



Annual Financial Report
For The Year Ended 30 June 2013

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Corporate Information

Directors	Mr Allan Myers (Chairman)
	Ms Patricia Cross
	Prof Glyn Davis
	Prof John Funder
	Prof David Kemp
	Mr Andrew Mackenzie
	Mr Terry Moran
	Prof Julianne Schultz
	Mr Peter Scanlon
	Ms Helen Silver
	Ms Lucy Turnbull

Registered office and principal place of business	8 Malvina Place Carlton Victoria 3053 Australia
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Australian Business Number	17 134 323 756
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Bankers	National Australia Bank
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Auditors	KPMG
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Directors' Report for the Year Ended 30 June 2013

Your directors present this report to the members of Grattan Institute (the "Company") for the financial year ended 30 June 2013.

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 year.

Director	Service Period	Board Meetings		Audit Committee ¹		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	5	4	1	1	4	2	-	-
Ms Patricia Cross	Full Year	5	5	-	-	4	4	-	-
Prof Glyn Davis	Full Year	5	2	-	-	-	-	-	-
Prof John Funder	Full Year	5	4	-	-	4	2	-	-
Prof David Kemp	Full Year	5	3	-	-	4	4	4	4
Mr Marius Kloppers	Retired 10 May 2013	4	2	-	-	-	-	-	-
Mr Andrew Mackenzie	Appointed 30 May 2013	1	-	-	-	-	-	-	-
Mr Terry Moran	Full Year	5	5	-	-	-	-	4	4
Mr Peter Scanlon	Full Year	5	3	1	1	4	3	-	-
Prof Julianne Schultz	Full Year	5	3	-	-	-	-	-	-
Ms Helen Silver	Full Year	5	4	-	-	-	-	-	-
Ms Lucy Turnbull	Appointed 29 Nov 2012	3	3	-	-	-	-	2	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 8 of this report.

Company Secretary

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

¹ The Audit Committee also comprises an external member, Mr Brett Croft.

Directors' Benefits

No Director has received or become entitled to receive a benefit because of a contract between the Company 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 year 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, Health, Energy and Higher Education.

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;
- Surveying the opinions of opinion leaders and policy makers about the quality and impact of its work; and
- Evaluating qualitatively the ultimate impact of Grattan Institute's influence on opinion leaders and decision makers.

Operating Results and Review of Operations

The operating result for the year was a surplus of \$3,837,000 (2012: deficit \$3,102,000). The Company is exempt from income tax.

Comparative operating results from the date of the Company's inception are set below. The analysis is provided separately for endowment income and operating results.

	2008-09 \$'000	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000
Endowment Income					
Interests and Dividends	1,257	1,442	1,895	2,117	1,937
Realised Gains (Losses) from the Sale of Investments	-	65	1,959	(195)	674
Movement in the Market Value of Investments	308	667	(458)	(2,386)	4,478
Less: Investment Management Fees	-	(71)	(115)	(119)	(121)
Total Interest and Investment Income	1,565	2,103	3,281	(583)	6,968
<i>Additions to the Endowment</i>					
Commonwealth Funds	15,000	-	-	-	-
Victorian State Government Funds	15,000	-	-	-	-
BHP Billiton Limited	-	2,000	2,000	-	-
National Australia Bank	200	200	200	200	200
Total Additions to the Endowment	30,200	2,200	2,200	200	200
Total Endowment Income	31,765	4,303	5,481	(383)	7,168
Operating Result					
Operating Revenue	350	330	511	1,336	1,443
Operating Expenditure	1,226	2,642	3,259	4,055	4,774
Operating Surplus (Deficit)	(876)	(2,312)	(2,748)	(2,719)	(3,331)
Total Entity Surplus (Deficit)	30,889	1,991	2,733	(3,102)	3,837

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 7 and forms part of the Directors' report for the year ended 30 June 2013.

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

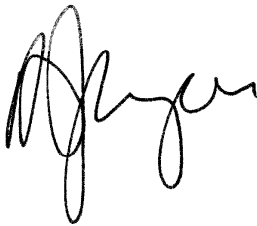
During the financial year, the Company has paid insurance premiums in respect of directors' and officers' liability for current and former directors and officers, including senior executives of the Company.

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 \$12,610 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, 23 October 2013



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 2013 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

23 October 2013

Directors' Qualifications, Experience and Special Responsibilities

Mr Allan Myers AO QC

Chairman since Company incorporation on 25 November 2008. Chairman of the Audit Committee and Investment and Governance 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, New Zealand and Papua New Guinea. He has had a long and distinguished career in law. For 40 years he has practised continuously as a barrister, principally in Victoria, although his professional work has led to appearances in all jurisdictions within Australia, New Zealand, Papua New Guinea and England. Allan holds degrees from Bachelor of Arts and Bachelor of Laws (Hons) from The University of Melbourne and Bachelor of Civil Law from Oxford University. He holds the honorary degrees of Doctor of the University from the Australian Catholic University and Doctor of Laws from the University of Melbourne.

Ms Patricia Cross

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

Patricia Cross is a non-executive Director of Macquarie Bank Limited, Macquarie Group Limited, Aviva PLC and the Australian Institute of Company Directors. She is an Ambassador for the Australian Indigenous Education Foundation as well as an Advisory Board member of businessspectator.com.au and the Faculty of Business and Economics at Melbourne University. Ms. Cross has over 30 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 a past Chair of Universitas 21, a grouping of 24 leading universities from around the globe, a member of the Association of Pacific Rim Universities, a Director of the Menzies Centre for Australian Studies at King's College London, and immediate past Chair of Universities Australia.

Prof John Funder AO

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

John Funder 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 holds professorial appointments at Melbourne, Monash and the University of Queensland, is Executive Director of Obesity Australia, consults to major pharmaceutical companies and serves on the Board of the Garnett Passe and Rodney Williams Medical Research Foundation and the Finkel Foundation.

The Hon. David Kemp

Director since Company incorporation on 25 November 2008. Member of the Investment and Governance Committee and the Public Policy Committee.

David Kemp is a Fellow with the Australia and New Zealand School of Government. He was Professor of Politics at Monash University 1979-1990, Member of the Federal Parliament for Goldstein (Victoria) 1990-2004, and a Commonwealth Government Minister from 1996 to 2004 holding portfolios including Education, Training, Youth Affairs, Employment,

Environment and Heritage. He has published several books and many articles on politics and policy, and currently writes on political history and current affairs.

Mr Marius Kloppers

Appointed Director on 24 February 2009, retired 10 May 2013.

Marius Kloppers was 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.

Mr Andrew Mackenzie

Appointed Director on 30 May 2013.

Mr Andrew Mackenzie has over 30 years' experience in oil and gas, petrochemicals and minerals. He joined BHP Billiton in November 2008 as Chief Executive Non-Ferrous and commenced as Chief Executive Officer in May 2013. Prior to BHP Billiton, Andrew worked at Rio Tinto, where he was Chief Executive of Diamonds and Minerals, and BP where he held a number of senior roles, including Group Vice President for Technology and Engineering, and Group Vice President for Chemicals. Andrew was also Treasurer and then Chairman of Demos from 1999-2007, and Non-executive Director of Centrica PLC from 2005-2013. Mr Mackenzie has a BSc (Geology) and a PhD (Chemistry) from the University of Bristol.

Terry Moran AC

Director since Company incorporation on 25 November 2008. Chairman of the Public Policy Committee.

Mr Terry Moran was appointed as Secretary, Department of the Prime Minister and Cabinet in February 2008 and retired September 2011. This followed more than seven years as Secretary of the Victorian Department of Premier and Cabinet. 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. Terry Moran holds a Bachelor of Arts (Hons) from La Trobe University.

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, she is a Professor in the Centre for Cultural Research at Griffith University and a Fellow of Academy of Humanities (FAHA). She chairs the Australian Film Television and Radio School and is also a Board member of the ABC.

Mr Peter Scanlon

Director since 15 February 2011. Member of the Audit Committee and Investment and Governance Committee.

Peter Scanlon is the Chairman of Taverners Group and the Scanlon Foundation. He has more than 30 years business experience across a wide range of private and public companies and is a former Chairman of the TAB and the Patrick Corporation and was an inaugural member of the AFL Commission. He is also Chairman of the Migration Council of Australia. Peter Scanlon holds a Bachelor of Commerce (Hons) from The University of Melbourne.

Ms Helen Silver

Director since Company incorporation on 25 November 2008.

Helen Silver is a former Secretary of Victoria's Department of Premier and Cabinet. In this capacity she led the Department, and the Victorian Public Service more generally, in advising and serving the Premier and Government of Victoria. Helen is a National Fellow of the Institute of Public Administration Australia (Victoria) and the Chair of the Australian and New Zealand School of Government. Helen holds a Bachelor of Economics (Hons) and a Master of Economics both from Monash University.

Ms Lucy Turnbull AO

Appointed Director on 29 November 2012.

Lucy Turnbull is an urbanist, businesswoman and philanthropist with longstanding interest in cities, and technological and social innovation. She chairs the Committee for Sydney and is Chairman of Prima BioMed Limited, an ASX- listed biomedical company undertaking clinical development for an immuno-therapeutic cancer treatment. She is a director of Sealink Travel Group Limited. She was the first female Lord Mayor of the City of Sydney from 2003-4. In 2011 she became an Officer of the Order of Australia for distinguished service to the community, local government and business. In 2012 she was awarded an honorary Doctorate of Business by the University of NSW.

**Statement of Comprehensive Income
For the Year Ended 30 June 2013**

	Notes	2013 \$'000	2012 \$'000
Operating Revenue			
Interest and Investment Income (Expenses)	3	6,968	(583)
Endowment Funds and Donations	3	200	200
Other Income	4	1,443	1,336
Total Operating Revenue		8,611	953
Operating Expenses			
Employee Expenses	5	3,876	3,043
Audit Fees	19	7	7
Other Expenses	5	891	1,005
Total Operating Expenses		4,774	4,055
Profit (Loss) before Tax		3,837	(3,102)
Income Tax Expense		-	-
Profit (Loss) for the Year		3,837	(3,102)
Other Comprehensive Income		-	-
Total Comprehensive Income		3,837	(3,102)

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 32.

**Statement of Financial Position
As at 30 June 2013**

	Notes	2013 \$'000	2012 \$'000
Current Assets			
Cash and Cash Equivalents	6	58	311
Trade and Other Receivables	7	686	968
Short-term Investments	8	650	1,600
Total Current Assets		1,394	2,879
Non-current Assets			
Investments	9	36,128	30,476
Property, Plant and Equipment	10	9	19
Total Non-current Assets		36,137	30,495
Total Assets		37,531	33,374
Current Liabilities			
Trade and Other Payables	11	710	720
Income Received in Advance		238	-
Employee Entitlements	12	178	109
Total Current Liabilities		1,126	829
Non-current Liabilities			
Employee Entitlements	12	57	34
Total Non-current Liabilities		57	34
Total Liabilities		1,183	863
Net Assets		36,348	32,511
Equity			
Retained Profits	13	36,348	32,511
Total Equity		36,348	32,511

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 32.

Statement of Changes in Equity
As at 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Retained Surplus			
Opening Balance		32,511	35,613
Profit (Loss) for the Year	13	3,837	(3,102)
Closing Balance		36,348	32,511
Total Equity		36,348	32,511

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 32.

**Statement of Cash Flows
For the Year Ended 30 June 2013**

	Notes	2013 \$'000	2012 \$'000
Cash Flows from Operating Activities			
Cash Receipts from Donations, Endowments and Other Income		1,392	1,398
Interest and Investment Income Received		2,227	2,068
Cash Payments in the Course of Operations		(4,323)	(3,799)
Net Cash Provided by (Used In) Operating Activities	14	(704)	(333)
Cash Flows from Investing Activities			
Sales of Investments		10,225	11,543
Purchases of Investments		(9,774)	(13,331)
Payments for Property, Plant and Equipment		-	(5)
Net Cash From (Used In) Investing Activities		451	(1,793)
Net Increase (Decrease) in Cash and Cash Equivalents		(253)	(2,126)
Cash and Cash Equivalents at Beginning of the Year		311	2,437
Cash and Cash Equivalents at the End of the Year	6	58	311

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 32.

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.

Grattan Institute was incorporated under the Corporations Act 2001 on 25 November 2008 and is a not-for-profit Company limited by guarantee.

A description of the nature of the operations of the Company is set out in the Directors' Report.

(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 23 October 2013.

(c) Basis of preparation

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 is in conformity with Australian Accounting Standards and International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB). These require 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 results 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) Functional and Presentation Currency

The Financial Report is 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 year ended 30 June 2013.

(a) Cash and Cash Equivalents

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

(b) Receivables

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.

(c) Financial Instruments

Non-derivative Financial Assets

Grattan Institute has the following non-derivative financial assets: financial assets at fair value through profit or loss, and receivables.

Financial Assets at Fair Value Through Profit or Loss

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

Financial assets designated at fair value through profit or loss comprise investments in equity and debt securities.

A financial instrument is recognised if Grattan Institute becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Non-derivative Financial Liabilities

Grattan Institute has the following non-derivative financial liabilities: trade and other payables.

Payables are initially recognised at fair value and then subsequently carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the

Annual Financial Report For the Year Ended 30 June 2013

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. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(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 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.

	2013	2012
Plant and Equipment	3 Years	3 Years
Furniture and Fittings	10 Years	10 Years
Leasehold Improvements	10 Years	10 Years

(f) 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 flows.

(g) Employee Benefits

Liabilities for salaries and annual 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 the present value of expected future payments to be made resulting from services provided and are classified as non-current liabilities. Liabilities for long service leave entitlements that are not expected to be paid or settled within twelve months are discounted using currently prevailing government bond rates with similar maturity terms.

(h) 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 cost 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 cost 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 2012-13 was \$340,000.

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 or Losses on Investments

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

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(i) Expenses

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

(j) 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 the Australian Taxation Office.

(k) 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 Grattan 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 Grattan 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.

(l) New Standards and Interpretations Not Yet Adopted.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing the financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments, which becomes mandatory for the Company's 2016 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not yet been determined.

Note 3 Endowment Income

	Notes	2013 \$'000	2012 \$'000
Interest and Investment Income (Expenses)			
Interest		318	292
Dividends		1,619	1,825
Realised Gains (Losses) from the Sale of Investments		674	(195)
Movement in the Market Value of Investments		4,478	(2,386)
Less: Investment Management Fees		(121)	(119)
Total Interest and Investment Income (Expenses)	15	6,968	(583)
Endowment Funds and Donations			
National Australia Bank Donation	15	200	200
Total Endowment Funds and Donations		200	200
Total Endowment Income (Expenses)		7,168	(383)

Note 4 Other Income

	Notes	2013 \$'000	2012 \$'000
In-kind Services Provided by the University of Melbourne		340	340
Affiliate Fees and Program Support		883	793
Other Revenue		220	203
Total Other Income		1,443	1,336

Note 5 Operating Expenses

	Notes	2013 \$'000	2012 \$'000
Employee Expenses		3,876	3,043
Audit Fees	19	7	7
<i>Other Expenses</i>			
Event Expenses		33	95
Insurance		16	27
Impairment of Receivables		20	-
Travel Expenses		137	163
Other Expenses		345	380
Expenses for the Provision of In-kind Services Provided by the University of Melbourne		340	340
Total Other Expenses		891	1,005
Total Expenses		4,774	4,055

Note 6 Cash and Cash Equivalents

	Notes	2013 \$'000	2012 \$'000
Bank Balances		58	311
Total Bank Balances		58	311

Cash at the end of the year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:

Cash and Cash Equivalents		58	311
Total Cash		58	311

Note 7 Trade and Other Receivables

	Notes	2013 \$'000	2012 \$'000
Trade Receivables		181	79
Other Receivables		505	889
Total Trade and Other Receivables		686	968

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

Note 8 Short-term Investments

	Notes	2013 \$'000	2012 \$'000
Term Deposits		650	1,600
Total Short-term Investments		650	1,600

Note 9 Investments

	Notes	2013 \$'000	2012 \$'000
Non-current Financial Assets at Fair Value Through Profit and Loss			
Fixed Term Bonds, Preference Shares and Commercial Notes		6,525	5,962
Listed Australian Equities		22,100	18,923
Listed Foreign Equities		7,503	5,591
Total Non-current Investments		36,128	30,476

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

Note 10 Property, Plant and Equipment

	Notes	2013 \$'000	2012 \$'000
Leasehold Improvements			
At cost		1	1
Less accumulated amortisation		-	-
Total Leasehold Improvements		1	1
Plant and Equipment			
At cost		39	39
Less accumulated depreciation		(38)	(29)
Total Plant and Equipment		1	10
Furniture and Fittings			
At cost		9	9
Less accumulated depreciation		(2)	(1)
Total Furniture and Fittings		7	8
Total Property, Plant and Equipment		9	19
Movements in Carrying Amounts			
Leasehold Improvements			
Balance at beginning of the year		1	1
Additions		-	-
Amortisation expense		-	-
Carrying amount at end of the year		1	1
Plant and Equipment			
Balance at beginning of the year		10	20
Additions		-	2
Depreciation expense		(9)	(12)
Carrying amount at end of the year		1	10
Furniture and Fittings			
Balance at beginning of the year		8	6
Additions		-	3
Depreciation expense		(1)	(1)
Carrying amount at end of the year		7	8
Total Property, Plant and Equipment		9	19

Note 11 Trade and Other Payables

	Notes	2013 \$'000	2012 \$'000
Trade Payables		506	501
Other Payables and Accruals		204	219
Total Trade and Other Payables		710	720

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

Note 12 Employee Entitlements

	Notes	2013 \$'000	2012 \$'000
Current			
Annual Leave		178	109
Total Current Employee Entitlements		178	109
Non-current			
Long Service Leave		57	34
Total Non-current Employee Entitlements		57	34
Total Employee Entitlements		235	143

Note 13 Retained Surplus

	Notes	2013 \$'000	2012 \$'000
Retained Surplus at the Beginning of the Year		32,511	35,613
Profit (Loss) for the Year		3,837	(3,102)
Retained Surplus at the End of the Year		36,348	32,511
Reconciliation of Retained Surpluses			
Retained Profits from Endowment Funds	15	36,348	32,511
Total Retained Surplus		36,348	32,511

Note 14 Reconciliation of Operating Result with Cash Flow from Operations

	Notes	2013 \$'000	2012 \$'000
Surplus (Deficit) for the year		3,837	(3,102)
Depreciation Charged in Accounts		10	12
(Increase) Decrease in the Market Value of Investments Both Held at the End of the Finance Year		(4,478)	2,386
(Profit) Loss on Sale of Investments		(674)	195
Increase (Decrease) in Payables		228	(133)
Increase (Decrease) in Employee Benefits		92	37
(Increase) Decrease in Receivables		281	272
Net Cash Flow from Operating Activities		(704)	(333)

Note 15 Endowment Funds

	Notes	2013 \$'000	2012 \$'000
Commonwealth Fund			
Opening balance at beginning of the year		14,122	15,584
Contributions during the year		-	-
Fund income for the year		3,095	(278)
Less: Contributions made to operating costs		(1,447)	(1,184)
Closing balance at end of the year		15,770	14,122
General Fund			
Opening balance at beginning of the year		13,887	15,302
Contributions during the year		-	-
Fund income for the year		3,291	(253)
Less: Contributions made to operating costs		(1,423)	(1,162)
Closing balance at end of the year		15,755	13,887
Public Fund			
Opening balance at beginning of the year		4,502	4,728
Contributions during the year		200	200
Fund income for the year		582	(67)
Less: Contributions made to operating costs		(461)	(359)
Closing balance at end of the year		4,823	4,502
Total Endowment Funds		36,348	32,511
Represented in Equity by:			
Retained Surplus		36,348	32,511

Note 16 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

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

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about Grattan Institute's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. 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 Grattan 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 Grattan Institute's activities. Grattan 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 Grattan 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 Grattan Institute if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Grattan Institute's cash and cash equivalents, receivables from customers and investment securities.

Investments

Grattan 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 Grattan Institute will not be able to meet its financial obligations as they fall due. Grattan 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 Grattan Institute's reputation.

Management monitor cash flow requirements on a daily basis to optimise its cash return on investments. Typically Grattan Institute ensures that it has sufficient cash and short term deposits 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

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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 Grattan 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.

Grattan 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 all 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 17 Financial Instruments

Credit Risk

Exposure to Credit Risk

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

	Notes	2013 \$'000	2012 \$'000
Carrying Amount			
Cash and Cash Equivalents	6	58	311
Receivables	7	686	968
Term Deposits	8	650	1,600
Fixed Term Bonds, Preference Shares and Commercial Notes	9	6,525	5,962
Listed Australian Equities	9	22,100	18,923
Listed Foreign Equities	9	7,503	5,591
Total Carrying Amount		37,522	33,355

Impairment Loss

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

	Notes	2013 \$'000	2012 \$'000
Carrying Amount			
Not past due		568	968
Past due 0-30 days		-	-
Past due 31-60 days		55	-
More than 60 days past due		63	-
Less Allowance for doubtful debts		-	-
Total Carrying Amount	7	686	968

An impairment loss of \$20,000 has been recognised on receivables. The allowance account in respect of trade receivables is used to record impairment losses unless Grattan 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.

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Liquidity Risk

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

30 June 2013	Carrying Amount	Contractual Cash Flows	6 Months of Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Trade Payables	506	506	506	-	-	-	-
Other Payables and Accruals	204	204	204	-	-	-	-
	710	710	710	-	-	-	-

30 June 2012	Carrying Amount	Contractual Cash Flows	6 Months of Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Trade Payables	501	501	501	-	-	-	-
Other Payables and Accruals	219	219	219	-	-	-	-
	720	720	720	-	-	-	-

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Interest Rate Risk

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

	Weighted Average Effective Interest Rate	Variable Interest Rate	Fixed Interest Rate	Non-interest Bearing
	2013 %	2013 \$'000s	2013 \$'000s	2013 \$'000s
Financial Assets:				
Cash and Cash Equivalents	2.6%	58	-	-
Term Deposits	3.9%	-	650	-
Financial Instruments	6.85%	3,084	3,441	-
Receivables	-	-	-	686
Total Financial Assets	5.98%	3,142	4,091	686
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	710
Total Financial Liabilities	-	-	-	710
	2012 %	2012 \$'000s	2012 \$'000s	2012 \$'000s
Financial Assets:				
Cash and Cash Equivalents	3.75%	311	-	-
Term Deposits	4.91%	-	1,600	-
Financial Instruments	7.70%	2,950	3,012	-
Receivables	-	-	-	968
Total Financial Assets	6.54%	3,261	4,612	968
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	720
Total Financial Liabilities	-	-	-	720

Cash flow sensitivity analysis for variable rate and fixed 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 2012.

	Profit or Loss		Equity	
	100bp Increase \$'000s	100bp Decrease \$'000s	100bp Increase \$'000s	100bp Decrease \$'000s
30 June 2013				
Variable Rate Instruments	31	(31)	31	(31)
Fixed Rate Instruments	(413)	544	(413)	544
	(382)	513	(382)	513
30 June 2012				
Variable Rate Instruments	29	(29)	29	(29)
Fixed Rate Instruments	(356)	466	(356)	466
	(327)	437	(327)	437

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 2012.

	Profit or Loss		Equity	
	1% Increase \$'000s	1% Decrease \$'000s	1% Increase \$'000s	1% Decrease \$'000s
30 June 2013				
Investments	360	(360)	360	(360)
30 June 2012				
Investments	305	(305)	305	(305)

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 2013				
Financial assets designated at fair value through profit and loss	36,128	-	-	36,128
Total Financial Assets	36,128	-	-	36,128
30 June 2012				
Financial assets designated at fair value through profit and loss	30,476	-	-	30,476
Total Financial Assets	30,476	-	-	30,476

Note 18 Contingent Liabilities

Grattan Institute has entered into an agreement with the Commonwealth of Australia in relation to the conditions attached to the Commonwealth's endowment to Grattan Institute. One of the conditions of this agreement gives the Commonwealth a floating charge over the assets of Grattan Institute. This floating charge would crystallise if Grattan 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 19 Auditor's Remuneration

	Notes	2013 \$	2012 \$
KPMG Australia			
Audit of financial reports		7,300	7,300
Total Auditor's Remuneration		7,300	7,300

Note 20 Segment Reporting

Grattan Institute is a not-for-profit organisation whose principle activity is public policy research. The Company operates within a single business segment.

Note 21 Key Management Personnel

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

	2013 \$'000	2012 \$'000
Current employee benefits	495	484
Post-employment benefits	-	-
Total Benefits	495	484

Note 22 Related Party Transactions

There were no related party transactions during the financial year.

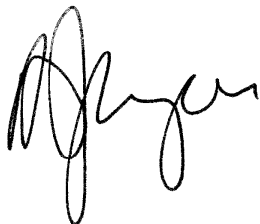
**Annual Financial Report
For the Year Ended 30 June 2013**

Directors' Declaration

In the opinion of the Directors of Grattan Institute:

- (a) the Financial Statements and Notes, set out on pages 11 to 32, 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 2013 and its performance, as represented by the results of its operations and its cash flows, for the year 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 23 day of October 2013.



AJ Myers
Director



Peter Scanlon
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 (the Company), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 22 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(c), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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 of the financial report that gives a true and fair view 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, a true and fair 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:

- (a) the financial report of Grattan Institute is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(c).

KPMG

KPMG

Paul McDonald
Partner

Melbourne

23 October 2013