



**Annual Financial Report**  
**For The Period Ended 30 June 2009**

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## **Corporate Information**

|  |  |
|--|--|
| Directors  | Mr Allan Myers (Chairman)                          |
|  | Ms Patricia Cross                                  |
|  | Prof Glyn Davis                                    |
|  | Prof John Funder                                   |
|  | Prof David Kemp                                    |
|  | Mr Marius Kloppers                                 |
|  | Mr Terry Moran                                     |
|  | Prof Julianne Schultz                              |
|  | Mr Doug Shears                                     |
|  | Ms Helen Silver                                    |
| Company Secretary                                    | Ms Jennifer Hoffman                                |
| Registered office and<br>principal place of business | 8 Malvina Place Carlton<br>Victoria 3053 Australia |
| Bankers  | National Australia Bank                            |
| Auditors   | KPMG   |

## **Directors' Report for the Period Ended 30 June 2009**

Your directors present this report to the members of Grattan Institute (the company) for the period ended 30 June 2009 since the date of incorporation on 25 November 2008.

### **Directors**

The names of each person who has been a director since incorporation on 25 November 2008 and to the date of this report are listed in the below table. The table also details the number of directors' meetings held (including meetings of Board committees) and number of meetings attended by each of the directors of the Company during the period.

| Director              | Date Appointed   | Board Meetings     |                 | Audit Committee    |                 | Investment and Governance Committee |                 |
|-----------------------|------------------|--------------------|-----------------|--------------------|-----------------|-------------------------------------|-----------------|
|                       |                  | Number of Meetings | Number Attended | Number of Meetings | Number Attended | Number of Meetings                  | Number Attended |
| Mr Allan Myers        | 25 November 2008 | 5                  | 5               | 1                  | 1               | -                                   | -               |
| Ms Patricia Cross     | 25 November 2008 | 5                  | 4               | -                  | -               | 4                                   | 3               |
| Prof Glyn Davis       | 25 November 2008 | 5                  | 3               | -                  | -               | -                                   | -               |
| Prof John Funder      | 25 November 2008 | 5                  | 4               | -                  | -               | 4                                   | 4               |
| Prof David Kemp       | 25 November 2008 | 5                  | 5               | -                  | -               | 4                                   | 4               |
| Mr Marius Kloppers    | 24 February 2009 | 4                  | 3               | -                  | -               | -                                   | -               |
| Mr Terry Moran        | 25 November 2008 | 5                  | 1               | -                  | -               | -                                   | -               |
| Prof Julianne Schultz | 25 November 2008 | 5                  | 5               | -                  | -               | -                                   | -               |
| Mr Doug Shears        | 25 November 2008 | 5                  | 3               | 1                  | 1               | -                                   | -               |
| Ms Helen Silver       | 25 November 2008 | 5                  | 2               | -                  | -               | -                                   | -               |

Note:

*Number of Meetings* indicates the number of meetings of the Board or Board Committee that were held during the period the Director was a member of the Board or Committee.

*Number Attended* indicates the number of meetings of the Board or Board Committee attended by the Board Member.

Details of the directors' qualifications, experience and special responsibilities can be found on page 7 of this report.

### **Company Secretary**

Ms Jennifer Hoffman BA LLB (UWA), LL.M (Melb) has been company secretary since 25 November 2008. Previously, Ms Hoffman was an associate of a legal practice.

### **Directors' Benefits**

No Director has received or become entitled to receive a benefit because of a contract between the Institute and the Director or a firm of which the Director is a member or an entity in which the Director has a substantial financial interest.

## Principal Activities

The company's principal activities during the period were:

The conduct of systematic research and analysis in Australian public policy in the fields of social, environmental and economic policy.

The discussion of this research with senior decision makers and in public forums.

The raising of funds for these research activities through government grants, donations and in-kind contributions.

There were no significant changes in the nature of the company's activities since incorporation on 25 November 2008.

## Operating Results and Review of Operations

The operating result for the period was a surplus of \$30,889,000. The company is exempt from income tax.

A detailed review of operations can be found in the annual report which accompanies this financial report.

## Significant Changes in the State of Affairs

The company was incorporated on 25 November 2008. In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred since it was incorporated not otherwise disclosed in this report.

## After Balance Date Events

There has not arisen in the interval between the end of the financial year and the date of the report any item, transaction or event of a material and unusual nature that in the opinion of the directors is likely to materially affect the operations of the company, the results of those operations, or the company's state of affairs in future financial years.

## Future Developments

The company will continue to carry on the principal activities noted above. There are no likely developments in the activities in future years which will affect the results and therefore require disclosure.

## Environmental regulations

The directors have not received notification nor are they aware of any breaches of environmental laws by the company.

## Auditor's Independence

The auditor's declaration of independence appears on page 6 and forms part of the Directors' report for the period ended 30 June 2009.

## Rounding

Pursuant to Class Order 98/100 made by the Australian Securities and Investments Commission ('ASIC') on 10 July 1998, the Company has rounded off amounts in this report and the accompanying financial report to the nearest thousand dollars, except where indicated.

## Indemnification and Insurance of Directors, Officers and Auditors

Since incorporation on 25 November 2008, the company has paid insurance premiums of \$22,500 in respect of directors' and officers liability for current and former directors and officers, including senior executives of the company.

The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending proceedings whether civil or criminal and whatever the outcome.
- Other liabilities that may arise from their position, with the exception of conduct involving wilful breach of duty or improper use of information or position to gain a personal advantage.

Premiums totalling \$22,500 were paid in respect of the current directors named in this report and an independent member of the Audit Committee. The company has not otherwise indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such an officer or auditor.

Signed in accordance with a resolution of the directors made pursuant to s298(2) of the Corporations Act 2001. On behalf of the directors:



AJ Myers  
Melbourne, 27 August 2009



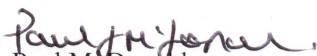
***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Grattan Institute

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial period ended 30 June 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG  
KPMG

  
Paul McDonald  
Partner

Melbourne

27<sup>th</sup> August 2009

## **Directors' Qualifications, Experience and Special Responsibilities**

### **Mr Allan Myers AO QC**

Chairman since the company incorporation on the 25 November 2008. Member of Audit Committee.

Allan Myers is one of Her Majesty's Counsel (Queen's Counsel) in all States and Territories of Australia and a barrister in England and Papua New Guinea. He has a long and distinguished career in law. For 30 years he has practised continuously as a barrister principally in Victoria, although his professional work has led to appearances in all jurisdictions within Australia, Papua New Guinea and England.

### **Ms Patricia Cross AM**

Director since company incorporation on the 25 November 2008. Member of Investment and Governance Committee.

Patricia Cross is a non-executive Director of National Australia Bank, Qantas Airways, Wesfarmers, Murdoch Childrens Research Institute, and the Methodist Ladies College. She is also a Member of the Australian Financial Centre Forum Panel of Experts. Mrs. Cross has over 25 years experience in international banking and finance in the U.S., Europe and Australia. Mrs. Cross holds a Bachelor of Science (Economics) with Honours from Georgetown University in Washington, D.C.

### **Prof Glyn Davis AC**

Director since company incorporation on the 25 November 2008.

Professor Glyn Davis is Vice Chancellor and President of the University of Melbourne. He is a Fellow of the Academy of the Social Sciences in Australia and a Companion in the Order of Australia. Internationally, Professor Davis is Vice-Chair of Universitas 21, a grouping of 25 leading universities from around the globe, a member of the Association of Pacific Rim Universities, a member of the Hong Kong Grants Commission, and a Director of the Menzies Centre for Australian Studies at King's College London.

### **Prof John Funder AO**

Director since company incorporation on the 25 November 2008. Member of Investment and Governance Committee.

John Funder AO has been involved in medical research for over forty years, principally in the area of cardiovascular endocrinology, and has published over 500 peer-reviewed journal articles and book chapters. He is an honorary life member of the Endocrine Society of Australia, the Australian Society for Medical research, the British Endocrine Societies and the Endocrine Society (US), and has honorary Professorial appointments at Monash, Melbourne and Queensland Universities.

### **Prof David Kemp**

Director since company incorporation on the 25 November 2008. Member of Investment and Governance Committee.

David Kemp is a Vice-Chancellor's Fellow at the University of Melbourne. He is also a Fellow with the Australia and New Zealand School of Government, and Honorary Professorial Fellow with the Department of Political Science and with the Centre for Public Policy at the University of Melbourne. He was a Commonwealth Government Minister from 1996 to 2004 holding portfolios including Education, Training, Youth Affairs, Employment, Environment and Heritage. He is an independent consultant on government and public affairs.



**Mr Marius Kloppers**

Appointed Director on the 24 February 2009.

Marius Kloppers is Chief Executive Officer of BHP Billiton. He has a Bachelor of Engineering (Chemical) from the University of Pretoria, a PhD (Material Science) from Massachusetts Institute of Technology (MIT), USA, and a MBA from INSEAD, France.

**Terry Moran AO**

Director since company incorporation on the 25 November 2008.

Mr Terry Moran was appointed to the position of Secretary, Department of the Prime Minister and Cabinet in February 2008. Mr Moran has had a varied career as a public servant, working with successive Australian Federal and State governments, with roles in public policy and public sector management. Mr Moran was made an Officer of the Order of Australia on 12 June 2006.

**Prof Julianne Schultz AM**

Director since company incorporation on the 25 November 2008.

Julianne Schultz is the founding editor of Griffith REVIEW which has been published by Griffith University in conjunction with ABC Books since 2003. Her academic background is in politics and media, her doctorate is from the University of Sydney, and she is a Professor in the Centre for Public Culture and Ideas at Griffith University. She is also a Board member of the ABC.

**Mr Doug Shears**

Director since company incorporation on the 25 November 2008. Member of Audit Committee.

Doug Shears is the Chairman of ICM Australia, a privately owned integrated agribusiness and industrial group operating locally and internationally. Mr Shears is also Chairman of the Botanical Foods Group, Executive Chairman of the Australian Primary Trust, Deputy Chairman of Ultragas and was the founding Chairman of the Uncle Toby's Company and also Berri Ltd. Over past years he has been a member of the Prime Minister's Science and Engineering Council, the Agrifood Council and a board member of CSIRO and a founding member of the Asia Society, Australasia.

**Ms Helen Silver**

Director since company incorporation on the 25 November 2008.

Helen Silver commenced as Secretary of Victoria's Department of Premier and Cabinet on 1 April 2008. In this capacity she leads the Department, and the Victorian Public Service more generally, in advising and serving the Premier and Government of Victoria. She also chairs the State Co-ordination and Management Council, the principal whole-of-government co-ordinating body of the Victorian Public Service. Helen Silver holds a Masters degree in Economics from Monash University, and is a Fellow of the Institute of Public Administration Australia (Victoria).

**Income Statement  
For the Period Ended 30 June 2009**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| <b>Operating Revenue</b>                               | 2     |                |
| Other Income   |       | 350            |
| Total Operating Revenue                                |       | 350            |
| <b>Operating Expenses</b>                              | 3     |                |
| Employee Expenses                                      |       | 673            |
| Audit Fees   | 17    | 6              |
| Other Expenses   |       | 547            |
| Total Operating Expenses                               |       | 1,226          |
| Operating Surplus (Deficit)                            |       | (876)          |
| <b>Endowment Income</b>                                | 4     |                |
| Interest and Investment Income Received                |       | 1,257          |
| Unrealised Movement in Market Value of Investments     | 4, 13 | 308            |
| Income from Endowment Funds                            |       | 1,565          |
| Surplus (Deficit) Before Endowment Funds and Donations |       | 689            |
| Additional Endowment Funds and Donations Received      |       | 30,200         |
| Surplus before Tax                                     |       | 30,889         |
| Income Tax Expense                                     |       | -              |
| Surplus for the Period                                 |       | 30,889         |

The Income Statement is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 25.

**Balance Sheet**  
**As at 30 June 2009**

|                               | Notes | 2009<br>\$'000 |
|-------------------------------|-------|----------------|
| <b>Current Assets</b>         |       |                |
| Cash and Cash Equivalents     | 5     | 18,664         |
| Trade and Other Receivables   | 6     | 247            |
| Total Current Assets          |       | 18,911         |
| <b>Non-current Assets</b>     |       |                |
| Investments                   | 7     | 12,705         |
| Property, Plant and Equipment | 8     | 6              |
| Total Non-current Assets      |       | 12,711         |
| Total Assets                  |       | 31,622         |
| <b>Current Liabilities</b>    |       |                |
| Trade and Other Payables      | 9     | 719            |
| Employee Entitlements         | 10    | 14             |
| Total Current Liabilities     |       | 733            |
| Total Liabilities             |       | 733            |
| Net Assets                    |       | 30,889         |
| <b>Equity</b>                 |       |                |
| Retained Surplus              | 11    | 30,889         |
| Total Equity                  |       | 30,889         |

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 25.

**Statement of Recognised Income and Expenditure  
For the Period Ended 30 June 2009**

|   | Notes | 2009<br>\$'000 |
|---|-------|----------------|
| Income and Expenses Recognised Directly in Equity         |       | -              |
| Operating Surplus for the Period                          | 11    | 30,889         |
| <b>Total Recognised Income and Expense for the Period</b> |       | <b>30,889</b>  |
| <b>Total Attributable to the Members of the Company</b>   |       | <b>30,889</b>  |

The Statement of recognised Income and Expenses is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 25.

**Statement of Cash Flows**  
**For the Period Ended 30 June 2009**

|   | Notes | 2009<br>\$'000 |
|---|-------|----------------|
| <b>Cash Flows from Operating Activities</b>             |       |                |
| Cash Receipts from Donations and Endowments             |       | 30,000         |
| Interest and Investment Income Received                 |       | 1,254          |
| Cash Payments in the Course of Operations               |       | (187)          |
| Net Cash Provided by Operating Activities               | 12    | 31,067         |
| <b>Cash Flows from Investing Activities</b>             |       |                |
| Purchases of Investments                                |       | (12,397)       |
| Payments for Property, Plant and Equipment              |       | (6)            |
| Net Cash From (Used In) Investing Activities            |       | (12,403)       |
| Net Increase (Decrease) in Cash and Cash<br>Equivalents |       | 18,664         |
| Cash and Cash Equivalents at Beginning of the<br>Period |       | -              |
| Cash and Cash Equivalents at the End of the Period      | 5     | 18,664         |

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 25.

## **Notes to the Financial Statements**

### **Note 1 Statement of Significant Accounting Policies**

**(a) Reporting Entity**

Grattan Institute (the "Company") is domiciled in Australia. The address of the Company's registered office is 8 Malvina Place Carlton Victoria.

**(b) Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with:  
Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial statements were approved by the Board of Directors on 27 August 2009.

**(c) Basis of preparation**

The Financial Report is presented in Australian dollars.

The Financial Report is prepared in accordance with the historical cost convention, except for the following assets and liabilities which are stated at their fair value: financial assets at fair value through profit and loss.

The preparation of the Financial Report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by Grattan Institute.

The accounting policies set out below have been applied in preparing the financial report for the period ended 30 June 2009.

**(d) Reporting Entity and Part-year Basis of Financial Report**

Grattan Institute was incorporated under the Corporations Act 2001 on 25 November 2008 and is a company limited by guarantee. As Grattan Institute has only been in existence for part of the financial year, the Financial Report has been prepared covering the period 25 November 2008 to 30 June 2009 and no comparative information is available.

**(e) Functional and Presentation Currency**

These financial statements are presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented has been rounded to the nearest thousand dollars unless otherwise stated.

(f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and in banks and investments in money market instruments.

(g) Receivables

Trade receivables are due for settlement within 30 days from the date of recognition. Collectability of debts is reviewed on an ongoing basis, and debts that are known to be uncollectible are written off when identified. Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any accumulated impairment.

An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment is the carrying amount less the present value of estimated future cash receipts.

(h) Financial Instruments

*Financial Assets at Fair Value through Profit and Loss*

Investments comprise financial assets at fair value through profit and loss. A financial instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss where Grattan Institute manages such investments and makes purchase and sale decisions based on their fair value in accordance with Grattan Institute's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit and loss when incurred. Financial instruments at fair value through profit and loss are measured at fair value, and changes therein are recognised in profit and loss.

Non-derivative financial instruments comprise investments in equity and debt securities, other receivables, cash and cash equivalents, and trade and other payables. Non-derivative instruments are recognised initially at fair value.

A financial instrument is recognised if the Institute becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Institute's contractual rights to the cash flows expire or if the Institute transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, ie: the date that the Institute commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Institute's obligations in the contract expire or are discharged or cancelled.

(i) Property, Plant and Equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and any accumulated impairment losses (see below).

(j) Depreciation

Assets with a cost in excess of \$1,000 are capitalised and depreciation has been provided on depreciable assets so as to allocate their cost (or valuation) over their estimated useful lives using the straight-line method. Estimates of the remaining useful lives, residual values and depreciation method for all assets are reviewed at least annually.

The following table indicates the expected useful lives of non-current assets on which the depreciation charges are based.

|                        | 2009     |
|------------------------|----------|
| Plant and Equipment    | 3 Years  |
| Furniture and Fittings | 10 years |
| Leasehold Improvements | 10 Years |

**(k) Impairment of Assets**

Assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A assets is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant assets are tested for impairment on a individual basis. The remaining assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit and loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

**(l) Trade and Other Payables**

Payables are initially recognised at fair value, then subsequently carried at amortised cost represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid, and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. These amounts are unsecured.

**(m) Provisions**

Provisions are recognised when Grattan Institute has a present obligation as a result of a past event, the future sacrifice of economic benefits to settle the obligation is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**(n) Goods and Services Tax**

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.



(o) Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and sick leave are expected to be settled within 12 months of the reporting date and are recognised in the provision for employee benefits in respect of employees' services up to the reporting date. These are classified as current liabilities and measured at nominal values.

(p) Revenue Recognition

*Contributions from Government*

Revenue from government grant contributions is recognised when Grattan Institute gains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to Grattan Institute and the amount of the contribution can be measured reliably. Contributions are recognised in profit and loss and measured at the fair value of the contribution received or receivable.

*Other Contributions and Donations*

Where a contribution or donation is received and there is no performance or return obligation, revenue is recognised when received or receivable. Contributions and donations are recognised in profit and loss and measured at the fair value of the contribution received or receivable.

*Resources Provided and Received Free of Charge or for Nominal Consideration*

Resources provided and received free of charge or for nominal consideration are recognised at their fair value when the Company obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the resources.

The fair value of the in-kind contribution is recognised as income and a corresponding expense.

The University of Melbourne provides Grattan Institute with a number of in-kind services under a service agreement. The total estimated fair value of these services in 2008-09 was \$350,000.

*Interest and Investment Income*

Interest and investment income comprises interest and dividends. Interest income is recognised as it accrues, using the effective interest method. Dividends from listed entities are recognised when the right to receive a dividend has been established.

(q) Expenses

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category.

(r) Income Tax

The company is a charitable institution for the purpose of Australian taxation legislation and is therefore exempt from income tax. The exemption has been confirmed by Australian Taxation Office. The company holds deductible gift recipient status.

(s) Fund Accounting

Grattan Institute operates on a fund accounting basis and maintains three funds: Commonwealth, Public and General funds. The purposes of each of these funds are:

- The Commonwealth Fund – To hold and account for the funds contributed by the Commonwealth of Australia and any fund earnings less approved distributions used in the operations of the Institute.
- The Public Fund – To hold and account for the funds contributed by the public and any fund earnings less approved distributions used in the operations of the Institute.
- The General Fund– To hold and account for the funds contributed by the State of Victoria, general payments to Grattan Institute and any fund earnings less approved distributions used in the operations of Grattan Institute.

(t) New Standards and Interpretations Not Yet Adopted.

There are no new accounting standards or interpretations applicable to the Company that have not yet been adopted.

**Note 2 Operating Revenue**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| In-kind Services Provided by the University of Melbourne |       | 350            |
| Total Operating Revenue                                  |       | 350            |

**Note 3 Operating Expenses**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| Employee Expenses  |       | 673            |
| Audit Fees   | 17    | 6              |
| Other Expenses   |       | 197            |
| Expenses for the Provision of In-kind Services Provided by the University of Melbourne |       | 350            |
| Total Expenses   |       | 1,226          |

#### **Note 4 Endowment Income**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| <b>Endowment Funds and Donations Received</b>        | 13    |                |
| Commonwealth Funds                                   |       | 15,000         |
| Victorian State Government Funds                     |       | 15,000         |
| National Australia Bank Donation                     |       | 200            |
| <b>Total Endowment Funds and Donations Received</b>  |       | <b>30,200</b>  |
| <b>Interest and Investment Income Received</b>       | 13    |                |
| Interest Received                                    |       | 1,257          |
| Dividends Received                                   |       | -              |
| <b>Total Interest and Investment Income Received</b> |       | <b>1,257</b>   |
| Realised Gains (Losses) from the Sale of Investments |       | -              |
| Movement in the Market Value of Investments          | 13    | 308            |
| <b>Total Endowment Income</b>                        |       | <b>31,765</b>  |

#### **Note 5 Cash and Cash Equivalents**

|   | Notes | 2009<br>\$'000 |
|---|-------|----------------|
| Bank Balances   |       | 4,561          |
| Deposits at Call  |       | 14,103         |
| <b>Total Bank Balances</b>  |       | <b>18,664</b>  |
| Cash at the end of the period as shown in the statement of cash flows is reconciled to items in the balance sheet as follows: |       |                |
| Cash and Cash Equivalents   |       | 18,664         |
| <b>Total Cash</b>   |       | <b>18,664</b>  |

#### **Note 6 Trade and Other Receivables**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| Trade Receivables                        |       | 200            |
| Provision for Impairment of receivables  |       | -              |
| Other receivables                        |       | 47             |
| <b>Total Trade and Other Receivables</b> |       | <b>247</b>     |

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

## **Note 7 Investments**

|   | Notes | 2009<br>\$'000 |
|---|-------|----------------|
| <b>Non-current</b>  |       |                |
| <b>Financial Assets at Fair Value Through Profit and Loss</b> |       |                |
| Fixed Term Bonds, Preference Shares and Commercial Notes      |       | 1,688          |
| Listed Australian Equities                                    |       | 8,480          |
| Listed Foreign Equities                                       |       | 2,537          |
| Total Non-current Investment                                  |       | 12,705         |
| Total Investments   |       | 12,705         |

## **Note 8 Property, Plant and Equipment**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| <b>Plant and Equipment</b>                 |       |                |
| At cost                                    |       | 6              |
| Less accumulated depreciation              |       | -              |
| Total Plant and Equipment                  |       | 6              |
| <b>Total Property, Plant and Equipment</b> |       | <b>6</b>       |
| <b>Movements in Carrying Amounts</b>       |       |                |
| <b>Plant and Equipment</b>                 |       |                |
| Balance at beginning of period             |       | -              |
| Additions                                  |       | 6              |
| Depreciation expense                       |       | -              |
| Carrying amount at end of period           |       | 6              |
| <b>Total Property, Plant and Equipment</b> |       | <b>6</b>       |

## **Note 9 Trade and Other Payables**

|                                | Notes | 2009<br>\$'000 |
|--------------------------------|-------|----------------|
| Trade Payables                 |       | 602            |
| Other Payables and Accruals    |       | 117            |
| Total Trade and Other Payables |       | 719            |

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

## **Note 10 Employee Entitlements**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| <b>Current</b>                                 |       |                |
| Annual Leave                                   |       | 14             |
| Long Service Leave                             |       | -              |
| <b>Total Current Employee Entitlements</b>     |       | <b>14</b>      |
| <b>Non-current</b>                             |       |                |
| Annual Leave                                   |       | -              |
| Long Service Leave                             |       | -              |
| <b>Total Non-current Employee Entitlements</b> |       | <b>-</b>       |
| <b>Total Employee Entitlements</b>             |       | <b>14</b>      |

## **Note 11 Retained Surplus**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| Retained Surplus at the Beginning of the Period  |       | -              |
| Surplus for the period                           |       | 30,889         |
| <b>Retained Surplus at the End of the Period</b> |       | <b>30,889</b>  |
| <b>Reconciliation of Retained Surpluses</b>      |       |                |
| Retained Surplus from Endowment Funds            | 13    | 30,889         |
| <b>Total Retained Surplus</b>                    |       | <b>30,889</b>  |

## **Note 12 Reconciliation of Operating Result with Cash Flow from Operations**

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| <b>Surplus for the period</b>                  |       | <b>30,889</b>  |
| Movement in the Market Value of Investments    |       | (308)          |
| Increase (Decrease) in Payables                |       | 719            |
| Increase (Decrease) in Employee Benefits       |       | 14             |
| (Increase) Decrease in Receivables             |       | (247)          |
| <b>Net Cash Flow from Operating Activities</b> |       | <b>31,067</b>  |

## **Note 13 Endowment Funds**

|   | Notes | 2009<br>\$'000 |
|---|-------|----------------|
| <b>Commonwealth Fund</b>                    |       |                |
| Opening balance at beginning of period      |       | -              |
| Contributions during the period             |       | 15,000         |
| Fund income for the period                  |       | 882            |
| Less: Contributions made to operating costs |       | (438)          |
| Closing balance at end of the period        |       | 15,444         |
| <b>General Fund</b>                         |       |                |
| Opening balance at beginning of period      |       | -              |
| Contributions during the period             |       | 15,000         |
| Fund income for the period                  |       | 683            |
| Less: Contributions made to operating costs |       | (438)          |
| Closing balance at end of the period        |       | 15,245         |
| <b>Public Fund</b>                          |       |                |
| Opening balance at beginning of period      |       | -              |
| Contributions during the period             |       | 200            |
| Fund income for the period                  |       | -              |
| Less: Contributions made to operating costs |       | -              |
| Closing balance at end of the period        |       | 200            |
| <b>Total Endowment Funds</b>                |       | <b>30,889</b>  |
| <b>Represented in Equity by:</b>            |       |                |
| Retained Surplus                            |       | 30,889         |

## **Note 14 Financial Risk Management**

The Company's principle financial instruments comprise cash, funds on deposits with banks and other financial organisations, commercial notes and bonds.

### **Overview**

The Institute has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about the Institute's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this Financial Report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is also responsible for developing and monitoring risk management policies. Risk management policies are established to identify and analyse the risks faced by the Institute to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Institute's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

#### Credit risk

Credit risk is the risk of financial loss to the Institute if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Institute's cash and cash equivalents, receivables from customers and investment securities.

#### Investments

The Institute limits its exposure to credit risk by adherence to an approved Investment Policy and only investing in liquid securities and only with counterparties that have a solid credit rating in consultation with the Board and other advisors. Management does not expect any counterparty to fail to meet its obligations.

#### Liquidity risk

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations as they fall due. The Institute's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation.

Management monitor cash flow requirements on a daily basis to optimise its cash return on investments. Typically the Institute ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations without the need to draw down from its investments; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Institute's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Institute will enter into derivatives in order to manage market risks in consultation with the Board and other advisors.

## **Note 15 Financial Instruments**

### **Credit Risk**

#### **Exposure to Credit Risk**

The carrying amount of the Institute's financial assets represents the maximum credit exposure. The Institute's maximum exposure to credit risk at the reporting date was:

|  | Notes | 2009<br>\$'000 |
|--|-------|----------------|
| <b>Carrying Amount</b>                                   |       |                |
| Cash and Cash Equivalents                                | 5     | 18,664         |
| Receivables  | 6     | 247            |
| Fixed Term Bonds, Preference Shares and Commercial Notes | 7     | 1,688          |
| <b>Total Carrying Amount</b>                             |       | <b>20,599</b>  |

### **Impairment Loss**

The aging of the Institute's trade receivables at the reporting date was:

|                                   | Notes | 2009<br>\$'000 |
|-----------------------------------|-------|----------------|
| <b>Carrying Amount</b>            |       |                |
| Not past due                      | 6     | 200            |
| Past due 0-30 days                |       | -              |
| Past due 31-60 days               |       | -              |
| More than 60 days past due        |       | -              |
| Less Allowance for doubtful debts |       | -              |
| <b>Total Carrying Amount</b>      |       | <b>200</b>     |

There was no impairment loss recognised on receivables. The allowance account in respect of trade receivables is used to record impairment losses unless the Institute is satisfied that no recovery of the amount owing is possible; at that point the amounts considered unrecoverable are written off against the financial asset directly.

### **Liquidity Risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| <b>30 June 2009 (\$'000)</b> | <b>Carrying Amount</b> | <b>Contractual Cash Flows</b> | <b>6 Months of Less</b> | <b>6-12 Months</b> | <b>1-2 Years</b> | <b>2-5 Years</b> | <b>More than 5 Years</b> |
|------------------------------|------------------------|-------------------------------|-------------------------|--------------------|------------------|------------------|--------------------------|
| Trade Payables               | 602                    | 602                           | 602                     | -                  | -                | -                | -                        |
| Other Payables and Accruals  | 117                    | 117                           | 117                     | -                  | -                | -                | -                        |
|                              | <b>719</b>             | <b>719</b>                    | <b>719</b>              | <b>-</b>           | <b>-</b>         | <b>-</b>         | <b>-</b>                 |



### Interest Rate Risk

The following summaries interest rate risk for the Institute together with effective interest rates as at balance date.

|                                    | Weighted Average<br>Effective Interest Rate<br>2009<br>% | Floating Interest Rate<br>2009<br>\$'000s | Non-interest Bearing<br>2009<br>\$'000s |
|------------------------------------|--|---|---|
| <b>Financial Assets:</b>           |  |   |   |
| Cash and Cash Equivalents          | 2.58%  | 18,664                                    | -                                       |
| Financial Instruments              | 6.75%  | 1,625                                     | -                                       |
| Receivables                        | -  | -   | 200                                     |
| <b>Total Financial Assets</b>      | <b>2.89%</b>   | <b>20,289</b>                             | <b>200</b>                              |
| <b>Financial Liabilities:</b>      |  |   |   |
| Trade and Sundry Creditors         | -  | -   | 719                                     |
| <b>Total Financial Liabilities</b> | <b>-</b>   | <b>-</b>                                  | <b>719</b>                              |

### Operating Surplus and Equity Sensitivity to Changes in Interest Rates

A change of 100 basis points in interest rates would have increased or decreased Grattan's operating surplus and hence equity by \$243 thousand.

### Note 16 Contingent Liabilities

The Institute has entered into an agreement with the Commonwealth of Australia in relation to the conditions attached to the Commonwealth's endowment to the Institute. One of the conditions of this agreement gives the Commonwealth a floating charge over the assets of the Institute. This floating charge would crystallise if the Institute either breached the agreement or became insolvent. The maximum value of the floating charge diminishes over time as follows:

26 May 2009 to 25 May 2011 - \$12 million  
26 May 2011 to 25 May 2014 - \$9 million  
From 26 May 2014 – nil.

### Note 17 Auditor's Remuneration

|                                       | Notes | 2009<br>\$'000 |
|---------------------------------------|-------|----------------|
| <b>KPMG Australia</b>                 |       |                |
| Audit and review of financial reports |       | 6              |
| Other services                        |       | -              |
| <b>Total Auditor's Remuneration</b>   |       | <b>6</b>       |

## **Note 18 Segment Reporting**

Grattan Institute is a not-for-profit organisation whose principle activity is public policy research.

## **Note 19 Key Management Personnel**

The key management personnel compensation included in employee expenses are as follows:

|                           | 2009<br>\$'000s |
|---------------------------|-----------------|
| Current employee benefits | \$154           |
| Post-employment benefits  | -               |
| Total Benefits            | \$154           |

## **Directors' Declaration**

In the opinion of the Directors of Grattan Institute:

- (a) the Financial Statements and Notes, set out on pages 9 to 25, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the position of Grattan Institute at 30 June 2009 and its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that Grattan Institute will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 27 day of August 2009.



AJ Myers  
Director



Patricia Cross  
Director



## **Independent auditor's report to the members of Grattan Institute**

### **Report on the financial report**

We have audited the accompanying financial report of Grattan Institute, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expenditure and cash flow statement for the period ended on that date, a description of significant accounting policies and other explanatory notes 1 to 19 and the directors' declaration set out on pages 9 to 26.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

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



*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion the financial report of Grattan Institute is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 30 June 2009 and of its performance for the period ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

KPMG  
KPMG

  
Paul McDonald  
Partner

Melbourne

27<sup>th</sup> August 2009