*	9	-	-	(333)	(93)
Trust equity as at 31 December	7	321,166	288,859	234,246	211,624

* The University of Auckland Medical & Health Sciences Foundation

The accompanying Notes to the Financial Statements on pages 10 to 24 form part of and should be read in conjunction with these financial statements.

Statement of cash flows

For the year ended 31 December 2021

	Notes	Group		Foundation	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Cash flows from operating activities					
Gifts and legacies		27,548	37,745	11,994	21,358
Interest received		1,753	2,115	1,179	1,375
Distributions and grants		(22,810)	(14,781)	(12,747)	(8,287)
Payments to suppliers		(314)	(312)	(319)	(290)
Net cash provided by/(used in) operating activities	8	6,177	24,767	107	14,156
Cash flows from investing activities					
Sale of financial assets		21,308	29,811	11,820	19,552
Purchase of financial assets		(50,623)	(48,509)	(28,242)	(29,748)
Net cash provided by/(used in) investing activities		(29,315)	(18,698)	(16,422)	(10,196)
Cash flows from financing activities					
Transfer from controlled entity**		-	-	-	-
Net cash provided by/(used in) financing activities		-	-	-	-
Net increase/(decrease) in cash and cash equivalents		(23,138)	6,069	(16,315)	3,960
Cash and cash equivalents as at 1 January		39,864	33,795	26,335	22,375
Cash and cash equivalents as at 31 December		16,726	39,864	10,020	26,335

** The University of Auckland Medical & Health Sciences Foundation

The accompanying Notes to the Financial Statements on pages 10 to 24 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 2021

1. Statement of accounting policies

1.1 Reporting entity

The University of Auckland Foundation (the Foundation) and The University of Auckland Medical & Health Sciences Foundation (MHSF) 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 and on 1 January 2021. A variation to the trust deed establishing the Medical & Health Sciences Foundation (previously the School of Medicine Foundation) granted the Foundation the power to appoint the MHSF 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 2021 were authorised for issue by the Trustees on 4 March 2022.

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 MHSF. 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 2021 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. In March 2019, Effective Date of PBE IFRS 9 was issued which delays the effective date of PBE IFRS 9 by one year, from 1 January 2021 to 1 January 2022. This is to prevent PBE IFRS 9 from becoming mandatory before the effective date of PBE IPSAS 41. PBE IPSAS 41 is

effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted. The impact of the adoption of this accounting standard is still being assessed.

The External Reporting Board also issued PBE FRS 48: Service Performance Reporting which is effective from 1 January 2022. The impact of the adoption of this accounting standard is still being assessed.

While there are other amendments issued and not yet effective, the Foundation and Group do not consider these to be relevant to the reporting entity 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 include the financial statements of the Foundation and its controlled entity, MHSF. 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 MHSF, as it has the power to appoint MHSF trustees and is appointed as the administrator and custodian of investments held by MHSF.

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 specifies 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 MHSF 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	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Restricted purpose				
Capital expenditure	50	50	50	50
Academic staff compensation #	6,767	4,487	1,494	713
Programmes	10,418	9,215	3,696	4,406
Research	6,126	5,874	3,674	3,619
Scholarships and prizes	2,361	5,029	1,911	3,889
Student projects	230	796	230	793
Operating revenue	288	289	206	209
Multiple restrictions	1,595	12,293	940	7,888
Total gifts and legacies	27,835	38,033	12,201	21,567

Comparative information has been reclassified to ensure consistency with current year presentation

The classification 'multiple restrictions' represents funds that are restricted to more than one of the purpose categories as described above. 'Programmes' are projects and centres combining staff, operational and minor equipment costs.

3. Gain on investments

Gain on investments include:

- interest received from term deposits, Entrepreneurial Challenge investments and fixed interest investments which is 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	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Interest received	923	2,704	642	1,718
Change in financial assets	36,043	20,923	26,787	15,471
Dividends received	0	5	0	5
Gain on investments	36,966	23,632	27,429	17,194

4. Distributions and grants

Distributions and grants are recognised once the respective Trustees of the Foundation and MHSF have approved the grant applications from the beneficiary and donations/funds are available for distribution, and/or on 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	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Restricted purpose				
Capital expenditure	600	420		
Academic staff compensation #	4,564	6,846	1,006	3,670
Programmes	10,236	8,486	4,727	5,635
Research	10,613	9,038	5,306	5,954
Scholarships and prizes	5,709	4,563	5,044	4,160
Student projects	166	419	165	394
Total distributions and grants	31,888	29,772	16,248	19,813

Comparative information has been reclassified to ensure consistency with current year presentation

5. Administration costs

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

	Group		Foundation	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Staff resources	211	206	155	150
Audit fees	79	70	58	50
Investment consultancy fees	312	607	220	460
Operating expenses	38	49	28	28
Total administration costs	640	932	461	688

This note should be read in conjunction with note 9 on related parties.

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	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Restricted equity				
Capital expenditure	62	166	59	163
Academic staff compensation#	80,905	71,469	45,384	40,968
Programmes	31,879	29,106	21,833	20,734
Research	52,715	44,626	23,412	18,215
Scholarships and prizes	72,290	67,739	67,429	63,199
Student projects	1,455	1,280	1,455	1,280
Multiple restrictions	81,860	74,473	74,674	67,065
Total trust equity	321,166	288,859	234,246	211,624

Comparative information has been reclassified to ensure consistency with current year presentation

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	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Net surplus for the year	32,307	31,363	22,955	18,662
Add/(less) non cash items:				
Gifts in kind	-	-	-	-
Unrealised (gain)/loss on investments	(36,005)	(21,202)	(26,852)	(15,646)
Accrued interest on bank accounts and investments	831	17	536	16
Impairment/(reversal of impairment loss) on Entrepreneurial Challenge investments	(34)	(402)	(34)	(402)
	(35,208)	(21,587)	(26,350)	(16,032)
Adjust for movements in other working capital items:				
Increase/(decrease) in accounts payable	(3,181)	4,122	(1,902)	2,077
Increase/(decrease) in grants payable	12,259	10,869	5,404	9,449
	9,078	14,991	3,502	11,526
Net cash inflow/(outflow) from operating activities	6,177	24,767	107	14,156

9. Related parties

The Foundation and MHSF 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 were Ms Cecilia Tarrant (up to 28 May 2021) and Ms Sarah Roberts. Ms Cecilia Tarrant is a member of the University Council and was Pro Chancellor when a Trustee of the Foundation.

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.

Trustees provide their time to the Foundations' on a volunteer basis. The University annually donates administrative and associated services to assist the Group with its operations. In 2021 this donation was assessed for the Group and Foundation respectively as \$287k and \$206k (2020: \$289k and \$209k). This donation includes the salaries of key management personnel for the Group of \$82k (2020: \$90k) and Foundation \$62k (2020: \$68k).

During the year, the trustees approved grants to the University amounting to \$31.9m (2020: \$29.8m) for the Group and \$16.2m (2020: \$19.8m) for the Foundation. At reporting date grants payable to the University amounted to \$59.3m (2020: \$47.0m) for the Group and \$34.3m (2020: \$28.9m) for the Foundation.

9.0 Related parties (continued)

The Foundation was granted the power to appoint the MHSF trustees with the execution of the variation to the Trust Deed establishing MHSF. 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 MHSF board.

The Administration and Management Agreements between MHSF and the Foundation appointed the Foundation as administrator and custodian of investments held by MHSF 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 \$111.7m in custodial assets on behalf of MHSF (2020: \$96.5m).

There were no transfers of funds from MHSF to the Foundation in 2021 (2020: nil). In line with donors' intentions, the Foundation trustees approved the transfer of funds to MHSF of \$0.3m (2020: \$0.1m).

During the year ended 31 December 2021 the Group received gifts for charitable purposes from trustees totalling \$43k (2020: \$790k) and the Foundation received \$43k (2020: \$40k). 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 and liabilities are recognised when the Foundation or MHSF 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 include 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 2020 and 2021.

10.1 Financial instrument categories (continued)

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 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.

10.1 Financial instrument categories (continued)

	Group		Foundation	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Financial Assets				
<i>At fair value through surplus or deficit</i>				
New Zealand fixed interest*	51,867	46,148	35,016	32,367
International fixed interest*	35,467	30,926	23,441	21,007
Australasian equities*	38,029	35,978	27,963	26,654
International equities*	117,115	89,320	86,114	66,173
Emerging markets*	20,245	19,314	14,886	14,309
New Zealand Property*	32,301	25,980	22,342	18,347
Private equity*^#	22,670	12,107	16,832	9,129
Private credit*^#	12,711	5,288	9,347	3,917
Infrastructure*^#	1,982	755	1,457	559
Derivative financial instruments**	(242)	3,000	(178)	2,222
Total at fair value through surplus	332,145	268,816	237,220	194,684
<i>Loans and receivables</i>				
Cash and cash equivalents	16,726	39,864	10,020	26,335
Short term bank deposits	18,545	14,290	12,197	9,355
Long term bank deposits	14,058	17,118	9,332	12,271
Total Loans and receivables	49,329	71,272	31,549	47,961
Financial Liabilities				
<i>At amortised cost</i>				
Accounts payable	1,004	4,185	239	2,142
Grants payable	59,304	47,044	34,284	28,879
Total Financial liabilities at amortised cost	60,308	51,229	34,523	31,021

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

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

Private equity is further classified with comparatives restated to ensure consistency with current year presentation.

^ 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 \$46.1m for the Group (2020: \$54.8m) and \$33.9m for the Foundation (2020: \$40.6m) 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 transfers of \$56.5m for the group between levels 1 and 2 in 2021, \$43.8m for the Foundation (2020: nil).

	Valuation Technique			Total fair value \$'000	
	Quoted market price Level 1 \$'000	Market observable inputs Level 2 \$'000	Non market observable inputs Level 3 \$'000		
	Group 2021				
	New Zealand fixed interest		51,867		51,867
International fixed interest	35,467		35,467		
Australasian equities		38,029	38,029		
International equities	52,286	64,829		117,115	
Emerging markets		20,245		20,245	
New Zealand property		32,301		32,301	
Private equity			22,670	22,670	
Private credit			12,711	12,711	
Infrastructure			1,982	1,982	
Total financial assets	87,753	207,272	37,363	332,387	
Financial liability					
Derivative financial instrument		242		242	
Total financial liability		242		242	
Group 2020 #					
New Zealand fixed interest		46,148		46,148	
International fixed interest	30,926			30,926	
Australasian equities		35,978		35,978	
International equities	37,837	51,483		89,320	
Emerging markets		19,314		19,314	
New Zealand property		25,980		25,980	
Private equity			12,107	12,107	
Private credit			5,288	5,288	
Infrastructure			755	755	
Derivative financial instrument		3,000		3,000	
Total financial assets	68,763	181,903	18,150	268,816	

10.2 Fair value measurement hierarchy (continued)

	Valuation Technique			Total fair value \$'000
	Quoted	Market	Non market	
	market price	observable	observable	
	Level 1	Level 2	Level 3	
	\$'000	\$'000	\$'000	\$'000
Foundation 2021				
New Zealand fixed interest		35,016		35,016
International fixed interest	23,441			23,441
Australasian equities		27,963		27,963
International equities	38,444	47,669		86,114
Emerging markets		14,886		14,886
New Zealand property		22,342		22,342
Private equity			16,832	16,832
Private credit			9,347	9,347
Infrastructure			1,457	1,457
Total financial assets	61,885	147,877	27,636	237,398
Financial liability				
Derivative financial instrument		178		178
Total financial liability		178		178
Foundation 2020 #				
New Zealand fixed interest		32,367		32,367
International fixed interest	21,007			21,007
Australasian equities		26,654		26,654
International equities	28,031	38,141		66,173
Emerging markets		14,309		14,309
New Zealand property		18,347		18,347
Private equity			9,129	9,129
Private credit			3,917	3,917
Infrastructure			559	559
Derivative financial instrument		2,222		2,222
Total financial assets	49,038	132,041	13,605	194,684

Comparative information has been reclassified to ensure consistency with current year presentation

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.

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 has been estimated using the number of shares held and the last traded price.

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

	Group		Foundation	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Balance at 1 January	18,150	12,983	13,605	10,173
Investments purchased	17,122	5,312	12,590	3,612
Distributions received	(4,226)	(870)	(3,107)	(592)
Gains/(losses) recognised in surplus or deficit	6,317	725	4,548	412
Balance at 31 December	37,363	18,150	27,636	13,605

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 have 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	
	2021 \$'000	2020 \$'000
Balance as at 1 January	(252)	(654)
Additional provisions made during the year	-	(20)
Provisions reversed during the year	252	422
Balance as at 31 December	-	(252)

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)

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 2021 is estimated at 6.59% (2020: 7.11%), the estimated impact of which represents a potential loss of \$25.0m (2020: \$23.6m). The VaR of the Foundation's total investment portfolio at 31 December 2021 is estimated at 6.96% (2020: 7.44%), the estimated impact of which represents a potential loss of \$18.6m (2020: \$17.5m).

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

	Annual Real Arithmetic Return	Standard Deviation	25th-75th Percentile Range	Annual Real Compound Return
Australia/Equity	6.5	19.0	4.1 - 9.0	48.0
Developed Market Equity	7.0	16.2	4.9 - 9.1	5.8
Emerging Market Equity	9.5	26.3	6.2 - 12.9	6.5
Private Equity	10.0	23.1	7.1 - 13.0	7.7
Real Estate	7.0	19.0	4.6 - 9.5	5.4
Infrastructure	6.7	16.4	4.6 - 8.9	5.5
New Zealand Government Bonds	3.0	7.0	2.1 - 3.9	2.8
Developed Market Government Bonds	3.0	7.0	2.1 - 3.9	2.8
Private Credit	3.5	9.7	2.2 - 4.8	3.0
Term Deposits	2.0	2.0	0.7 - 1.3	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 2021. The portfolio weights are calculated from the Group's underlying asset class exposure as at 31 December 2021. 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.

10.4 Risks associated with financial instruments (continued)

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 information has been reclassified to ensure consistency with the current year presentation. This has been highlighted in the relevant notes.

12. Impact of COVID-19

The World Health Organisation declared a COVID-19 global pandemic on 11 March 2020. This resulted in worldwide uncertainty that caused significant volatility in the financial markets in 2020. Although market volatility still exists, the fair value of level 1 and 2 investments (as described in note 10) reflect market observable prices or inputs available on 31 December 2021. Investments categorised within level 3 are by their nature inherently more subjective and therefore more exposed to valuation uncertainty as at 31 December 2021. Level 3 investments are a minority to the overall portfolio (9.8% of total assets for the group, 10% for the Foundation), but both the Board and management continue to monitor and evaluate the appropriateness of valuation techniques and judgements.

INDEPENDENT AUDITOR'S REPORT

TO THE TRUSTEES OF THE UNIVERSITY OF AUCKLAND FOUNDATION'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 6 to 24, that comprise the consolidated statement of financial position as at 31 December 2021, 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 2021; 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 7 March 2022. 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.



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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 5, 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: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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 Jones
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand