



Annual Financial Report
For The Year Ended 30 June 2016

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Corporate Information

Directors	The Hon. Alex Chernov AC QC (Chairman) Ms Carol Austin Prof Glyn Davis AC Ms Geraldine Doogue Mr Chris Eccles Prof John Funder AO The Hon. Dr David Kemp Mr Andrew Mackenzie Mr Peter Scanlon Ms Lucy Turnbull AO Dr Ian Watt
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 Year Ended 30 June 2016

Your directors present this report to the members of Grattan Institute (the "Company") for the financial year ended 30 June 2016.

Directors

The names of each person who has been a director over the financial year and until the date of this report are listed in the below table. The table also details the number of directors' meetings held (including meetings of Board committees) and number of meetings attended by each of the Directors of the Company during the 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 Alex Chernov	Appointed 15 Feb 2016	2	2	-	-	1	1	1	1
Mr Allan Myers	Retired 15 Feb 2016	3	3	1	1	3	3	-	-
Ms Patricia Cross	Retired 23 Nov 2015	2	1	-	-	2	-	-	-
Ms Carol Austin	Appointed 4 April 2016	1	1	-	-	-	-	-	-
Prof Glyn Davis	Full Year	4	3	-	-	-	-	-	-
Ms Geraldine Doogue	Full year	4	4	-	-	-	-	-	-
Mr Chris Eccles	Full Year	4	2	-	-	-	-	-	-
Prof John Funder	Full Year	4	4	-	-	4	4	4	4
Prof David Kemp	Full Year	4	3	-	-	4	4	4	4
Mr Andrew Mackenzie	Full Year	4	1	-	-	-	-	-	-
Mr Peter Scanlon	Full Year	4	4	1	-	4	4	-	-
Ms Lucy Turnbull	Full Year	4	1	-	-	-	-	2	1
Mr Ian Watt	Full Year	4	4	-	-	-	-	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 pages 7 to 9 of this report.

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

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.

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 Cities, Energy, Health, Higher Education, Productivity Growth, and School 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; and
- 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 year was a loss of \$4,201,000 (2015: profit \$1,070,000). The Company is exempt from income tax.

Comparative operating results from the last six years are set below. The analysis is provided separately for endowment income and operating results.

	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000
Endowment Income						
Interests and Dividends	1,895	2,117	1,937	2,136	2,913	2,797
Realised Gains (Losses) from the Sale of Investments	1,959	(195)	674	389	(19)	(473)
Movement in the Market Value of Investments	(458)	(2,386)	4,478	3,745	1,999	(2,211)
Less: Investment Management Fees	(115)	(119)	(121)	(139)	(142)	(140)
Total Interest and Investment Income	3,281	(583)	6,968	6,131	4,751	(27)
<i>Additions to the Endowment</i>						
BHP Billiton Limited	2,000	-	-	-	-	-
National Australia Bank	200	200	200	-	-	-
Other Donations	-	-	-	73	183	290
Total Additions to the Endowment	2,200	200	200	73	183	290
Total Endowment Income	5,481	(383)	7,168	6,204	4,934	263
Operating Result						
Other Income	511	1,336	1,423	1,766	1,161	806
Operating Expenditure	3,259	4,055	4,754	4,833	5,025	5,270
Operating Profit (Loss)	(2,748)	(2,719)	(3,331)	(3,067)	(3,864)	(4,464)
Total Entity Profit (Loss)	2,733	(3,102)	3,837	3,137	1,070	(4,201)

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 10 and forms part of the Directors' report for the year ended 30 June 2016.

Rounding

Pursuant to the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 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 \$12,625 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 by such an officer or auditor.

Directors' Qualifications, Experience and Special Responsibilities

The Hon. Alex Chernov AC QC

Chairman since 15 February 2016. Chairman of the Audit Committee, member Investment and Governance Committee and Public Policy Committee.

Mr Chernov practised as a barrister for over 30 years in commercial law and equity and was appointed Queen's Counsel in 1980. He has also taught law, co-authored a legal text, was involved in law reform, acted as company inspector and chaired a number of tribunals. He became Chairman of the Victorian Bar, Vice President of the Australian Bar Association and, later, President of the Law Council of Australia and Vice President of LawAsia.

In 1997 Mr Chernov was appointed to the Trial Division of the Supreme Court of Victoria and, in the following year, to its Court of Appeal. In 2009 he was elected as Chancellor of The University of Melbourne. He was appointed an Officer of the Order of Australia in 2008 and a Companion of the Order in 2012. Mr Chernov was sworn in as Victoria's 28th Governor in April 2011 and, in September, 2014 as deputy to the Governor-General. Mr Chernov is a member of the Board of The Ian Potter Foundation.

He holds degrees from The University of Melbourne B.Com, LL.B (Hons) and Honorary LL.D from both The University of Melbourne and Monash University.

Mr Allan Myers AO QC

Chairman since Company incorporation on 25 November 2008. Retired 15 February 2016.

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. For 35 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.

Mr Myers holds degrees from The University of Melbourne (BA, LLB (Hons)) and Oxford University (BCL). He holds the honorary degrees of Doctor of the University from the Australian Catholic University (DUniv (ACU)), conferred in May 2004, and Doctor of Laws from the University of Melbourne (Hon LL.D. (Melb)), conferred in March 2012.

Ms Carol Austin

Director appointed 4 April 2016.

Ms Austin is a member of the board of HSBC Bank Australia and of the Advisory Board of the Australian Office of Financial Management. Previously she was Investment Services Director for Contango Asset Management. She has held senior positions with Rothschild Australia Asset Management, Commonwealth Funds Management, BHP Billiton and the Reserve Bank of Australia. Ms Austin holds B.Sc from Monash University, a B.Ec (Hons) from the Australian National University and Dip Ed from the University of Papua New Guinea.

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 past Chair of Universities Australia. Prof Glyn Davis holds the following degrees BA (Hons) (UNSW), PhD (ANU), DUni (Griffith).

Ms Geraldine Doogue AO

Director appointed 24 February 2014.

Ms Geraldine Doogue is an award winning journalist and broadcaster. She is currently the presenter of the ABC Radio National's Saturday Extra program and "Compass" on ABC1. Ms Doogue is a member of the Telstra Foundation Board, the Sydney Youth Orchestra Board and Patron of the Family Action Centre at The University of Newcastle. Ms Doogue holds a Bachelor of Arts from The University of Western Australia. She also holds a Honorary Doctorate of Letters from The University of Western Australia, Macquarie University and The University of Newcastle.

Mr Chris Eccles

Director appointed 19 January 2015.

Mr Chris Eccles was appointed Secretary of DPC in December 2014. He was previously Director-General of the New South Wales Department of Premier and Cabinet from 2011 to 2014, and Chief Executive of the South Australian Department of the Premier and Cabinet from 2009 to 2011. Mr Eccles holds a Bachelor of Arts and a Bachelor of Laws from the Australian National University.

Prof John Funder AC

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

John Funder AC 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 and serves on the Advisory Board of the Institute for Molecular Bioscience (UQ), the Harry Perkins Institute (WA), the Freemasons Men's Health Centre (SA), the National Institute for Complementary Medicine (NSW), the Garnett Passe and Rodney Williams Medical Research Foundation and the Finkel Foundation. Prof Funder holds the following degrees BA, MD and PhD from the University of Melbourne, LLD (Hon, Monash), DMedSci (Hon, Melbourne) and MD (Hon, Sydney).

The Hon. David Kemp

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

David Kemp is a Fellow of the Australia and New Zealand School of Government, Chairman of the Board of Old Parliament House and Museum of Australian Democracy, Chair of the Australian Heritage Council, and Chairman of Scotch College Council. 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 was President of the Liberal Party of Australia (Victorian Division) 2007-2011. He has published several books and many articles on politics and policy, and currently writes on political history and current affairs. The Hon. David Kemp holds the following degrees B.A.(Hons.), LL.B. (Melb), Ph.D. (Yale), and has an Hon. Doctorate (University of the Sunshine Coast).

Ms Patricia Cross

Director since Company incorporation on 25 November 2008. Retired 23 November 2015.

Patricia Cross is a non-executive Director of Macquarie Bank Limited, Macquarie Group Limited and Aviva PLC. Ms. Cross holds a Bachelor of Science (Economics) with Honours from Georgetown University in Washington, D.C.

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. Mr Mackenzie was a Member, Treasurer and Chairman of Demos, a U.K. Think Tank from 1997 to 2007. Mr Mackenzie has a BSc (Geology) and a PhD (Chemistry) from the University of Bristol. He also holds a honorary Doctorates of Science at Bristol, Curtin Universities and Kings College, London. On 1 May 2014 he was elected a Fellow of the Royal Society of London. On 19 May 2016 he was appointed President of the German-Australian Chamber of Commerce.

Mr Peter Scanlon AO

Director since 15 February 2011. Chairman of the Investment and Governance Committee and member of the Audit 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 Lucy Turnbull AO

Director appointed 29 November 2012. Chairman of Public Policy Committee.

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.

Dr Ian Watt

Director appointed 24 December 2013.

Dr Watt was Secretary of the Department of the Prime Minister and Cabinet from 2011 to 2014. Previously, Dr Watt was Secretary of the Department of Defence from 2009 to 2011. Dr Watt completed the Advanced Management Program at the Harvard Business School in 1999. Dr Watt is the former chair of the OECD's Working Party of Senior Budget Officials, and also the former chair of the OECD Asian Senior Budget Officials. Dr Watt is a National Fellow of the Institute of Public Administration Australia.

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



The Hon Alex Chernov AC QC
Melbourne, 18 October 2016



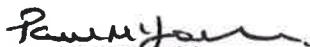
Auditor's Independence Declaration under subdivision 60-C section 60-40 of Australian Charities and Not-for-profits Commission Act 2012

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 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Australian Charities and Not-for-profits Commission Act 2012 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

18 October 2016

**Statement of Comprehensive Income
For the Year Ended 30 June 2016**

	Notes	2016 \$'000	2015 \$'000
Operating Revenue			
Interest and Investment Income (Expenses)	3	(27)	4,751
Endowment Funds and Donations	3	290	183
Other Income	4	806	1,161
Total Operating Revenue		1,069	6,095
Operating Expenses			
Employee Expenses	5	4,389	4,212
Audit Fees	5, 18	8	8
Other Expenses	5	873	805
Total Operating Expenses		5,270	5,025
Profit (Loss) before Tax		(4,201)	1,070
Income Tax Expense	2(j)	-	-
Profit (Loss) for the Year		(4,201)	1,070
Other Comprehensive Income		-	-
Total Comprehensive Income		(4,201)	1,070

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 31.

**Statement of Financial Position
As at 30 June 2016**

	Notes	2016 \$'000	2015 \$'000
Current Assets			
Cash and Cash Equivalents	6	1,669	496
Trade and Other Receivables	7	2,123	2,385
Short-term Investments	8	-	1,000
Total Current Assets		3,792	3,881
Non-current Assets			
Investments	9	34,157	38,220
Property, Plant and Equipment	10	12	16
Total Non-current Assets		34,169	38,236
Total Assets		37,961	42,117
Current Liabilities			
Trade and Other Payables	11	1,120	1,167
Employee Entitlements	12	357	268
Total Current Liabilities		1,477	1,435
Non-current Liabilities			
Employee Entitlements	12	130	127
Total Non-current Liabilities		130	127
Total Liabilities		1,607	1,562
Net Assets		36,354	40,555
Equity			
Retained Profits	13	36,354	40,555
Total Equity		36,354	40,555

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 31.

**Statement of Changes in Equity
For the year ended 30 June 2016**

	Notes	2016 \$'000	2015 \$'000
Retained Profits			
Opening Balance		40,555	39,485
Profit (Loss) for the year	13	(4,201)	1,070
Closing Balance		36,354	40,555
Total Equity		36,354	40,555

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 31.

**Statement of Cash Flows
For the Year Ended 30 June 2016**

	Notes	2016 \$'000	2015 \$'000
Cash Flows from Operating Activities			
Cash Receipts from Donations, Endowments and Other Income		730	742
Interest and Investment Income Received		2,953	1,400
Cash Payments in the Course of Operations		(4,889)	(4,417)
Net Cash Provided By (Used In) Operating Activities	14	(1,206)	(2,275)
Cash Flows from Investing Activities			
Sales of Investments		17,085	5,200
Purchases of Investments		(14,706)	(3,804)
Payments for Property, Plant and Equipment		-	(10)
Net Cash From (Used In) Investing Activities		2,379	1,386
Net Increase (Decrease) in Cash and Cash Equivalents		1,173	(889)
Cash and Cash Equivalents at Beginning of the Year		496	1,385
Cash and Cash Equivalents at the End of the Year	6	1,669	496

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 31.

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.

(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), the Corporations Act 2001 and the Australian Charities and Not-For-Profits Commission Act 2012 and Regulations.

The financial statements were approved by the Board of Directors on 18 October 2016.

(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 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 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 2016/191 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 2016.

(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 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

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.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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

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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 cost value and 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. The Company derecognises a financial liability when its contractual obligations are discharged, 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.

	2016	2015
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 except where it is expected to make a payment with the following twelve months. In this case, the expected amount of the payment is classified as a current liability.

Liabilities for long service leave entitlements that are not expected to be paid or settled within twelve months are discounted using current corporate 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 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 cost 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 2015-16 was \$368,000 (2014-15 \$359,000).

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.

Annual Financial Report For the Year Ended 30 June 2016

(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. The company holds deductible gift recipient status.

(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 2016, 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 2018 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.

(m) Application of New and Revised Accounting Standards and Interpretations

The Company has adopted all of the new and revised standards and interpretations issued by the AASB that are relevant to its operations and effective for the current year. There were no new or revised standards and amendments thereof, and interpretations effective for the current year that were relevant to the Company.

The application of the new and revised standards has had no material impact on the disclosures or on the amounts recognised in the current or prior period, and are not likely to affect future periods.

Note 3 Endowment Income

	Notes	2016 \$'000	2015 \$'000
Interest and Investment Income / (Expenses)			
Interest and Dividends		2,797	2,913
Realised Gains (Losses) from the Sale of Investments		(473)	(19)
Movement in the Market Value of Investments		(2,211)	1,999
Less: Investment Management Fees		(140)	(142)
Total Interest and Investment Income / (Expenses)		(27)	4,751
Endowment Funds and Donations			
Donations		290	183
Total Endowment Funds and Donations	15	290	183
Total Endowment Income / (Expenses)		263	4,934

Note 4 Other Income

	Notes	2016 \$'000	2015 \$'000
In-kind Services Provided by the University of Melbourne		368	359
Affiliate Fees and Program Support		322	650
Other Income		116	152
Total Other Income		806	1,161

Note 5 Operating Expenses

	Notes	2016 \$'000	2015 \$'000
Employee Expenses		4,389	4,212
Audit Fees	18	8	8
<i>Other Expenses</i>			
Event Expenses		46	46
Insurance		18	17
Travel Expenses		125	155
Other Expenses		316	228
Expenses for the Provision of In-kind Services Provided by the University of Melbourne		368	359
Total Other Expenses		873	805
Total Expenses		5,270	5,025

Note 6 Cash and Cash Equivalents

	Notes	2016 \$'000	2015 \$'000
Bank Balances		1,669	496
Total Cash and Cash Equivalents		1,669	496

Note 7 Trade and Other Receivables

	Notes	2016 \$'000	2015 \$'000
Trade Receivables		297	310
Other receivables		1,826	2,075
Total Trade and Other Receivables		2,123	2,385

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	2016 \$'000	2015 \$'000
Term Deposits		-	1,000
Total Short-term Investments		-	1,000

Note 9 Investments

	Notes	2016 \$'000	2015 \$'000
Non-current Financial Assets at Fair Value Through Profit and Loss			
Fixed Term Bonds, Preference Shares and Commercial Notes		3,607	6,124
Listed Australian Equities		23,284	23,814
Listed Foreign Equities		7,266	8,282
Total Non-current Investments		34,157	38,220

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

All investments are categorised as Level 1 within the fair value hierarchy and are valued using market observable rates, being quoted ASX stock prices for listed Australian instruments or respective stock exchange quoted prices for Foreign listed instruments. Refer to Note 17 for further information regarding financial instruments.

Note 10 Property, Plant and Equipment

Notes	2016 \$'000	2015 \$'000
Leasehold Improvements		
At cost	1	1
Less accumulated amortisation	-	-
Total Leasehold Improvements	1	1
Plant and Equipment		
At cost	7	48
Less accumulated depreciation	(3)	(41)
Total Plant and Equipment	4	7
Furniture and Fittings		
At cost	8	12
Less accumulated depreciation	(1)	(4)
Total Furniture and Fittings	7	8
Total Property, Plant and Equipment	12	16

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	7	2
Additions	-	7
Depreciation expense	(3)	(2)
Carrying amount at end of the year	4	7
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	12	16

Note 11 Trade and Other Payables

	Notes	2016 \$'000	2015 \$'000
Trade Payables		38	76
Other Payables and Accruals		1,082	1,091
Total Trade and Other Payables		1,120	1,167

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

Note 12 Employee Entitlements

	Notes	2016 \$'000	2015 \$'000
Current			
Annual Leave		260	217
Long Service Leave		97	51
Total Current Employee Entitlements		357	268
Non-current			
Long Service Leave		130	127
Total Non-current Employee Entitlements		130	127
Total Employee Entitlements		487	395

Note 13 Retained Profits

	Notes	2016 \$'000	2015 \$'000
Retained Profits at the Beginning of the Year		40,555	39,485
Profit (Loss) for the Year		(4,201)	1,070
Retained Profits at the End of the Year		36,354	40,555
Reconciliation of Retained Profits			
Retained Profits from Endowment Funds	15	36,354	40,555
Total Retained Profits		36,354	40,555

Note 14 Reconciliation of Operating Result with Cash Flow from Operations

	Notes	2016 \$'000	2015 \$'000
Profit (Loss) for the year		(4,201)	1,070
Depreciation Charge in Accounts		4	3
(Increase) / Decrease in the Market Value of Investments Both Held at the End of the Finance Year and Sold During the Year		2,684	(1,980)
Increase / (Decrease) in Payables		(47)	120
Increase / (Decrease) in Employee Benefits		92	125
(Increase) / Decrease in Receivables		262	(1,613)
Net Cash Flow from Operating Activities		(1,206)	(2,275)

Note 15 Endowment Funds

	Notes	2016 \$'000	2015 \$'000
Commonwealth Fund			
Opening balance at beginning of the year		17,664	17,163
Contributions during the year		-	-
Fund income for the year		(35)	2,180
Less: Contributions made to operating costs		(1,944)	(1,679)
Closing balance at end of the year		15,685	17,664
General Fund			
Opening balance at beginning of the year		17,669	17,158
Contributions during the year		-	-
Fund income for the year		(29)	2,190
Less: Contributions made to operating costs		(1,944)	(1,679)
Closing balance at end of the year		15,696	17,669
Public Fund			
Opening balance at beginning of the year		5,222	5,164
Contributions during the year		290	183
Fund income for the year		36	381
Less: Contributions made to operating costs		(575)	(506)
Closing balance at end of the year		4,973	5,222
Total Endowment Funds		36,354	40,555
Represented in Equity by:			
Retained Profits		36,354	40,555

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 Grattan 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 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;

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although 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 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.

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.

In this context, the primary goal of Grattan Institute's investment strategy is to maximise investment returns to an acceptable level of risk consistent with the agreed investment policy. All investments are designated at fair value through profit or loss, and 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	2016 \$'000	2015 \$'000
Carrying Amount			
Cash and Cash Equivalents	6	1,669	496
Receivables	7	2,123	2,385
Term Deposits	8	-	1,000
Fixed Term Bonds, Preference Shares and Commercial Notes	9	3,607	6,124
Listed Australian Equities	9	23,284	23,814
Listed Foreign Equities	9	7,266	8,282
Total Carrying Amount		37,949	42,101

Impairment Loss

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

	Notes	2016 \$'000	2015 \$'000
Carrying Amount			
Not past due		2,024	2,319
Past due 0-30 days		4	66
Past due 31-60 days		18	-
More than 60 days past due		77	-
Less Allowance for doubtful debts		-	-
Total Carrying Amount	7	2,123	2,385

There was no impairment loss 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.

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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 2016	Carrying Amount	Contractual Cash Flows	6 Months of Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Trade Payables	38	38	38	-	-	-	-
Other Payables and Accruals	1,082	1,082	1,082	-	-	-	-
	1,120	1,120	1,120	-	-	-	-

30 June 2015	Carrying Amount	Contractual Cash Flows	6 Months of Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Trade Payables	76	76	76	-	-	-	-
Other Payables and Accruals	1,091	1,091	1,091	-	-	-	-
	1,167	1,167	1,167	-	-	-	-

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
	2016 %	2016 \$'000s	2016 \$'000s	2016 \$'000s
Financial Assets:				
Cash and Cash Equivalents	1.89%	1,669	-	-
Term Deposits	-	-	-	-
Financial Instruments	5.28%	889	2,718	-
Receivables	-	-	-	2,123
Total Financial Assets		2,558	2,718	2,123
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	1,120
Total Financial Liabilities		-	-	1,120
	2015 %	2015 \$'000s	2015 \$'000s	2015 \$'000s
Financial Assets:				
Cash and Cash Equivalents	2.15%	496	-	-
Term Deposits	2.87%	-	1,000	-
Financial Instruments	4.54%	2,076	4,048	-
Receivables	-	-	-	2,385
Total Financial Assets	3.68%	2,572	5,048	2,385
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	1,167
Total Financial Liabilities		-	-	1,167

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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 2015.

	Profit or Loss		Equity	
	100bp Increase \$'000s	100bp Decrease \$'000s	100bp Increase \$'000s	100bp Decrease \$'000s
30 June 2016				
Variable Rate Instruments	9	(9)	9	(9)
Fixed Rate Instruments	(405)	576	(405)	576
<hr/>				
30 June 2015				
Variable Rate Instruments	21	(21)	21	(21)
Fixed Rate Instruments	(697)	1,063	(697)	1,063
	(676)	1,042	(676)	1,042

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 2013.

	Profit or Loss		Equity	
	1% Increase \$'000s	1% Decrease \$'000s	1% Increase \$'000s	1% Decrease \$'000s
30 June 2016				
Investments	341	(341)	341	(341)
<hr/>				
30 June 2015				
Investments	385	(385)	385	(385)

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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 2016				
Financial assets designated at fair value through profit and loss	34,157	-	-	34,157
Total Financial Assets	34,157	-	-	34,157
30 June 2015				
Financial assets designated at fair value through profit and loss	38,220	-	-	38,220
Total Financial Assets	38,220	-	-	38,220

Note 18 Auditor's Remuneration

	Notes	2016 \$	2015 \$
KPMG Australia			
Audit and review of financial reports		8,000	7,750
Total Auditor's Remuneration		8,000	7,750

Note 19 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 20 Key Management Personnel

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

	2016 \$'000	2015 \$'000
Current employee benefits	540	522
Post-employment benefits	-	-
Total Benefits	540	522

Note 21 Related Party Transactions

There were no related party transactions during the financial year.

Note 22 Subsequent Events

Since the end of the year, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, that has significantly or may significantly affect the operations of Grattan Institute, the results of those operations or the state of affairs of Grattan Institute in subsequent years.

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 and the Australian Charities and Not-For-Profits Commission Act 2012, including:
 - (i) giving a true and fair view of the position of Grattan Institute at 30 June 2016 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), the Corporations Regulations 2001 and the Australian Charities and Not-For-Profits Commission Act 2012; 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 18 day of October 2016.



The Hon. Alex Chernov AC QC
Director



Peter Scanlon
Director



Independent audit 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 2016, and 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 of the Company.

This audit report has also been prepared for the members of the Company pursuant to the *Australian Charities and Not-for-profits Commission Act 2012* and the *Australian Charities and Not-for-profits Commission Regulation 2013* (ACNC).

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 ACNC. The Directors' responsibility also includes such internal control as the Directors determine necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of the 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 gives a true and fair view, in accordance with Australian Accounting Standards and the ACNC, 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 *Australian Charities and Not-for-profits Commission Act 2012*.

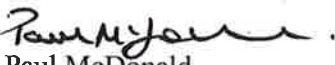


Auditor's opinion

In our opinion, the financial report of Grattan Institute is in accordance with the *Australian Charities and Not-for-profits Commission Act 2012*:

- (a) giving a true and fair view in all material respects of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Australian Charities and Not-for-profits Commission Regulation 2013*.


KPMG


Paul McDonald
Partner

Melbourne

18 October 2016