



Annual Financial Report
For The Year Ended 30 June 2017

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Corporate Information

Directors	The Hon. Alex Chernov AC QC (Chairman) Ms Carol Austin Prof Glyn Davis AC Ms Geraldine Doogue AO Mr Chris Eccles AO Prof John Funder AC The Hon. Dr David Kemp AC Mr Andrew Mackenzie Mr Peter Scanlon AO Ms Jillian Segal AO Dr Ian Watt AC
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 2017

Your directors present this report to the members of Grattan Institute (the "Company") for the financial year ended 30 June 2017.

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 Grattan Institute 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	Full year	5	5	1	1	4	4	4	4
Ms Carol Austin	Full Year	5	5	-	-	4	4	-	-
Prof Glyn Davis	Full Year	5	2	-	-	-	-	-	-
Prof Terry Nolan (as alternate for Prof Glyn Davis)	Appointed 16 May 2017	1	1	-	-	-	-	-	-
Ms Geraldine Doogue	Full year	5	3	-	-	-	-	-	-
Mr Chris Eccles	Full Year	5	3	-	-	-	-	-	-
Prof John Funder	Full Year	5	4	-	-	4	3	4	3
Prof David Kemp	Full Year	5	5	-	-	4	3	4	3
Mr Andrew Mackenzie	Full Year	5	1	-	-	-	-	-	-
Mr Geoffrey Healy (as alternate for Mr Andrew Mackenzie)	Appointed 22 Feb 2017	3	2	-	-	-	-	-	-
Mr Peter Scanlon	Full Year	5	4	1	1	4	4	-	-
Ms Jillian Segal	Appointed 22 Feb 2017	3	2	-	-	-	-	-	-
Ms Lucy Turnbull	Retired 1 Dec 2016	2	0	-	-	-	-	-	-
Mr Ian Watt	Full Year	5	3	-	-	-	-	4	4

Note:

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

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

Prof. Terry Nolan was appointed as an alternate Director to Prof Glyn Davis and Mr Geoffrey Healy as an alternate Director to Mr Andrew Mackenzie during the 2016-17 year.

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 Grattan Institute and the Director or a firm of which the Director is a member or an entity in which the Director has a substantial financial interest.

Principal Activities

Grattan Institute'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 Grattan Institute'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 programs include Transport, 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 decision makers.

Operating Results and Review of Operations

The operating result for the year was a profit of \$551,000 (2016: loss \$4,201,000). Grattan Institute 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.

	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000
Endowment Income						
Interests and Dividends	2,117	1,937	2,136	2,913	2,797	2,585
Realised Gains (Losses) from the Sale of Investments	(195)	674	389	(19)	(473)	1,085
Movement in the Market Value of Investments	(2,386)	4,478	3,745	1,999	(2,211)	894
Less: Investment Management Fees	(119)	(121)	(139)	(142)	(140)	(165)
Total Interest and Investment Income	(583)	6,968	6,131	4,751	(27)	4,399
<i>Additions to the Endowment</i>						
BHP Billiton Limited	-	-	-	-	-	-
National Australia Bank	200	200	-	-	-	-
Other Donations	-	-	73	183	290	484
Total Additions to the Endowment	200	200	73	183	290	484
Total Endowment Income	(383)	7,168	6,204	4,934	263	4,883
Operating Result						
Other Income	1,336	1,423	1,766	1,161	806	1,051
Operating Expenditure	4,055	4,754	4,833	5,025	5,270	5,383
Operating Profit (Loss)	(2,719)	(3,331)	(3,067)	(3,864)	(4,464)	(4,332)
Total Entity Profit (Loss)	(3,102)	3,837	3,137	1,070	(4,201)	551

Significant Changes in the State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of Grattan Institute 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 Grattan Institute, the results of those operations, or Grattan Institute's state of affairs in future financial years.

Future Developments

Grattan Institute 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 Grattan Institute.

Auditor's Independence

The auditor's declaration of independence appears on page 11 and forms part of the Directors' report for the year ended 30 June 2017.

Rounding

Pursuant to the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 Grattan Institute 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, Grattan Institute has paid insurance premiums in respect of directors' and officers' liability for current and former directors and officers, including senior executives of Grattan Institute.

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. Grattan Institute has not otherwise indemnified or agreed to indemnify an officer or auditor of Grattan Institute against a liability incurred by such an officer or auditor.

Directors' Qualifications, Experience and Special Responsibilities

The Hon. Alex Chernov AC QC

Chairman of Grattan Institute since 15 February 2016 and is also Chairman of the Audit Committee, and a member of the Investment and Governance and Public Policy Committees.

Mr Chernov is a Governor of The Ian Potter Foundation and practices in alternative dispute resolution.

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. He retired on 30 June 2015.

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.

Ms Carol Austin

Director appointed 4 April 2016. Member of the Investment & Governance Committee.

Ms Austin is a director of HSBC Bank Australia and a member of the NSW Planning Assessment Commission. 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. Professor Davis is a Fellow of the Academy of the Social Sciences in Australia, a Fellow of the Institute of Public Administration Australia and a Companion in the Order of Australia. He holds first class honors from the University of New South Wales and a Doctorate of Philosophy from the Australian National University. He undertook postgraduate appointments as a Harkness Fellow at the University of California, Berkeley, the Brookings Institution in Washington and the John F. Kennedy School of Government at Harvard University.

Internationally, Professor Davis is a past Chair of Universitas 21, a grouping of 25 leading universities from around the globe, a former Director of the Menzies Centre for Australian Studies at King's College London, and past Chair of Universities Australia. Professor Davis holds a BA (Hons) (UNSW), PhD (ANU), DUniv (Griffith) and DLitt (UNSW).

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 on the ABC. 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, The University of Newcastle and the University of Sydney.

Mr Chris Eccles AO

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 fifty years, principally in the area of cardiovascular endocrinology, and has published over 600 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 AC

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).

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 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. Peter Scanlon holds a Bachelor of Commerce (Hons) from The University of Melbourne.

Ms Lucy Turnbull AO

Director appointed 29 November 2012. Retired 1 December 2016.

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.

Ms Jillian Segal AO

Director appointed 22 February 2017.

In addition to her role on the Board of Grattan Institute, Ms Jillian Segal is the Chairman of the General Sir John Monash Foundation, Chairman of the Australia-Israel Chamber of Commerce (NSW), Chair of the Independent Parliamentary Expenses Authority (IPEA), a Director of the Garvan Institute of Medical Research, Deputy Chancellor of the UNSW Australia, a Trustee of the Sydney Opera House Trust and a Director of the Observership Program. Jillian Segal holds a BA,LL.B from UNSW and a Master of Laws from Harvard Law School.

**Annual Financial Report
For the Year Ended 30 June 2017**

Dr Ian Watt AC

Director appointed 24 December 2013.

Dr Watt has had a long career as one of Australia's most distinguished public servants, with nearly 20 years at the highest levels of the public service. His most recent and most senior appointment was as Secretary of the Department of the Prime Minister and Cabinet and head of the Australian Public Service, a position he held from 2011 until the end of 2014. Prior to that, he was Secretary of the Departments of Defence; Finance; and Communications, Information Technology and the Arts between 2001 and 2011. Before that, he was Deputy Secretary of the Department of the Prime Minister and Cabinet.

Dr Watt is Chairman of BAE Systems Australia. He also serves on the Boards of Citigroup Pty Ltd, Smartgroup Corporation, Australian Governance Masters Index Fund Limited, O'Connell Street Associates Pty Ltd and CEDA, and is a Member of the Male Champions of Change. He is also Chair of the National Innovation and Science Agenda Implementation Committee, Chair of the International Centre for Democratic Partnerships, Chair of the Advisory Council of the SMART Infrastructure Facility at the University of Wollongong, and Chair of Prader-Willi Research Foundation Australia. Dr Watt is also a Member of the Melbourne School of Government Advisory Board at the University of Melbourne, a Fellow of ANZSOG, and Senior Adviser to Flagstaff Partners.

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, 20 October 2017



Lead Auditor's Independence Declaration under subdivision 60-C section 60-40 of the 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 of Grattan Institute for the financial year ended 30 June 2017 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

Gordon Sangster
Partner

Melbourne
20 October 2017

**Statement of Comprehensive Income
For the Year Ended 30 June 2017**

	Notes	2017 \$'000	2016 \$'000
Operating Revenue			
Interest and Investment Income (Expenses)	3	4,399	(27)
Endowment Funds and Donations	3	484	290
Other Income	4	1,051	806
Total Operating Revenue		5,934	1,069
Operating Expenses			
Employee Expenses	5	4,568	4,389
Audit Fees	5, 17	8	8
Other Expenses	5	807	873
Total Operating Expenses		5,383	5,270
Profit (Loss) before Tax		551	(4,201)
Income Tax Expense	2(j)	-	-
Profit (Loss) for the Year		551	(4,201)
Other Comprehensive Income		-	-
Total Comprehensive Income		551	(4,201)

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 33.

**Statement of Financial Position
As at 30 June 2017**

	Notes	2017 \$'000	2016 \$'000
Current Assets			
Cash and Cash Equivalents	6	1,474	1,669
Trade and Other Receivables	7	2,194	2,123
Total Current Assets		3,668	3,792
Non-current Assets			
Investments	8	34,618	34,157
Property, Plant and Equipment	9	11	12
Total Non-current Assets		34,629	34,169
Total Assets		38,297	37,961
Current Liabilities			
Trade and Other Payables	10	756	1,120
Employee Entitlements	11	444	357
Total Current Liabilities		1,200	1,477
Non-current Liabilities			
Employee Entitlements	11	192	130
Total Non-current Liabilities		192	130
Total Liabilities		1,392	1,607
Net Assets		36,905	36,354
Equity			
Retained Profits	12	36,905	36,354
Total Equity		36,905	36,354

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 33.

**Statement of Changes in Equity
For the year ended 30 June 2017**

	Notes	2017 \$'000	2016 \$'000
Retained Profits			
Opening Balance		36,354	40,555
Profit (Loss) for the year	12	551	(4,201)
Closing Balance		36,905	36,354
Total Equity		36,905	36,354

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 33.

**Statement of Cash Flows
For the Year Ended 30 June 2017**

	Notes	2017 \$'000	2016 \$'000
Cash Flows from Operating Activities			
Cash Receipts from Donations, Endowments and Other Income		1,161	730
Interest and Investment Income Received		2,370	2,953
Cash Payments in the Course of Operations		(5,240)	(4,889)
Net Cash Provided By (Used In) Operating Activities	13	(1,709)	(1,206)
Cash Flows from Investing Activities			
Sales of Investments		21,546	17,085
Purchases of Investments		(20,028)	(14,706)
Payments for Property, Plant and Equipment		(4)	-
Net Cash From (Used In) Investing Activities		1,514	2,379
Net Increase (Decrease) in Cash and Cash Equivalents		(195)	1,173
Cash and Cash Equivalents at Beginning of the Year		1,669	496
Cash and Cash Equivalents at the End of the Year	6	1,474	1,669

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 33.

Notes to the Financial Statements

Note 1 Basis of Preparation

(a) Reporting Entity

Grattan Institute is domiciled in Australia. The address of Grattan Institute'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 20 October 2017.

(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 Grattan Institute's functional currency. Grattan Institute is of a kind referred to in ASIC Corporations Instrument 2016/191 and in accordance with that Corporations Instrument; 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 2017.

(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 Grattan Institute 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 Grattan Institute'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 Grattan Institute 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 Grattan Institute prior to the end of the financial year that are unpaid, and arise when Grattan Institute becomes obliged to make future payments in respect of the purchase of these goods and services. Grattan Institute 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, Grattan Institute 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.

	2017	2016
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 Grattan Institute 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 2016-17 was \$375,000 (2015-16 \$368,000).

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.

(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

Grattan Institute 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. Grattan Institute 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 2017, 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 Grattan Institute, except for AASB 9 Financial Instruments, which becomes mandatory for Grattan Institute's 2019 financial statements and could change the classification and measurement of financial assets. Grattan Institute 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

Grattan Institute 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 Grattan Institute.

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 2017, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

AASB 9 Financial Instruments

AASB 9 replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Company is not currently intending to adopt this standard early and the extent of the impact has not been determined.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Company is not currently intending to adopt this standard early and the extent of the impact has not been determined.

AASB 1058 Income of Not-for-Profit Entities

AASB 1058 becomes mandatory for the Company's financial statements for the period beginning on or after 1 January 2019, and establishes principles for NFP entities that apply specifically to transactions where the consideration to acquire an asset is significantly less than fair value, principally to enable a NFP entity to further its objectives and to volunteer services received. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 16 Leases

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

AASB 16 replaces existing lease guidance including AASB 117 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions involving the legal form of a lease.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption will be permitted for entities that also adopt AASB 15 at or before the date of initial application of AASB 16. The Company is not currently intending to adopt this standard early and the extent of the impact has not been determined.

Note 3 Endowment Income

	Notes	2017 \$'000	2016 \$'000
Interest and Investment Income / (Expenses)			
Interest and Dividends		2,585	2,797
Realised Gains (Losses) from the Sale of Investments		1,085	(473)
Movement in the Market Value of Investments		894	(2,211)
Less: Investment Management Fees		(165)	(140)
Total Interest and Investment Income / (Expenses)		4,399	(27)
Endowment Funds and Donations			
Donations		484	290
Total Endowment Funds and Donations	14	484	290
Total Endowment Income / (Expenses)		4,883	263

Note 4 Other Income

	Notes	2017 \$'000	2016 \$'000
In-kind Services Provided by the University of Melbourne		375	368
Affiliate Fees and Program Support		495	322
Other Income		181	116
Total Other Income		1,051	806

Note 5 Operating Expenses

	Notes	2017 \$'000	2016 \$'000
Employee Expenses		4,568	4,389
Audit Fees	17	8	8
<i>Other Expenses</i>			
Event Expenses		41	46
Insurance		18	18
Travel Expenses		109	125
Other Expenses		264	316
Expenses for the Provision of In-kind Services Provided by the University of Melbourne		375	368
Total Other Expenses		807	873
Total Expenses		5,383	5,270

Note 6 Cash and Cash Equivalents

	Notes	2017 \$'000	2016 \$'000
Bank Balances		1,474	1,669
Total Cash and Cash Equivalents		1,474	1,669

Note 7 Trade and Other Receivables

	Notes	2017 \$'000	2016 \$'000
Trade Receivables		574	297
Other Receivables		1,620	1,826
Total Trade and Other Receivables		2,194	2,123

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

Note 8 Investments

	Notes	2017 \$'000	2016 \$'000
Non-current Financial Assets at Fair Value Through Profit and Loss			
Fixed Term Bonds, Preference Shares and Commercial Notes		8,985	3,607
Listed Australian Equities		18,989	23,284
Listed Foreign Equities		6,644	7,266
Total Non-current Investments		34,618	34,157

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 16 for further information regarding financial instruments.

Note 9 Property, Plant and Equipment

Notes	2017 \$'000	2016 \$'000
Leasehold Improvements		
At cost	1	1
Less accumulated depreciation	(1)	-
Total Leasehold Improvements	-	1
Plant and Equipment		
At cost	53	49
Less accumulated depreciation	(48)	(45)
Total Plant and Equipment	5	4
Furniture and Fittings		
At cost	11	11
Less accumulated depreciation	(5)	(4)
Total Furniture and Fittings	6	7
Total Property, Plant and Equipment	11	12

Movements in Carrying Amounts

Leasehold Improvements		
Balance at beginning of the year	1	1
Additions	-	-
Depreciation expense	(1)	-
Carrying amount at end of the year	-	1
Plant and Equipment		
Balance at beginning of the year	4	7
Additions	4	-
Depreciation expense	(3)	(3)
Carrying amount at end of the year	5	4
Furniture and Fittings		
Balance at beginning of the year	7	8
Additions	-	-
Depreciation expense	(1)	(1)
Carrying amount at end of the year	6	7
Total Property, Plant and Equipment	11	12

Note 10 Trade and Other Payables

	Notes	2017 \$'000	2016 \$'000
Trade Payables		7	38
Other Payables and Accruals		749	1,082
Total Trade and Other Payables		756	1,120

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

Note 11 Employee Entitlements

	Notes	2017 \$'000	2016 \$'000
Current			
Annual Leave		333	260
Long Service Leave		111	97
Total Current Employee Entitlements		444	357
Non-current			
Long Service Leave		192	130
Total Non-current Employee Entitlements		192	130
Total Employee Entitlements		636	487

Note 12 Retained Profits

	Notes	2017 \$'000	2016 \$'000
Retained Profits at the Beginning of the Year		36,354	40,555
Profit (Loss) for the Year		551	(4,201)
Retained Profits at the End of the Year		36,905	36,354
Reconciliation of Retained Profits			
Retained Profits from Endowment Funds	14	36,905	36,354
Total Retained Profits		36,905	36,354

Note 13 Reconciliation of Operating Result with Cash Flow from Operations

	Notes	2017 \$'000	2016 \$'000
Profit (Loss) for the year		551	(4,201)
Depreciation Charge in Accounts (Increase) / Decrease in the Market Value of Investments Both Held at the End of the Finance Year and Sold During the Year		5 (1,979)	4 2,684
Increase / (Decrease) in Payables		(364)	(47)
Increase / (Decrease) in Employee Benefits		149	92
(Increase) / Decrease in Receivables		(71)	262
Net Cash Flow from Operating Activities		(1,709)	(1,206)

Note 14 Endowment Funds

	Notes	2017 \$'000	2016 \$'000
Commonwealth Fund			
Opening balance at beginning of the year		15,685	17,664
Contributions during the year		-	-
Fund income for the year		1,966	(35)
Less: Contributions made to operating costs		(1,869)	(1,944)
Closing balance at end of the year		15,782	15,685
General Fund			
Opening balance at beginning of the year		15,696	17,669
Contributions during the year		-	-
Fund income for the year		2,010	(29)
Less: Contributions made to operating costs		(1,870)	(1,944)
Closing balance at end of the year		15,836	15,696
Public Fund			
Opening balance at beginning of the year		4,973	5,222
Contributions during the year		484	290
Fund income for the year		423	36
Less: Contributions made to operating costs		(593)	(575)
Closing balance at end of the year		5,287	4,973
Total Endowment Funds		36,905	36,354
Represented in Equity by:			
Retained Profits		36,905	36,354

Note 15 Financial Risk Management

Grattan Institute'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 vulnerability of portfolio cash flow management to compromise or failure. In particular, it is the risk that insufficient at-call liquidity is available to meet the Grattan Institutes liabilities and 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.

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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; 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 16 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	2017 \$'000	2016 \$'000
Carrying Amount			
Cash and Cash Equivalents	6	1,474	1,669
Receivables	7	2,194	2,123
Fixed Term Bonds, Preference Shares and Commercial Notes	8	8,985	3,607
Listed Australian Equities	8	18,989	23,284
Listed Foreign Equities	8	6,644	7,266
Total Carrying Amount		38,286	37,949

Impairment Loss

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

	Notes	2017 \$'000	2016 \$'000
Carrying Amount			
Not past due		2,144	2,024
Past due 0-30 days		-	4
Past due 31-60 days		-	18
More than 60 days past due		50	77
Less Allowance for doubtful debts		-	-
Total Carrying Amount	7	2,194	2,123

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 2017	Carrying Amount	Contractual Cash Flows	6 Months of Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Trade Payables	7	7	7	-	-	-	-
Other Payables and Accruals	749	749	749	-	-	-	-
	756	756	756	-	-	-	-

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	-	-	-	-

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
	2017 %	2017 \$'000s	2017 \$'000s	2017 \$'000s
Financial Assets:				
Cash and Cash Equivalents	1.67%	1,474	-	-
Financial Instruments Receivables	4.06%	8,985	-	-
	-	-	-	2,194
Total Financial Assets		10,459	-	2,194
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	755
Total Financial Liabilities		-	-	755

	2016 %	2016 \$'000s	2016 \$'000s	2016 \$'000s
Financial Assets:				
Cash and Cash Equivalents	1.89%	1,669	-	-
Financial Instruments Receivables	5.28%	889	2,718	-
	-	-	-	2,123
Total Financial Assets		2,558	2,718	2,123
Financial Liabilities:				
Trade and Sundry Creditors	-	-	-	1,120
Total Financial Liabilities		-	-	1,120

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For the Year Ended 30 June 2017**

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 2016.

	Profit or Loss		Equity	
	100bp Increase \$'000s	100bp Decrease \$'000s	100bp Increase \$'000s	100bp Decrease \$'000s
30 June 2017				
Variable Rate Instruments	90	(90)	90	(90)
Fixed Rate Instruments	-	-	-	-
<hr/>				
30 June 2016				
Variable Rate Instruments	9	(9)	9	(9)
Fixed Rate Instruments	(405)	576	(405)	576

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 2016.

	Profit or Loss		Equity	
	1% Increase \$'000s	1% Decrease \$'000s	1% Increase \$'000s	1% Decrease \$'000s
30 June 2017				
Investments	346	(346)	346	(346)
<hr/>				
30 June 2016				
Investments	341	(341)	341	(341)

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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: quoted 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 2017				
Financial assets designated at fair value through profit and loss	34,618	-	-	34,618
Total Financial Assets	34,618	-	-	34,618
30 June 2016				
Financial assets designated at fair value through profit and loss	34,157	-	-	34,157
Total Financial Assets	34,157	-	-	34,157

Note 17 Auditor's Remuneration

	Notes	2017 \$	2016 \$
KPMG Australia			
Audit and review of financial reports		8,250	8,000
Total Auditor's Remuneration		8,250	8,000

Note 18 Segment Reporting

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

Note 19 Key Management Personnel

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

	2017 \$'000	2016 \$'000
Current employee benefits	584	540
Total Benefits	584	540

Note 20 Related Party Transactions

There were no related party transactions during the financial year.

Note 21 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 12 to 33, 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 financial position of Grattan Institute at 30 June 2017 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 20 day of October 2017.



The Hon. Alex Chernov AC QC
Director



Peter Scanlon
Director



Independent Auditor's Report

To the Directors of Grattan Institute

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report**, of the Grattan Institute ('the Company').

In our opinion, the accompanying **Financial Report** of the Company is in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012*, including:

- i. giving a true and fair view of the Company's financial position as at 30 June 2017, and of its financial performance and its cash flows for the year ended on that date; and
- ii. complying with *Australian Accounting Standards* and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

The **Financial Report** comprises:

- i. Statement of financial position as at 30 June 2017.
- ii. Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended.
- iii. Notes including a summary of significant accounting policies.
- iv. Directors' declaration of the Company.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the auditor independence requirements of the *ACNC Act 2012* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Grattan Institute's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- i. Preparing the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the ACNC.
- ii. Implementing necessary internal control 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.
- iii. Assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- i. to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- ii. to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

Undertaking an audit in accordance with *Australian Auditing Standards* means exercising professional judgment and maintaining professional skepticism.

Our responsibilities include:

- i. Identifying and assessing the risks of material misstatement of the Financial Report, whether due to fraud or error.
- ii. Designing and performing audit procedures responsive to those risks, and obtaining audit



evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error. This is because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- iii. Obtaining an understanding of internal control relevant to the Audit in order to design audit procedures that are appropriate in the circumstances. This is not for the purpose of expressing an opinion on its effectiveness.
- iv. Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- v. Concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- vi. Evaluating the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.

KPMG

Gordon Sangster
Partner

Melbourne
20 October 2017