



Annual Financial Report
For The Period Ended 30 June 2010

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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
Registered office and principal place of business	8 Malvina Place Carlton Victoria 3053 Australia
Australian Business Number	17 134 323 756
Bankers	National Australia Bank
Auditors	KPMG

Directors' Report for the Period Ended 30 June 2010

Your directors present this report to the members of Grattan Institute (the Company) for the financial year ended 30 June 2010.

Directors

The names of each person who has been a director over the financial year 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	Service Period	Board Meetings		Audit Committee		Investment and Governance Committee		Public Policy Committee	
		Number of Meetings	Number Attended	Number of Meetings	Number Attended	Number of Meetings	Number Attended	Number of Meetings	Number Attended
Mr Allan Myers	Full Year	7	6	1	1	-	-	-	-
Ms Patricia Cross	Full Year	7	3	-	-	4	4	-	-
Prof Glyn Davis	Full Year	7	4	-	-	-	-	-	-
Prof John Funder	Full Year	7	4	-	-	4	4	-	-
Prof David Kemp	Full Year	7	6	-	-	4	4	4	4
Mr Marius Kloppers	Full Year	7	5	-	-	-	-	-	-
Mr Terry Moran	Full Year	7	3	-	-	-	-	4	4
Prof Julianne Schultz	Full Year	7	5	-	-	-	-	-	-
Mr Doug Shears	Full Year	7	5	1	1	-	-	-	-
Ms Helen Silver	Full Year	7	4	-	-	-	-	-	-

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

Mr Andrew McDonald BEc MPA has been company secretary since 5 October 2009. Previously, Mr McDonald was Chief Finance Officer for the Department of Sustainability and Environment.

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 during the financial year.

Short and Long-term Objectives

Grattan Institute's long-term objectives are to:

- Undertake systematic research and analysis in the fields of social, environmental and economic policy; and
- Disseminate and discuss the research and analysis,

for the public benefit to improve the basis for informed debate and assessment by the public and its leaders on public policy for Australia as a liberal democracy in a globalised economy. Grattan Institute's current objectives are Programs in Productivity Growth, School Education, Cities, and Energy.

Grattan Institute's strategy in each of these Programs is to conduct independent and rigorous analysis to contribute practical proposals to improve Australian public policy. It then distributes the results of this research through the media and online, and through presentations to opinion leaders and decision-makers.

Grattan Institute measures its performance by:

- Monitoring the immediate outputs in terms of research papers and opinion pieces published, public seminars and private forums held, and presentations made.
- Reporting on the intermediate impact of this work through media mentions and website pages viewed.
- Considering qualitative evaluation of the ultimate impact of Grattan Institute's influence on opinion leaders and decisions-makers

Operating Results and Review of Operations

The operating result for the period was a surplus of \$1,991,000 (2009: \$30,889,000). The company is exempt from income tax.

Significant Changes in the State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company during the financial year that are 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 2010.

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

During the financial year, 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.

**Annual Financial Report
For the Period Ended 30 June 2010**

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

A handwritten signature in black ink, appearing to read 'AJ Myers', with a stylized, cursive script.

AJ Myers
Melbourne, 15 October 2010



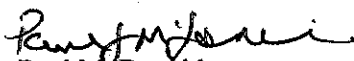
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

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 year ended 30 June 2010 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

18th October 2010

Directors' Qualifications, Experience and Special Responsibilities

Mr Allan Myers AO QC

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

Patricia Cross is a non-executive Director of National Australia Bank, Qantas Airways, Murdoch Childrens Research Institute, and the Methodist Ladies College. She is also a Member of the Australian Financial Centre Forum Panel of Experts. Ms. Cross has over 25 years experience in international banking and finance in the U.S., Europe and Australia. Ms. 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 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 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 25 November 2008. Member of Investment, Governance Committee and the Public Policy 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 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 25 November 2008. Charirman of the Public Policy Committee.

Mr Terry Moran was appointed as 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.

Prof Julianne Schultz AM

Director since company incorporation on 25 November 2008.

Julianne Schultz is the founding editor of Griffith REVIEW which has been published by Griffith University in conjunction with Text Publishing 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 Cultural Research at Griffith University. She is also a Board member of the ABC and Chair of the Queensland Design Council.

Mr Doug Shears

Director since company incorporation on 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 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).

**Statement of Comprehensive Income
For the Period Ended 30 June 2010**

	Notes	2010 \$'000	2009 \$'000
Operating Revenue			
Other Income	3	330	350
Total Operating Revenue		330	350
Operating Expenses	4		
Employee Expenses		2,077	673
Audit Fees	18	7	6
Other Expenses		558	547
Total Operating Expenses		2,642	1,226
Operating Surplus (Deficit)		(2,312)	(876)
Endowment Income	5		
Interest and Investment Income Received		1,436	1,257
Unrealised Movement in Market Value of Investments	5, 14	667	308
Income from Endowment Funds		2,103	1,565
Surplus (Deficit) Before Endowment Funds and Donations		(209)	689
Additional Endowment Funds and Donations Received		2,200	30,200
Surplus before Tax		1,991	30,889
Income Tax Expense		-	-
Surplus for the Period		1,991	30,889
Other Comprehensive Income		-	-
Total Comprehensive Income		1,991	30,889

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 28.

Statement of Financial Position
As at 30 June 2010

	Notes	2010 \$,000	2009 \$'000
Current Assets			
Cash and Cash Equivalents	6	5,163	18,664
Trade and Other Receivables	7	769	247
Total Current Assets		5,932	18,911
Non-current Assets			
Investments	8	27,980	12,705
Property, Plant and Equipment	9	32	6
Total Non-current Assets		28,012	12,711
Total Assets		33,944	31,622
Current Liabilities			
Trade and Other Payables	10	989	719
Employee Entitlements	11	53	14
Total Current Liabilities		1,042	733
Non-current Liabilities			
Employee Entitlements	11	22	-
Total Non-current Liabilities		22	-
Total Liabilities		1,064	733
Net Assets		32,880	30,889
Equity			
Retained Surplus	12	32,880	30,889
Total Equity		32,880	30,889

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 28.

**Statement of Changes in Equity
As at 30 June 2010**

	Notes	2010 \$'000	2009 \$'000
Retained Surplus	12		
Opening Balance		30,889	-
Surplus for the year		1,991	30,889
Closing Balance		32,880	30,889
Total Equity		32,880	30,889

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 28.

Statement of Cash Flows
For the Period Ended 30 June 2010

	Notes	2010 \$'000	2009 \$'000
Cash Flows from Operating Activities			
Cash Receipts from Donations and Endowments		2,000	30,000
Interest and Investment Income Received		1,128	1,254
Cash Payments in the Course of Operations		(1,991)	(187)
Net Cash Provided by Operating Activities	13	1,137	31,067
Cash Flows from Investing Activities			
Purchases of Investments		(14,608)	(12,397)
Payments for Property, Plant and Equipment		(30)	(6)
Net Cash From (Used In) Investing Activities		(14,638)	(12,403)
Net Increase (Decrease) in Cash and Cash Equivalents		(13,501)	18,664
Cash and Cash Equivalents at Beginning of the Period		18,664	-
Cash and Cash Equivalents at the End of the Period	6	5,163	18,664

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 28.

Notes to the Financial Statements

Note 1 Basis of Preparation

(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 15 October 2010.

(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 investments that are stated 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.

(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. The 2009-10 financial information presented in this report covers the full 2009-10 financial year. Comparative figures cover the period 25 November 2008 to 30 June 2009.

(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.

Note 2 Statement of Significant Accounting Policies

The accounting policies set out below have been applied in preparing the financial report for the period ended 30 June 2010.

(a) Cash and Cash Equivalents

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

(b) 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.

(c) Financial Instruments

Financial Assets at Fair Value through Profit and Loss

Investments comprise financial assets at fair value through profit and loss. All financial instruments are classified as at fair value upon their initial recognition. None are held for trading.

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.

(d) 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).

(e) 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.

	2010	2009
Plant and Equipment	3 Years	3 Years
Furniture and Fittings	10 years	10 years
Leasehold Improvements	10 Years	10 Years

(f) Trade and Other Payables

Payables are initially recognised at fair value, then subsequently carried at amortised cost. They 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.

(g) 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.

(h) 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.

Liabilities for long service leave are measured at an estimate of their present value and are classified as non-current liabilities.

(i) 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 material in-kind contributions 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 2009-10 was \$316,000.

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.

Unrealised Gains on Investments

Movements in the market value of investments are recognised as items of income or expenditure when they occur.

(j) Expenses

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

(k) 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.

(l) 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.

(m) 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.

The following standards, amendments to standards and interpretations have been identified as those that may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

- *AASB 9 Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. The impact of this standard on Grattan Institute is yet to be determined.
- *AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for Grattan Institute's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

(n) Presentation of financial statements

Grattan Institute applies revised *AASB 101 Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts presentation aspects of the statements.

Note 3 Operating Revenue

	Notes	2010 \$'000	2009 \$'000
In-kind Services Provided by the University of Melbourne		316	350
Affiliate Fees		9	-
Other operating revenue		5	-
Total Operating Revenue		330	350

Note 4 Operating Expenses

	Notes	2010 \$'000	2009 \$'000
Employee Expenses		2,077	673
Audit Fees	18	7	6
Other Expenses		242	197
Expenses for the Provision of In-kind Services Provided by the University of Melbourne		316	350
Total Expenses		2,642	1,226

Note 5 Endowment Income

	Notes	2010 \$'000	2009 \$'000
Endowment Funds and Donations Received	14		
Commonwealth Funds		-	15,000
Victorian State Government Funds		-	15,000
BHP Billiton Limited Endowment		2,000	-
National Australia Bank Donation		200	200
Total Endowment Funds and Donations Received		2,200	30,200
Interest and Investment Income Received	14		
Interest Received		383	1,257
Dividends Received		1,059	-
Realised Gains (Losses) from the Sale of Investments		65	-
Less: Investment Management Fees		(71)	
Total Interest and Investment Income Received		1,436	1,257
Movement in the Market Value of Investments	14	667	308
Total Endowment Income		4,303	31,765

Note 6 Cash and Cash Equivalents

	Notes	2010 \$'000	2009 \$'000
Bank Balances		4,915	4,561
Deposits at Call		248	14,103
Total Bank Balances		5,163	18,664

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	5,163	18,664
Total Cash	5,163	18,664

Note 7 Trade and Other Receivables

	Notes	2010 \$'000	2009 \$'000
Trade Receivables		210	200
Provision for Impairment of receivables		-	-
Other receivables		559	47
Total Trade and Other Receivables		769	247

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

Note 8 Investments

	Notes	2010 \$'000	2009 \$'000
Non-current			
Financial Assets at Fair Value Through Profit and Loss			
Fixed Term Bonds, Preference Shares and Commercial Notes		4,701	1,688
Listed Australian Equities		19,033	8,480
Listed Foreign Equities		4,246	2,537
Total Non-current Investment		27,980	12,705
Total Investments		27,980	12,705

The investment of funds is split across direct securities and equity trusts.

Note 9 Property, Plant and Equipment

	Notes	2010 \$'000	2009 \$'000
Plant and Equipment			
At cost		37	6
Less accumulated depreciation		(5)	-
Total Plant and Equipment		32	6
Total Property, Plant and Equipment		32	6

Movements in Carrying Amounts

Plant and Equipment			
Balance at beginning of period		6	-
Additions		30	6
Depreciation expense		(4)	-
Carrying amount at end of period		32	6
Total Property, Plant and Equipment		32	6

Note 10 Trade and Other Payables

	Notes	2010 \$'000	2009 \$'000
Trade Payables		742	602
Other Payables and Accruals		247	117
Total Trade and Other Payables		989	719

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

Note 11 Employee Entitlements

	Notes	2010 \$'000	2009 \$'000
Current			
Annual Leave		53	14
Long Service Leave		-	-
Total Current Employee Entitlements		53	14
Non-current			
Annual Leave		-	-
Long Service Leave		22	-
Total Non-current Employee Entitlements		22	-
Total Employee Entitlements		75	14

Note 12 Retained Surplus

	Notes	2010 \$'000	2009 \$'000
Retained Surplus at the Beginning of the Period		30,889	-
Surplus for the period		1,991	30,889
Retained Surplus at the End of the Period		32,880	30,889
Reconciliation of Retained Surpluses			
Retained Surplus from Endowment Funds	14	32,880	30,889
Total Retained Surplus		32,880	30,889

Note 13 Reconciliation of Operating Result with Cash Flow from Operations

	Notes	2010 \$'000	2009 \$'000
Surplus for the period		1,991	30,889
Depreciation Charge in Accounts	4	-	-
Movement in the Market Value of Investments	(667)	(308)	(308)
Increase (Decrease) in Payables	270	719	719
Increase (Decrease) in Employee Benefits	61	14	14
(Increase) Decrease in Receivables	(522)	(247)	(247)
Net Cash Flow from Operating Activities		1,137	31,067

Note 14 Endowment Funds

	Notes	2010 \$'000	2009 \$'000
Commonwealth Fund			
Opening balance at beginning of period	15,444	-	-
Contributions during the period	-	15,000	15,000
Fund income for the period	1,083	882	882
Less: Contributions made to operating costs	(1,156)	(438)	(438)
Closing balance at end of the period	15,371	15,444	15,444
General Fund			
Opening balance at beginning of period	15,245	-	-
Contributions during the period	-	15,000	15,000
Fund income for the period	1,009	683	683
Less: Contributions made to operating costs	(1,156)	(438)	(438)
Closing balance at end of the period	15,098	15,245	15,245
Public Fund			
Opening balance at beginning of period	200	-	-
Contributions during the period	2,200	200	200
Fund income for the period	11	-	-
Less: Contributions made to operating costs	-	-	-
Closing balance at end of the period	2,411	200	200
Total Endowment Funds		32,880	30,889
Represented in Equity by:			
Retained Surplus		32,880	30,889

Note 15 Financial Risk Management

The Company's principal financial instruments comprise cash, funds on deposits with banks and other financial organisations, commercial notes and bonds, and listed Australian and foreign equities held either directly or through trusts.

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, overseen by Grattan Institute's Investment and Governance Committee, 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 may enter into derivatives in order to manage market risks in consultation with the Board and other advisors.

Other Market Price Risk

Grattan Institute's management monitors the mix of equity securities in its investment portfolio based on market indices. The Investment and Governance Committee manage material investments within the portfolio on an individual basis and approve all buy and sell decisions.

The primary goal of Grattan Institute's investment strategy is to maximise investment returns. External advisors assist management in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

Note 16 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	2010 \$'000	2009 \$'000
Carrying Amount			
Cash and Cash Equivalents	6	5,163	18,664
Receivables	7	769	247
Fixed Term Bonds, Preference Shares and Commercial Notes	8	4,701	1,688
Total Carrying Amount		10,633	20,599

Impairment Loss

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

	Notes	2010 \$'000	2009 \$'000
Carrying Amount			
Not past due	7	210	200
Past due 0-30 days		-	-
Past due 31-60 days		-	-
More than 60 days past due		-	-
Less Allowance for doubtful debts		-	-
Total Carrying Amount		210	200

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:

30 June 2010 (\$'000)	Carrying Amount	Contractual Cash Flows	6 Months of Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Trade Payables	742	742	742	-	-	-	-
Other Payables and Accruals	247	247	247	-	-	-	-
	989	989	989	-	-	-	-
30 June 2009 (\$'000)	Carrying Amount	Contractual Cash Flows	6 Months of Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Trade Payables	602	602	602	-	-	-	-
Other Payables and Accruals	117	117	117	-	-	-	-
	719	719	719	-	-	-	-

Interest Rate Risk

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

	Weighted Average Effective Interest Rate	Variable Interest Rate	Fixed Interest Rate	Non-interest Bearing
	2010 %	2010 \$'000s	2010 \$'000s	2010 \$'000s
Financial Assets:				
Cash and Cash Equivalents	4.60%	5,163	-	-
Financial Instruments Receivables	7.75%	2,911	1,790	-
	-	-	-	769
Total Financial Assets	5.97%	8,074	1,790	769
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	989
Total Financial Liabilities		-	-	989
	2009 %	2009 \$'000s	2009 \$'000s	2009 \$'000s
Financial Assets:				
Cash and Cash Equivalents	2.58%	18,664	-	-
Financial Instruments Receivables	6.75%	-	1,625	-
	-	-	-	200
Total Financial Assets	2.89%	18,664	1,625	200
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	719
Total Financial Liabilities	-	-	-	719

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or Loss		Equity	
	100bp Increase \$'000s	100bp Decrease \$'000s	100bp Increase \$'000s	100bp Decrease \$'000s
30 June 2010				
Variable Rate Instruments	63	(63)	63	(63)
30 June 2009				
Variable Rate Instruments	243	(243)	243	(243)

Market Risk

A change of 1% of the value of investments at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

	Profit or Loss		Equity	
	1% Increase \$'000s	1% Decrease \$'000s	1% Increase \$'000s	1% Decrease \$'000s
30 June 2010				
Investments	280	(280)	280	(280)
30 June 2009				
Investments	127	(127)	127	(127)

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1 \$'000s	Level 2 \$'000s	Level 3 \$'000s	Total \$'000s
Financial Assets				
30 June 2010				
Financial assets designated at fair value through profit and loss	27,980	-	-	27,980
Total Financial Assets	27,980	-	-	27,980
30 June 2009				
Financial assets designated at fair value through profit and loss	12,705	-	-	12,705
Total Financial Assets	12,705	-	-	12,705

Note 17 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 18 Auditor's Remuneration

	Notes	2010 \$'000	2009 \$'000
KPMG Australia			
Audit and review of financial reports		7	6
Other services		-	-
Total Auditor's Remuneration		7	6

Note 19 Segment Reporting

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

Note 20 Key Management Personnel

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

	2010 \$'000	2009 \$'000s
Current employee benefits	448	154
Post-employment benefits	-	-
Total Benefits	448	154

Directors' Declaration

In the opinion of the Directors of Grattan Institute:

- (a) the Financial Statements and Notes, set out on pages 10 to 28, 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 2010 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 15 day of October 2010.



AJ Myers
Director



Patricia Cross
Director



Independent auditor's report to the members of Grattan Institute

We have audited the accompanying financial report of Grattan Institute, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 20 and the directors' declaration.

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

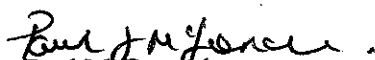
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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 2010 and of its performance for the year 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

18/10 October 2010