2021

Financial Statements

The University of Auckland Medical and Health Sciences Foundation

Contents

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As at 31 December 2021

		Charities Number
	The University of Auckland Medical and Health Sciences Foundation	CC30871

TRUSTEES

Dr Arthur Morris (Chair)
Mr John Dunn
Prof John Fraser
Mr Darren Manning
Ms Lyndsey Partridge
Dr Kathryn Philipson
Ms Faye Sumner
Mr Harry R I White

Trustees are appointed by The University of Auckland Foundation, and include the Dean of the Faculty of Medical and Health Sciences at The University of Auckland

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, to support and assist the University of Auckland through its Faculty of Medical and Health Sciences to (1) undertake research and teaching at the highest possible standard in medicine and related sciences, and (2) play a major role in determining the development of health care in New Zealand

SOURCE OF FUNDS

The Foundation engages with potential and actual donors where possible to carry 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 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 Medical and Health Sciences 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 Medical and Health Sciences 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 Medical and Health Sciences Foundation, the financial statements for the year ended 31 December 2021 fairly reflect the financial position and operations of The University of Auckland Medical and Health Sciences Foundation.
- The trustees of The University of Auckland Medical and Health Sciences Foundation have reviewed these financial statements at their meeting on 15 March 2022 and formally adopted these financial statements for issue on 15 March 2022.

Arthur Morris
CHAIRPERSON

John Fraser
TRUSTEE

Statement of comprehensive revenue and expenses

For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Revenue			
Gifts and legacies	2	15,634	16,466
Gain on investments	3	9,536	6,437
Total revenue		25,170	22,903
Expenses			
Distributions and grants	4	15,639	9,959
Administration costs	5	179	244
Total expenses		15,818	10,203
Net surplus		**9,352**	**12,700**
Total comprehensive revenue and expense		**9,352**	**12,700**

The accompanying Notes to the Financial Statements on pages 9 to 21 form part of and should be read in conjunction with these financial statements.

Statement of financial position

As at 31 December 2021

	Notes	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents		6,706	13,531
Short term bank deposits		6,349	4,935
Derivative financial instruments			777
Total current assets	10	13,055	19,243
Non-current assets			
Long term bank deposits		4,727	4,846
Managed investments		94,988	73,353
Total non-current assets	10	99,715	78,199
Total assets		**112,770**	**97,442**
Current liabilities			
Accounts payable		765	2,042
Grants payable		25,021	18,166
Derivative financial instruments		64	-
Total current liabilities	10	25,850	20,208
Net assets		**86,920**	**77,234**
Trust equity	7	**86,920**	**77,234**

The accompanying Notes to the Financial Statements on pages 9 to 21 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	2021 $'000	2020 $'000
Trust equity as at 1 January		77,234	64,441
Total comprehensive revenue and expense		9,352	12,700
Transfer from/(to) controlling entity*	9	334	93
Trust equity as at 31 December	7	**86,920**	**77,234**

* The University of Auckland Foundation

The accompanying Notes to the Financial Statements on pages 9 to 21 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	2021 $'000	2020 $'000
Cash flows from operating activities			
Gifts and legacies received		15,553	16,387
Interest received		575	740
Distributions and grants		(10,063)	(6,494)
Payments to suppliers		4	(22)
Net cash provided by/(used in) operating activities	8	6,069	10,611
Cash flows from investing activities			
Sale of financial assets		9,489	10,261
Purchase of financial assets		(22,383)	(18,761)
Net cash provided by/(used in) investing activities		(12,894)	(8,500)
Cash flows from financing activities			
Transfer from/(to) controlling entity*		-	-
Net cash provided by/(used in) financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		**(6,825)**	**2,111**
Cash and cash equivalents as at 1 January		13,531	11,420
Cash and cash equivalents as at 31 December		**6,706**	**13,531**

* The University of Auckland Foundation

The accompanying Notes to the Financial Statements on pages 9 to 21 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 Medical and Health Sciences Foundation (MHSF, previously the University of Auckland School of Medicine Foundation) is a charitable entity domiciled in New Zealand and registered under the Charities Act 2005. MHSF was established by deed of trust dated 18 December 1995 with amendments date 21 November 2007 and 1 January 2021.

MHSF is a not-for-profit public benefit entity for the purpose of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The financial statements of MHSF for the year ended 31 December 2021 were authorised for issue by the Trustees on 15 March 2022.

The principal activity of MHSF is to assist in raising and to undertake stewardship of funds for charitable purposes as defined by the deed 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 Basis of preparation

These 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 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 on 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, MHSF 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 MHSF'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.

1.3 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 MHSF 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 MHSF 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 MHSF'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

MHSF is registered as a charitable entity under the Charities Act 2005 and is 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 MHSF. 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 MHSF 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 MHSF 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 MHSF for the restricted purposes as detailed below:

	2021 $'000	2020 $'000
Restricted purpose		
Academic staff compensation #	5,273	3,774
Programmes	6,722	4,809
Research	2,452	2,255
Scholarships and prizes	450	1,143
Operating revenue	81	79
Multiple restrictions	656	4,406
Total gifts and legacies	**15,634**	**16,466**

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 and fixed interest investments which is recognised on an accrual basis using the effective interest rate method; and
- 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.

	2021 $'000	2020 $'000
Interest received	281	985
Change in financial assets	9,255	5,452
Gain on investments	**9,536**	**6,437**

4. Distributions and grants

Distributions and grants are recognised once the Trustees 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 MHSF's charitable purpose and the donor's 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.

	2021 $'000	2020 $'000
Restricted purpose		
Capital expenditure	600	420
Academic staff compensation #	3,557	3,176
Programmes	5,509	2,852
Research	5,308	3,085
Scholarships and prizes	664	402
Student projects	1	24
Total distributions and grants	**15,639**	**9,959**

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.

	2021 $'000	2020 $'000
Staff resources	56	56
Audit fees	21	20
Investment consultancy fees	93	147
Operating expenses	9	21
Total administration costs	**179**	**244**

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

6. Capital management

MHSF'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 MHSF's policies are monitored by the trustees and management. During the course of the year, MHSF was 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.

	2021 $'000	2020 $'000
Restricted equity		
Capital expenditure	3	3
Academic staff compensation #	35,521	30,502
Programmes	10,046	8,372
Research	29,303	26,411
Scholarships and prizes	4,861	4,540
Student projects	-	1
Multiple restrictions	7,186	7,405
Total trust equity	**86,920**	**77,234**

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

	2021 $'000	2020 $'000
Net surplus for the year	9,352	12,700
Add/(less) non cash items:		
Unrealised (gain)/loss on investments	(9,153)	(5,555)
Accrued interest on bank accounts and investments	294	1
	(8,859)	(5,554)
Adjust for movements in other working capital items:		
Increase/(decrease) in accounts payable	(1,279)	2,045
Increase/(decrease) in grants payable	6,855	1,420
	5,576	3,465
Net cash inflow/(outflow) from operating activities	**6,069**	**10,611**

9. Related parties

MHSF is an independent Charitable Trust with The University of Auckland Faculty of Medical and Health Sciences being the main beneficiary from its charitable activities.

The University of Auckland Foundation (Foundation) has been granted the power to appoint 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.

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 and Endowment Investment Pool. At reporting date the Foundation's CUIP and EIP held $111.7m in custodial assets on behalf of MHSF (2020: $96.5m).

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.

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Trustees provide their time to the Foundations on a volunteer basis. The University annually donates administrative and associated services to assist MHSF with its operations. In 2021 this donation was assessed as $80k (2020: $79k). This donation includes the salaries of key management personnel for MHSF of $21k (2020: $23k).

During the year, the trustees of MHSF approved grants to the University of $15.6m (2020: $10.0m). At reporting date grants payable to the University amounted to $25.0m (2020: $18.2m).

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

During the year, MHSF received gifts for charitable purposes from Trustees totalling nil (2020: $750k). No remuneration has been paid to trustees.

10. Financial Instruments

10.1 Financial instrument categories

MHSF holds financial assets/liabilities in the following specified categories:

- Loans and receivables;
- Financial assets/liabilities at fair value through surplus or deficit;
- Financial liabilities at amortised costs.

Financial assets and liabilities are recognised when 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.

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.

10.1 Financial instrument categories (continued)

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 MHSF's day to day cash management.

Financial assets/liabilities at fair value through surplus or deficit
MHSF 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.

	2021 $'000	2020 $'000
Financial Assets		
At fair value through surplus or deficit		
New Zealand fixed interest*	16,852	13,780
International fixed interest*	12,026	9,920
Australasian equities*	10,066	9,324
International equities*	30,999	23,147
Emerging markets*	5,359	5,005
New Zealand property*	9,959	7,633
Private equity*^#	5,837	2,978
Private credit*^#	3,365	1,370
Infrastructure*^#	525	196
Derivative financial instruments**	(64)	777
Total at fair value through surplus or deficit	**94,924**	**74,130**
Loans and receivables:		
Cash and cash equivalents	6,706	13,531
Short term bank deposits	6,349	4,935
Long term bank deposits	4,727	4,846
Total loans and receivables	**17,782**	**23,312**
Financial Liabilities		
At amortised cost		
Accounts payable	765	2,042
Grants payable	25,021	18,166
Total financial liabilities at amortised cost	**25,786**	**20,208**

10.1 Financial instrument categories (continued)

*   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.

^ MHSF is a limited partner 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 $12.2m (2020: $14.2m) 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 MHSF 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 $12.7m between levels 1 and 2 in 2021 (2020: nil).

10.2 Fair value measurement hierarchy (continued)

	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
2021				
New Zealand fixed interest		16,852		16,852
International fixed interest	12,026			12,026
Australasian equities		10,066		10,066
International equities	13,839	17,160		30,999
Emerging markets		5,359		5,359
New Zealand property		9,959		9,959
Private equity			5,837	5,837
Private credit			3,365	3,365
Infrastructure			525	525
Total financial assets	**25,866**	**59,396**	**9,727**	**94,988**
Financial liabilities				
Derivative financial instruments		64		64
Total financial liabilities		**64**		**64**
2020 #				
New Zealand fixed interest		13,780		13,780
International fixed interest	9,920			9,920
Australasian equities		9,324		9,324
International equities	9,805	13,342		23,147
Emerging markets		5,005		5,005
New Zealand property		7,633		7,633
Private equity			2,978	2,978
Private credit			1,370	1,370
Infrastructure			196	196
Derivative financial instruments		777		777
Total financial assets	**19,725**	**49,861**	**4,544**	**74,130**

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)

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:

	2021 $'000	2020 $'000
Balance at 1 January	4,544	2,811
Investments purchased	4,532	1,700
Distributions received	(1,118)	(278)
Gains/(losses) recognised in surplus or deficit	1,769	311
Balance at 31 December	**9,727**	**4,544**

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 for bank term deposits: significant financial difficulties or a downgrade in the credit ratings for a bank.

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

10.4 Risks associated with financial instruments

MHSF is 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 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 University of Auckland Foundation (Foundation) has been appointed the custodian for these investments and provides quarterly valuations and monitoring reports to the MHSF trustees.

The Trustees and their custodians 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 MHSF's investment advisor.

10.4 Risks associated with financial instruments (continued)

Credit risk

Credit risk is the risk that counterparties will default on their contractual obligations to MHSF. To reduce credit exposure MHSF 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.

MHSF 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. MHSF'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.

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). MHSF'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 MHSF 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 MHSF and they are not contractual obligations.

10.4 Risks associated with financial instruments (continued)

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 MHSF 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 MHSF's total investment portfolio at 31 December 2021 is estimated at 5.71% (2020: 6.32%), the estimated impact of which represents a potential loss of $6.4m (2020: $6.1m).

This VaR analysis is performed by 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 MHSF's VaR calculation are as at 31 December 2021. The portfolio weights are calculated from MHSF'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.

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 (8.6% of total assets), but both the Board and management continue to monitor and evaluate the appropriateness of valuation techniques and judgements.

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INDEPENDENT AUDITOR'S REPORT

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

The Auditor-General is the auditor of The University of Auckland Medical and Health Sciences 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 21 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 16 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 9 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 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.

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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: *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 E Jones

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