THE UNIVERSITY OF AUCKLAND SCHOOL OF MEDICINE FOUNDATION

FINANCIAL STATEMENTS

For the year ended 31 December 2017

Charities Registration No. CC10985

CONTENTS

DIRECTORY
As at 31 December 2017

AUDITOR

Ernst & Young
2 Takutai Square
Auckland 1010

SOLICITOR

TGT Legal
Level 7 3-13 Shortland Street
Auckland 1140

BANKER

Bank of New Zealand
Cnr Queen and Shortland Streets
Auckland 1010

PRINCIPAL ACTIVITY

The raising and stewardship of funds for charitable purposes as defined by the Trust Deed.

TRUST ADDRESS

University House
19A Princes Street
Auckland 1010

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
For the year ended 31 December 2017

	Notes	2017 $,000	2016 $,000
Revenue:			
Gifts and legacies received	*3.1*	9,377	10,984
Investment gain	*3.2*	3,926	1,943
		13,303	**12,927**
Expenses:			
Administration expenditure	*4*	73	77
		73	77
Surplus before distributions and grants		**13,230**	**12,850**
Distributions and grants	*5*	9,019	5,536
Total comprehensive revenue and expense		**4,211**	**7,314**

The accompanying notes and accounting policies form part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	*2017* $,000	*2016* $,000
NON CURRENT ASSETS			
Long term bank deposits		11,771	7,291
Managed investments		27,295	23,425
Total non current assets	*7*	**39,066**	**30,716**
CURRENT ASSETS			
Cash and cash equivalents	*7*	617	293
Short term investments	*7*	9,151	9,665
Total current assets		**9,768**	**9,958**
TOTAL ASSETS		**48,834**	**40,674**
CURRENT LIABILITIES			
Payables from exchange transactions		20	25
Committed funds from non-exchange transactions		11,194	7,210
Total current liabilities	*7*	**11,214**	**7,235**
NET ASSETS		**37,620**	**33,439**
Represented by:			
Trust equity		37,620	33,439
TOTAL TRUST EQUITY	*8*	**37,620**	**33,439**

The accompanying notes and accounting policies form part of these Financial Statements.

For and on behalf of The University of Auckland School of Medicine Foundation Board of Trustees:

Chairman

Trustee

23 / 2 / 2018

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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Notes	*2017 $,000*	*2016 $,000*
Trust equity at the beginning of the year		33,439	26,725
Total comprehensive revenue and expense		4,211	7,314
Transfer to related entity	*11*	(30)	(600)
Trust equity at the end of the year	*8*	**37,620**	**33,439**

The accompanying notes and accounting policies form part of these Financial Statements.

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STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	*2017* *$,000*	*2016* *$,000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Gifts and legacies received		9,295	10,913
Interest received		559	1,012
		9,854	11,925
Cash was applied to:			
Distributions and grants		(5,034)	(5,906)
Payments to suppliers		(13)	(19)
		(5,047)	(5,925)
Net cash inflows from operating activities	*10*	**4,807**	**6,000**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of financial assets		5,935	6,689
Cash was applied to :			
Purchase of financial assets		(10,388)	(12,625)
Net cash outflows from investing activities		**(4,453)**	**(5,936)**
CASH FLOWS TO FINANCING ACTIVITIES			
Cash was applied to :			
Transfer to related entity		(30)	(600)
Net cash outflows to financing activities		**(30)**	**(600)**
Net increase/(decrease) in cash balances		**324**	**(536)**
Add: opening cash and cash equivalents		293	829
Closing cash and cash equivalents		**617**	**293**

The following are the definitions of terms used in the Statement of Cash Flows:

- Operating Activities include all transactions and other events that are not investing or financing activities;
- Financing Activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity. This includes debt and equity not falling in the definition of cash and cash equivalents;
- Investing Activities are 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).

The accompanying notes and accounting policies form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. REPORTING ENTITY

The University of Auckland's School of Medicine Foundation (SOMF) is a charitable entity domiciled in New Zealand and registered under the Charities Act 2005. SOMF was established by deed of trust dated 18 December 1995.

SOMF 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 SOMF for the year ended 31 December 2017 were authorised for issue by the Trustees on 23 February 2018.

The principal activity of SOMF is to assist in the raising and to undertake the 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.

2. BASIS OF PREPARATION

2.1 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 International Public Sector Accounting Standards (PBE IPSAS) and other applicable Financial Reporting Standards appropriate for Tier 1 not-for-profit Public Benefit Entities.

2.2 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.

2.3 Functional and presentational currency
These Financial Statements are presented in New Zealand dollars (NZD) which is the functional currency for SOMF. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars.

2.4 Critical estimates and judgements in applying accounting policies
The preparation of Financial Statements requires Trustees 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 7.1 to 7.3. These critical estimates and judgements rely on the advice of the SOMF'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.

2.6 Comparatives
When the presentation or classification of items is changed, comparative amounts are reclassified, unless reclassification is impracticable.

2.7 Standards issued but not yet effective
PBE IFRS 9: Financial Instruments (effective 1 January 2021)
PBE IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of PBE IPSAS 29

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

PBE IFRS 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the Financial Statements.

PBE IFRS 9 also contains a new impairment model based on expected credit losses. The model makes use of more forward-looking information.

SOMF has yet to undertake a detailed assessment of the impact of PBE IFRS 9.

PBE IFRS 39 Employee Benefits (effective 1 January 2019)
PBE IFRS 39 prescribes the accounting for and disclosure about employee benefits. PBE IFRS 39 is not applicable to SOMF as it does not have any employees.

2.8 Changes in accounting standards

No new standards have been applied this year.

3. REVENUE RECOGNITION AND MEASUREMENT

Revenue is recognised when it is probable that economic benefits will flow to SOMF and the amount of revenue can be measured reliably.

Exchange transactions are transactions in which SOMF 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 SOMF 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. Liabilities are recognised in relation to non-exchange transactions when there is a present obligation and where:

- it is probable that an outflow of resources embodying future economic benefit or service potential will be required to settle the obligation, and
- the amount of the obligation can be estimated reliably.

3.1 Revenue recognition – gifts and legacies received

Gifts and legacies are non-exchange revenue and are recognised when the control of cash, financial assets or other donated assets passes to SOMF. 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. Where there are specific conditions that require SOMF to return the resources received if they are not utilised in the way stipulated this will result in the recognition of a non-exchange liability that is subsequently recognised as non-exchange revenue as and when the 'conditions' are satisfied. Gift and legacies with restrictions that do not specifically require SOMF to return the resources received if they are not utilised in the way stipulated are recognised as restricted non-exchange revenue upon receipt.

Restricted purpose	***2017 $,000***	***2016 $,000***
Capital expenditure	15	15
Chairs	3,197	1,655
Fellowships	602	2,520
Other	97	1,326
Programmes	1,608	1,847
Research	3,493	3,454
Scholarships	365	150
Student projects	-	17
	9,377	10,984

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

3. REVENUE RECOGNITION AND MEASUREMENT (continued)

3.2 Revenue recognition – investment gain

Investment gains includes:

- interest received from term deposits and fixed interest investments is classified as exchange revenue and 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 movement is classified as exchange revenue and is comprised of distributions recognised on declaration date, interest, realised and unrealised gains/losses including foreign exchange and is net of in-house management fees.

Investment gain	*2017 $,000*	*2016 $,000*
Interest received	814	707
Change in financial assets	3,123	1,247
	3,937	1,954
Less:		
Investment consultancy fee	11	11
Net investment gain	3,926	1,943

4. ADMINISTRATION EXPENDITURE

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

Administration expenditure	*2017 $,000*	*2016 $,000*
Staff resources	51	54
Audit fees	13	11
Operating expenses	9	12
	73	77

Audit fees presented above are fees payable to Ernst & Young for the audit of SOMF Financial Statements for 2017. The auditor in 2016 was Grant Thornton.

5. DISTRIBUTIONS AND GRANTS

Distribution and grants expense are recognised once the SOMF Trustees have approved the commitment and/or payment to the beneficiary. Applications for funding are assessed to ensure that they are consistent with SOMF's charitable purpose and the donor's intentions.

Restricted purpose	*2017 $,000*	*2016 $,000*
Chairs	407	1,227
Compensation/support	35	87
Fellowships	590	592
Prizes	4	3
Programmes	142	137
Research	7,560	3,310
Scholarships	281	180
	9,019	5,536

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

6. INCOME TAX

SOMF is registered as a charitable entity under the Charities Act 2005 and is exempt from income tax.

7. FINANCIAL INSTRUMENTS

7.1 Recognition and Measurement

Financial assets are recognised when SOMF becomes party to a financial contract:

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

  Loans and Receivables are cash and cash equivalents. 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 SOMF's day to day cash management.

- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Trustees have 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 bank term deposits.

  Term deposits held with financial institutions are categorised as either short term or long term bank deposits. Short term bank deposits have investment terms that are greater than ninety days and will mature within one year of the reporting date. These investments are classified as Current Assets. Long term bank deposits have maturity dates in excess of one year after the reporting date. These investments are classified as Non-Current Assets.

- All other financial assets are designated as being at fair value through surplus on initial recognition and are stated in these Financial Statements at fair value.

  Fair value is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. Fair value in relation to investments held in managed funds is based on the Net Asset Value (NAV) unit/share price excluding adjustments for buy/sell spreads.

- Forward exchange contracts are derivative financial instruments which are entered into to reduce exposure to fluctuations in foreign currency denominated financial assets. These are recognised at fair value through surplus.

  All foreign currency transactions during the year are brought to account 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. Refer Note 3.2.

- Payables and committed funds are measured at amortised cost using the effective interest rate method. Refer to note 11 for funds committed to related parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. FINANCIAL INSTRUMENTS (continued)

	Fair Value	
Financial instruments	***2017 $,000***	***2016 $,000***
Financial Assets		
Financial assets at fair value through surplus: (managed investments)		
New Zealand fixed interest	8,676	7,298
International fixed interest	1,410	1,330
Australasian equities	4,501	3,998
International equities	9,289	7,405
Emerging markets	1,815	1,420
New Zealand property	1,224	-
Absolute return investments	-	1,877
Private equity	380	97
Total Financial assets at fair value through surplus	***27,295***	***23,425***
Financial assets held to maturity at amortised cost:		
Long term bank deposits	11,771	7,291
Short term bank deposits	9,151	9,665
Total Financial assets held to maturity at amortised cost*	***20,922***	***16,956***
Loans and receivables:		
Cash and cash equivalents	617	293
Total Loans and receivables*	***617***	***293***
Total Financial assets	***48,834***	***40,674***
Financial Liabilities		
Financial liabilities at amortised cost:		
Payables from exchange transactions	20	25
Committed funds from non-exchange transactions	11,194	7,210
Total Financial liabilities at amortised cost*	***11,214***	***7,235***
Total Financial liabilities	***11,214***	***7,235***
Total Financial instruments	***37,620***	***33,439***

*The carrying value of the financial instrument is approximate to its fair value

SOMF is a limited partner in private equity partnerships which include commitments to make periodic contributions in future periods. At the reporting date these commitments are $1,975,000 over the estimated remaining life for the partnerships of ten years.

7.2 Fair value measurement hierarchy

To establish the fair value of investments the reports received from the respective fund managers are reviewed. Their assessments of NAV of the managed funds through which investments are held on behalf of SOMF have used various valuation methods. The methods comprise:

- Level 1: the fair value is calculated using quoted prices in active markets;

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. FINANCIAL INSTRUMENTS (continued)

- 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.

	Valuation technique			
	Quoted market price	Market observable inputs	Non market observable inputs	
Fair value measurement for year end 31 December 2017	**Level 1 $,000**	**Level 2 $,000**	**Level 3 $,000**	***Total $,000***
New Zealand fixed interest	-	8,676	-	8,676
International fixed interest	-	1,410	-	1,410
Australasian equities	4,501	-	-	4,501
International equities	7,591	1,698	-	9,289
Emerging markets	-	1,815	-	1,815
NZ Property	-	1,224	-	1,224
Private equity	-	-	380	380
	12,092	14,823	380	27,295
Fair value measurement for year end 31 December 2016				
New Zealand fixed interest	-	7,298	-	7,298
International fixed interest	-	1,330	-	1,330
Australasian equities	3,998	-	-	3,998
International equities	6,130	1,275	-	7,405
Emerging markets	966	454	-	1,420
Absolute return fund	-	1,877	-	1,877
Private equity	-	-	97	97
	11,094	12,234	97	23,425

There were no transfers between the Levels in 2017 (2016 nil).

Level 3 fair value is comprised of limited partnerships in private equity. The nature of these partnership interests is that distributions are received through the liquidation of the underlying assets of the partnership over its remaining life. The fair value of these investments has been estimated as the capital account balance with each partnership which includes an assessment of the net asset value from the managers of the underlying assets. The managers are required to adopt valuation methodologies that comply with fair value principles and industry best practice as set out in the guidelines issued by the International Private Equity and Venture Capital Valuation and European Private Equity and Venture Capital Association. The adherence to these guidelines is monitored by the partnership manager and investment consultant quarterly.

Level 3 reconciliation for fair value measurements	***$,000***	***$,000***
Beginning balance	97	-
Subscriptions purchased	256	140
Distributions received	(9)	(27)
Realised and unrealised investment gains/(losses) recognised in surplus	36	(16)
Closing balance	380	97

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
7. FINANCIAL INSTRUMENTS (continued)

7.3 Impairment of financial assets other than those stated at fair value
Financial assets other than those at fair value through surplus are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that have occurred after initial recognition of the financial asset, the estimated future cash flows of the investment has been adversely impacted. Objective evidence of impairment could include 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.

7.4 Risks associated with financial instruments
SOMF is subject to a number of financial risks, which arise from investment in financial assets (i.e. exposure to credit, currency, market and liquidity risk).

Investments are made in accordance with 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 revenue assets.

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

The Trustees and their custodian 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 trustees' investment advisor.

(i) Credit risk

Credit risk is the risk that counterparties will default on their contractual obligations. To reduce credit exposure SOMF 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 by the Trustees.

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.

The maximum exposure to credit risk is the carrying amount of those financial assets as set out in Note 7.1.

(ii) Currency risk

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

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

7. FINANCIAL INSTRUMENTS (continued)

EIP holds a diversified portfolio of international fixed interest and equities investments through managed funds. 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.

(iii) 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. SOMF's exposure to the risk of changes in market interest rates relates primarily to the investment in New Zealand and international fixed interest bonds.

(iv) Other price risk

Other price risk is the risk that the fair value or future cash flows of financial assets will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk). SOMF'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 mandate limits and the investment strategies set out in the SIPO.

(v) Liquidity risk

Liquidity risk is the risk that the SOMF 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 SOMF and they are not contractual obligations.

7.5 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 SOMF 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 SOMF's total investment portfolio at 31 December 2017 is estimated at 2.94% (2016 2.64%), the estimated impact of which represents a potential loss of $1,436,549 (2016 $1,071,675).

This VaR analysis performed by Cambridge Associates is based on the following underlying asset class assumptions:

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

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

7. FINANCIAL INSTRUMENTS (continued)

The relative portfolio weightings utilised for SOMF's VaR calculation are as at 31 December 2017. The portfolio weights are calculated from SOMF's underlying asset class exposure as at 31 December 2017. 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.

8. TRUST EQUITY

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

Restricted equity	*2017* *$,000*	*2016* *$,000*
Capital expenditure	13	27
Chairs	11,745	9,240
Compensation/support	166	130
Fellowships	3,725	3,199
Other	2,321	2,235
Programmes	4,319	4,627
Research	13,021	12,133
Scholarships	2,239	1,780
Student projects	71	68
	37,620	33,439

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

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

9. CAPITAL MANAGEMENT

SOMF's capital is its net assets which are held in trust for the purposes as outlined on Note 8 Trust Equity.

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 SOMF's policies are monitored by the trustees and management. During the course of the year SOMF was in compliance with these requirements.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

10. RECONCILIATION OF TOTAL COMPREHENSIVE REVENUE AND EXPENSE TO CASH FLOW FROM OPERATING ACTIVITIES

	2017 *$,000*	*2016* *$,000*
Total comprehensive revenue and expense	4,211	7,314
Adjustment for non cash items:		
Unrealised gain on investments	(3,128)	(1,242)
Net interest accrued on term deposits	(255)	304
Adjust for non cash movements in other working capital items:		
(Increase)/decrease in prepayments from exchange transactions	-	1
Increase/(decrease) in payables from exchange transactions	(5)	(8)
Increase/(decrease) in committed funds from non-exchange transactions	3,984	(369)
Net Cash flows from operating activities	4,807	6,000

11. RELATED PARTIES

SOMF 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 has been granted the power to appoint SOMF trustees with the execution of the variation to the "Trust Deed Establishing the University of Auckland's School of Medicine Foundation". This power of appointment was formally accepted with effect from 1 January 2008.

The Administration and Management Agreements between SOMF and the Foundation appointed the Foundation as administrator and custodian of investments held by SOMF in the Foundation's Current Use Investment Pool and Endowment Investment Pool. At reporting date the Foundation's CUIP and EIP held $48,808,0000 in custodial assets on behalf of SOMF (2016 $40,640,000).

Professor John Fraser is the Dean of the Faculty of Medical and Health Sciences at the University of Auckland and a trustee on the SOMF board.

The Licence to Use Logo agreement between the SOMF and the University has granted SOMF a licence of copyright to use the University's logo.

The University annually donates administrative and associated services to assist SOMF with its operations. In 2017 this donation was assessed as $82,000 (2016 $71,000). This donation includes the salaries of key management personnel for SOMF of $27,000 (2016 $29,000).

Of the grants applied for during the year the trustees of SOMF approved grants of $9,017,000 (2016 $5,519,000) in regards to the University. At reporting date funding committed to the University amounted to $11,194,000 (2016 $7,210,000) for SOMF.

Following requests from donors to allocate their gift to an activity not supported by SOMF, the SOMF trustees approved transfer of funds to the Foundation totalling $30,000 in 2017 and $600,000 in 2016.

During the year ended 31 December 2017 SOMF has received gifts for charitable purposes totalling $84,000 from trustees (2016 $367,000). No remuneration has been paid to trustees.

INDEPENDENT AUDITOR'S REPORT

TO THE TRUSTEES OF UNIVERSITY OF AUCKLAND SCHOOL OF MEDICINE FOUNDATION'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Auditor-General is the auditor of University of Auckland School of Medicine 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 4 to 17, that comprise the consolidated statement of financial position as at 31 December 2017, 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 that include 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 2017; 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 23 February 2018. 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.

- 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.

Other information

The Trustees are responsible for the other information. The other information comprises the information included on page 3, but does not include the financial statements, and our auditor's report thereon.

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

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

Independence

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

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

Susan E Jones

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

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.

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.