Annual Financial Report 2012

For the year ended 31 December 2012

Directors' Report

The Directors present their report together with the Financial Report of the Macfarlane Burnet Institute for Medical Research and Public Health Limited (Burnet Institute) for the year ended 31 December 2012 and the Audit Report thereon.

Directors

The Directors of the Burnet Institute, all of whom act in an honorary capacity, along with the Executive Directors, who receive remuneration as paid members of staff, held office at any time during or since the end of the financial year are:

Mr Alastair Lucas AM, ***BCom, FCPA***
Chair, *Burnet Institute Board of Directors*
Director since 1998
Chair, *Budget & Investment Committee*
Member, *Audit, Compliance and Risk Committee*
Member, *Engagement Committee*
Chair, *Investment Banking, Goldman Sachs Australia*
Chair, *Cell Care Australia*
Director, *Research Australia*
Member, *Advisory Board, Fauna & Flora International Australia*
Member, *Australian Takeovers Panel*

Professor Brendan Crabb, ***BSc(Hons), PhD***
Executive Director and CEO since March 2008
Member, *Engagement Committee*
Member, *Budget and Investment Committee*
Secretary, *Research Advisory Committee*
President, *Association of Australian Medical Research Institutes (AAMRI) Pty Ltd*
Director, *AMREP Animal Services Pty Ltd*
Chair, *Alfred Medical Research and Education Precinct Council*
Chair, *PATH/MVI Vaccine Science Portfolio Advisory Council (VSPAC), USA*
Chair, *2013 Gordon Research Conference on Malaria, USA/Italy*
Chair, *PNG Institute of Medical Research Buttressing Coalition*
Member, *Board of Management, Gene Technology Access Centre (GTAC)*
Member, *Scientific Advisory Board, Malaria Program, Wellcome Trust Sanger Institute, UK*
Member, *Scientific Advisory Board, Monash Institute of Pharmaceutical Sciences (MIPS)*
Adjunct Professor, *The University of Melbourne*
Adjunct Professor, *Monash University*

Mr Robin Bishop, ***LLB(Hon), BCom, BA***
Director since 2012
Member, *Budget and Investment Committee*
Head and Executive Director, *Macquarie Capital Australia and New Zealand*
Member, *Australian Takeovers Panel*

Professor Peter Colman, ***BSc, PhD***
Director since 2011
Chair, *Research Advisory Committee*
Member, *IP & Commercialisation Committee*
Head, *Structural Biology Division, WEHI*
Former Chief, *Division of Biomolecular Engineering, CSIRO*

Mr Ross Cooke, ***BCom, ACA***
Director since 1998
Chair, *Audit, Compliance and Risk Committee*
General Manager, *Garrison Health, Medibank Health Solutions*
Director and President, *Winteringham, and Winteringham Housing Ltd*

Mr John K Dowling, ***FREI, FAPI***
Director since 2000
Member, *Research Advisory Committee*
Managing Partner, *K L Dowling & Co*

Professor, the Hon Barry O Jones ***AO, FAA, FAHA, FTSE, FASSA, FRSA, FRSV, FAIM***
Director since 2000 and resigned May 2012
Member, *Research Advisory Committee*
Chair, *Vision 2020 Australia*
Chair, *Port Arthur Historic Site Management Authority*
Professorial Fellow, *University of Melbourne*
Director, *Care Australia*

Mr Henry Lanzer, ***BCom, LLB***
Director since 2008
Member, *Budget & Investment Committee*
Managing Partner, *Arnold Bloch Leibler*
Director, *Premier Investments*
Director, *The Just Group*
Director, *Tarrawarra Museum of Art*
President, *Mount Scopus Memorial College Foundation*

Mr Robert L Milne, ***BEng (Civ), FIE (Aust), CP Eng***
Director since 2000
Chair, *IP & Commercialisation Committee*
Member, *Budget and Investment Committee*
Chair, *Cockram Corporation and subsidiaries*

Professor Christina Mitchell, ***MBBS (Melb), PhD, FRACP***
Director since 2011
Dean, *Faculty of Medicine, Nursing and Health Sciences, Monash University*
Scientific Advisory Board Member, *Peter McCallum Research Institute*
Organising Committee Member, *Hunter Cell Biology Meeting*

Ms Mary Padbury, ***BA, LLB***
Director since 2011
Member, *IP & Commercialisation Committee*
Chair, *Ashurst Australia*
Panelist, *World Intellectual Property Domain Name*
Director, *Australasian Gastrointestinal Trials Group,GI Cancer Institute*
Member, *Chief Executive Women*
Member, *Commonwealth Attorney-General's International Legal Services Advisory Council*
Member, *Melbourne Law School Foundation*

Professor Philippa Pattison, ***BSc, PhD***
Director since 2011
Member, *Research Advisory Committee*
Deputy Vice Chancellor (Academic), *University of Melbourne*
Professor, *Psychological Sciences, University of Melbourne*
Associate Editor, *Social Networks*
Member, *Editorial Board, Journal of Classification*
Member, *Graduate Careers Australia Survey Reference Group*
Member, *Queen's College Council*
Member, *Trinity College Council*
Governor, *University College*
Member of Council, *Melbourne Girls Grammar School*

Ms Natasha Stott Despoja ***AM***
Director since 2008
Chair, *Engagement Committee*
Former Senator *for South Australia*
Former Leader, *Australian Democrats*
Director, *beyondblue*
Director, *South Australian Museum*
Member, *Advisory Council, Museum of Australian Democracy*
Member, *Advertising Standards Board*
Honorary Research Fellow, *University of Adelaide*

Professor Michael Toole, ***AM, MBBS, BMedSci, DTM&H***
Executive Director since 2011
Member, *Research Advisory Committee*
Adjunct Professor, *School of Public Health, Monash University*
Board Member, *Three Diseases Fund for Burma/Myanmar*
Member, *Independent Monitoring Board of the Global Polio Eradication Initiative*
Member, *Technical Review Panel, Global Fund to Fight AIDS, TB, and Malaria*
Founding Board Member, *Médecins Sans Frontières Australia*

Ms Mary Waldron, ***BEcon & SS, FCPA***
Director since 2011
Member, *Audit, Compliance and Risk Committee*
Managing Partner PwC, *Reputation, Regulation and Risk*
Member, *PwC Australian Firm Executive Board*
Chairman, *Centre for Ethical Leadership Advisory Board – Melbourne Business School*
Board Member, *Institute of Chartered Accountants Australia*
Advisory Member, *Global Foundation*
Advisory Corporate Council Member, *European Australian Business Council*
Member, *Chief Executive Women and Member of Scholarship Committee*

Resigned as Director during 2012 or since year end:

Professor, the Hon Barry O Jones ***AO, FAA, FAHA, FTSE, FASSA, FRSA, FRSV, FAIM***
Director since 2000 and resigned May 2012

Directors' Report

Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Burnet Institute during the financial year are:

Directors	Board of Directors		Audit, Compliance and Risk Committee		Engagement Committee		Budgeting and Investment Committee		IP and Commercialisation Committee		Research Advisory Committee	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Alastair Lucas AM	5	5	8	6	3	3	3	3	1	0	–	–
Brendan Crabb	5	5	–	–	3	3	3	3	1	0	1	1
Robin Bishop	3	3	–	–	–	–	1	1	–	–	–	–
Peter Coleman	5	3	–	–	–	–	–	–	1	1	1	1
Ross Cooke	5	5	8	8	–	–	–	–	–	–	–	–
John Dowling	5	5	–	–	–	–	–	–	–	–	1	1
Barry Jones AO	2	2	–	–	–	–	–	–	–	–	1	1
Henry Lanzer	5	3	–	–	–	–	3	2	–	–	–	–
Robert Milne	5	5	–	–	–	–	3	2	1	1	–	–
Christina Mitchell	5	3	–	–	–	–	–	–	–	–	–	–
Mary Padbury	5	2	–	–	–	–	–	–	1	0	–	–
Phillipa Pattison	5	4	–	–	–	–	–	–	–	–	–	–
Natasha Stott Despoja AM	5	4	–	–	3	3	–	–	–	–	–	–
Michael Toole AM	5	4	–	–	–	–	–	–	–	–	–	–
Mary Waldron	5	2	8	7	–	–	–	–	–	–	–	–

(A) Meetings held – reflects the number of meetings held during the time the Director held office during the year.
(B) Meetings attended.

Principal Activities
The principal activities of the Burnet Institute during the financial year were medical research and associated public health activities directed at the diagnosis, treatment and control of infectious diseases and cancer in humans. The Burnet Institute is a not-for-profit organisation combining programs of clinical and laboratory research in virology and immunology with epidemiology, social research and public health programs. The Burnet Institute has been endorsed as a charitable institution by the Australian Taxation Office. As a charitable not-for-profit organisation, the Burnet Institute does not pay dividends and all non-executive directors serve in an honorary capacity. There was no significant change in the nature of this activity during the year.

Operating Results
The Burnet Institute recorded a deficit in the current year of $1,900,168 (2011: deficit $4,770,321). Depreciation and amortisation amounted to $2,342,398 (2011: $2,364,558). Income tax is not applicable.

Dividends
The Burnet Institute is limited by guarantee, has no share capital and declares no dividends.

Objectives
The principal objective of the Institute remains improving health of vulnerable communities via research, public health and education. Progress against this objective is reported on at each Board meeting (and via other reporting mechanisms) using a variety of key indicators including the number of research grants awarded, research or project contracts won, fellowships awarded, publications, league table for Operational Infrastructure Support (Victorian State Government) and the progress reports and the achievements made on ongoing grants and projects.

State of Affairs
The Burnet Institute had an active and successful year in its core activities of laboratory and field research and delivery of its public health programs in the areas of infectious diseases and related health disciplines. A number of key output indicators, especially the high number of peer-reviewed publications and the awarding of new competitive grants, demonstrate the quality and impact of the Institute's work.

While the Institute recorded a financial deficit for 2012, it was almost exclusively due to non-operational factors such as organisational restructuring costs, the revaluation of derivatives and the depreciation/amortisation of property assets.

The Institute implemented a number of decisions made in late 2011 and in 2012 to reduce services and expenditure in light of an expected reduced income level in 2012 and in particular the sector's limited capacity to recoup funding for indirect costs so vital in supporting our research and public health activities. In addition a better than forecast result from the Institute's international operations was achieved, reflecting both a refined cost structure and a more focused business development effort.

In the opinion of the Directors there were no other significant changes in the state of affairs of the Burnet Institute that occurred during the financial year.

Events Subsequent to Balance Date
There has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Burnet Institute, the results of those operations, or the state of the Burnet Institute in future financial years.

Likely Developments
The Institute continues to explore strategic and operational opportunities that will address the inherent challenge of generating the appropriate levels of indirect funding to support our core medical research and public health grants.

Directors' Benefits
Since the end of the previous financial year no Director of the Burnet Institute has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable in their capacity as full time employees as shown in the accounts) because of a contract made by the Burnet Institute, its controlled entities or a related body corporate with the Director or with a firm of which the Director is a member, or with an entity in which the Director has a substantial interest.

Indemnification and Insurance of Officers
The Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the Directors' and Officers' liability and legal expenses insurance other than to confirm that a policy is in force.

Rounding Off
The Institute is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001
The lead auditor's independence declaration is set out on page 26 and forms part of the Directors' Report for the year ended 31 December 2012.

Dated at Melbourne this 23rd day of April 2013.

Signed in accordance with a resolution of the Directors.

Alastair Lucas AM — *Director*

Ross Cooke — *Director*

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

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

To: the directors of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A Kitchen

Alison Kitchen
Partner

Melbourne

23 April 2013

Statement of Comprehensive Income

(FOR THE YEAR ENDED 31 DECEMBER)

	NOTE	2012 $'000	2011 $'000
Operating revenue	3	38,857	42,256
Other income	3	4,036	4,374
Research and development laboratory consumables expenses		(3,309)	(3,562)
Personnel expenses	4	(20,524)	(22,505)
Depreciation and amortisation expenses		(1,072)	(1,094)
Depreciation and amortisation expenses – property management		(1,270)	(1,270)
Property management operating costs		(187)	(201)
Research and development non-laboratory expenses		(12,594)	(14,056)
Other expenses from ordinary activities	5	(3,161)	(4,547)
Results from operating activities		776	(605)
Financial income	7	574	732
Financial expenses	7	(3,250)	(4,897)
Net finance costs		(2,676)	(4,165)
Profit/(Loss) Before Income Tax		**(1,900)**	**(4,770)**
Income tax expense		–	–
Profit/(Loss) After Income Tax		**(1,900)**	**(4,770)**
Other comprehensive income			
Other comprehensive income for the period net of income tax		–	–
Total Comprehensive Income for the Period		**(1,900)**	**(4,770)**

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 31 to 46.

Statement of Financial Position

(AS AT 31 DECEMBER)

	NOTE	2012 $'000	2011 $'000
CURRENT ASSETS			
Cash and cash equivalents	20(i)	11,888	17,842
Trade and other receivables	8	4,776	2,189
Inventories		33	61
Other Assets	10	449	243
TOTAL CURRENT ASSETS		17,146	20,335
NON-CURRENT ASSETS			
Trade and other receivables	8	1,282	941
Investments	9	2,472	2,484
Property, plant and equipment	11	67,476	68,836
TOTAL NON-CURRENT ASSETS		71,230	72,261
TOTAL ASSETS		88,376	92,596
CURRENT LIABILITIES			
Trade and other payables	12	3,704	3,883
Borrowings	13	300	318
Current tax liabilities	14	110	100
Provisions	15	2,480	3,012
Deferred income	16	9,654	10,956
Derivatives	17	165	–
TOTAL CURRENT LIABILITIES		16,413	18,269
NON-CURRENT LIABILITIES			
Borrowings	13	34,500	34,800
Provisions	15	1,312	1,394
Deferred income	16	11,661	12,490
Derivatives	17	3,563	2,816
TOTAL NON-CURRENT LIABILITIES		51,036	51,500
TOTAL LIABILITIES		67,449	69,769
NET ASSETS		**20,927**	**22,827**
EQUITY			
Retained earnings		3,119	4,653
Building reserve		17,808	18,174
Fair value reserve		–	–
TOTAL EQUITY		**20,927**	**22,827**

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 31 to 46.

The Macfarlane Burnet Institute for Medical Research and Public Health Limited is a signatory to the Australian Council for International Development (ACFID) Code of Conduct. The Code requires members to meet high standards of corporate governance, public accountability and financial management. In accordance with the ACFID code of conduct, the Institute had nil balances in the following categories as at the end of the financial year which are required to be disclosed separately:

- Current Assets: assets held for sale, and other financial assets;
- Non-Current Assets: other financial assets, investment property, intangibles, and other non-current assets;
- Current Liabilities: other financial liabilities and other current liabilities;
- Non-Current Liabilities: trade and other payables, other financial liabilities and other non-current liabilities.

Statement of Changes in Equity

(AS AT 31 DECEMBER)

	Retained Profits $'000	Building Reserve $'000	Fair Value Reserve $'000	Total $'000
Balance at 1 January 2011	7,741	19,856	–	27,597
Total other comprehensive income for the period	–	–	–	–
Operating profit/(loss)	(3,088)	(1,682)	–	(4,770)
Total comprehensive income for the period	(3,088)	(1,682)	–	(4,770)
Balance at 31 December 2011	**4,653**	**18,174**	**–**	**22,827**
Total other comprehensive income for the period	–	–	–	–
Operating profit/(loss)	(1,534)	(366)	–	(1,900)
Total comprehensive income for the period	(1,534)	(366)	–	(1,900)
Balance at 31 December 2012	**3,119**	**17,808**	**–**	**20,927**

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 31 to 46.

Statement of Cash Flows

(FOR THE YEAR ENDED 31 DECEMBER)

	NOTE	2012 $'000	2011 $'000
Cash Flows from Operating Activities			
Cash receipts in the course of operations		42,550	51,949
Cash payments in the course of operations		(45,444)	(47,450)
Cash generated from operating activities		(2,894)	4,499
Interest received		574	732
Interest paid		(2,338)	(2,473)
Net cash provided by / (used in) operating activities	20(ii)	(4,658)	2,758
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(1,096)	(926)
Proceeds from disposal of property, plant and equipment		118	128
Distribution received on winding up of investment		–	528
Net cash provided by / (used in) investing activities		(978)	(270)
Cash Flows from Financing Activities			
Payment of finance lease liabilities		(18)	(70)
Repayment of borrowings		(300)	(150)
Net cash provided by / (used in) financing activities		(318)	(220)
Net increase / (decrease) in cash held		(5,954)	2,268
Cash at the beginning of the financial year		17,842	15,574
Cash at the End of the Financial Year	20(i)	**11,888**	**17,842**

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 31 to 46.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

1. Reporting Entity

The Macfarlane Burnet Institute for Medical Research and Public Health Limited (Burnet Institute) is a company limited by guarantee and is domiciled in Australia. The address of the Burnet Institute's registered office is 85 Commercial Road, Melbourne, Victoria, Australia 3004. The Burnet Institute is primarily involved in medical research and associated public health activities directed at the diagnosis, treatment and control of infectious diseases and cancer in humans.

1.1 Basis of Preparation

(i) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements were authorised for issue by the Board of Directors on 23 April 2013.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

- derivative financial instruments are measured at fair value;
- income securities are measured at fair value.

The method used to measure fair values is discussed further in Note 1.2.

During the preparation of the Financial Report the Directors made an assessment of the ability of the Burnet Institute to continue as a going concern, which included an assessment of the continuity of business operations, realisation of assets and settlement of liabilities in the normal course of business. The Directors also assessed the loan interest and principal repayments, swap and cap arrangements, and rental income over the next five to ten years and the obligations associated with the various loan covenants. The Directors also considered the likelihood of financial support and funding from the State and Federal Governments on which the Burnet Institute is dependent for its ongoing operations. As a result of their review they are of the opinion that the going concern basis of accounting is appropriate in the preparation of the Financial Report.

(iii) Functional and presentation currency

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

(iv) Use of estimates and judgements

The preparation of the financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following Notes:

- Note 1.11 – Impairment
- Note 15 – Provisions

(v) Changes in accounting policies

The accounting policies applied by the Burnet Institute in this report are the same as those applied in the Financial Report for the year ended 31 December 2011. There were no additional standards applicable to the Burnet Institute which have a material effect from 1 January 2012.

1.2 Financial Instruments

(i) Non-derivative financial assets

The Burnet Institute initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Burnet Institute becomes a party to the contractual provisions of the instrument.

The Burnet Institute derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Burnet Institute is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Burnet 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.

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

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

Financial assets at fair value through profit or loss
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Burnet Institute manages such investments and makes purchase and sale decisions based on their fair values in accordance with the Burnet Institute's documented risk management or investment strategy. 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.

Loans and receivables
Loans and 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 loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and at call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities
The Burnet Institute initially recognises financial liabilities on the trade date, which is the date that the Burnet Institute becomes a party to the contractual provisions of the instrument. The Burnet Institute derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Burnet 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.

The Burnet Institute classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Derivative financial instruments
The Institute has chosen to hedge its interest rate risk exposure on the ACS2 loan facility by a cap and swap transactions (refer Note 17). These are the only derivative financial instruments that the Institute is involved in and are considered by the Directors to be a prudent means to manage risk associated with fluctuations in interest rates.

The derivative financial instruments do not qualify for hedge accounting. Derivatives are recognised initially at fair value, attributable transaction costs are recognised in the Statement of Comprehensive Income when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are recognised immediately in the Statement of Comprehensive Income. The fair value of interest rate swaps and caps is based on lender quotes.

1.3 Inventories

Inventories are comprised of laboratory materials and are valued at the lower-of-cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

1.4 Property, Plant and Equipment

(i) Owned assets
Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy Note 1.11). Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets
Leases in terms of which the Burnet Institute assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy Note 1.11). The cost of self-constructed assets under lease arrangements includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see below).

Lease payments are accounted for as described in accounting policy Note 1.8(ii).

Other leases are operating leases and are not recognised in the Statement of Financial Position.

(iii) Subsequent costs
The Burnet Institute recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Burnet Institute and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense when incurred.

(iv) Depreciation
Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Burnet Institute will obtain ownership by the end of the lease term. The depreciation rates used for the current and comparative years are as follows:

Buildings	2% to 2.5%
Plant and equipment	10% to 20%
Computer equipment	33.3%
Motor vehicles	20%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1.5 Employee Benefits

(i) Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefits expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

(ii) Long-term service benefits
The Burnet Institute's net obligation in respect of long-term service benefits, other than defined benefit plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the Statement of Financial Position date which have maturity dates approximating to the terms of the Burnet Institute's obligations.

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits
Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Burnet Institute expects to pay as at reporting date including related on-costs, such as workers compensation insurance.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Burnet Institute as the benefits are taken by the employees.

Termination benefits are recognised as an expense when the Burnet Institute is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate an employee before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Burnet Institute has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

1.6 Revenue Recognition

(i) Contract R&D revenue/consultancies
R&D contract income is recognised in the Statement of Comprehensive Income to the extent that R&D expenditure to which it relates has been incurred. Until this time, funds drawn down in accordance with the relevant R&D funding agreement are recognised in the Statement of Financial Position as deferred income.

(ii) Grant income
Reciprocal grants
Grants received on the condition that specified services be delivered, or conditions fulfilled, are considered reciprocal. Such grants are initially recognised in the Statement of Financial Position as deferred income and revenue is recognised as services are performed or conditions are fulfilled.

Non-reciprocal grants
Where a grant is received where there is no performance obligation or return obligation, revenue is recognised when the grant is received or receivable.

(iii) Government contributions towards capital works (capital grants)
Government contributions to assist in the acquisition or construction of non-current assets are recognised as an asset and revenue when all conditions of the grants have been satisfied.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

(iv) Donations
Donations are recognised as income in the Statement of Comprehensive Income, as and when received, unless they are for specific purposes in which case they will be recognised when the conditions are fulfilled.

(v) Interest and other income
Interest and other income is recognised in the Statement of Comprehensive Income as it accrues, taking into account the effective yield on the financial asset.

(vi) Asset sales
Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised as other income or other expenses in the Statement of Comprehensive Income.

(vii) Rental income
Rental income is recognised as income in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

1.7 Finance Income and Expenses

Finance income comprises interest income of funds invested and gains on revaluation of investments. Interest income is recognised as it accrues in the Statement of Comprehensive Income, using the effective interest method.

Finance expenses comprise interest expense on borrowings and changes in the fair value of derivative financial instruments. All interest expense on borrowings is recognised in the Statement of Comprehensive Income, using the effective interest method.

1.8 Expenses

(i) Operating lease payments
Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments
Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Borrowing costs
Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to those borrowings, net of any interest earned on those borrowings. Where funds are borrowed for the acquisition of a qualifying asset, borrowing costs are capitalised using a weighted average.

1.9 Income Tax

The Burnet Institute is exempt from paying income tax under Section 50-5 of the Income Tax Assessment Act, 1997.

1.10 Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1.11 Impairment

(i) Non-derivative financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Burnet Institute on terms that the Burnet Institute would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and adverse changes in the payment status of borrowers or issuers in the Burnet Institute.

The Burnet Institute considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for any impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Burnet Institute uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in Statement of Comprehensive Income and reflect in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the Statement of Comprehensive Income.

(ii) Non-financial assets
The carrying amounts of non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in Statement of Comprehensive Income. Impairment losses recognised in respect of CGUs are recognised as a reduction in the carrying amounts of the assets in the CGU on a pro-rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Under AASB 136, the Institute can elect to have the carrying amount of non-current assets' impairment reviewed at each reporting date using a depreciated replacement cost valuation. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. Reversal of a previously recorded impairment will be recorded in the Statement of Comprehensive Income where appropriate. In respect of not-for-profit entities, where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits, value in use shall be determined as the depreciated replacement cost of the asset.

1.12 Comparatives

Where applicable, comparatives have been adjusted to disclose them on the same basis as current period figures.

1.13 Segment Reporting

The Institute determines and presents operating segments based on the information that is internally presented to the CEO, who is the Institute's chief operating decision maker. An operating segment is a component of the Institute that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Institute's other components. All operating segments' operating results are regularly reviewed by the Institute's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

2. New Standards and Interpretations Not Yet Adopted

There are no standards, amendments to standards and interpretations which have been identified as those which may impact the entity in the period of initial application.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

	2012 $'000	2011 $'000
3. Revenue		
Grants – operating	16,996	16,930
Grants – Victorian Government operational infrastructure support	3,776	4,174
Donations	2,548	4,781
Contract R&D consultancies	15,031	15,855
Other income – miscellaneous	506	516
Operating Revenue	38,857	42,256
Rental income	3,207	3,730
Prepaid rent amortisation	829	644
Other Income	4,036	4,374
4. Personnel Expenses		
Salary and wages	20,061	21,197
Employee entitlements	463	1,308
	20,524	22,505
5. Other Expenses		
Net loss on disposal of property, plant and equipment	12	22
Operating lease rental expenses	81	217
Facilities and laboratory support	1,639	2,026
Other administration	1,429	2,282
	3,161	4,547
6. Auditors' Remuneration		
Audit Service		
KPMG Australia:	$	$
Audit and review of financial reports	48,000	48,000
Other regulatory audit services	12,000	26,223
	60,000	74,223

7. Net Financing Costs

	NOTE	2012 $'000	2011 $'000
Interest income		574	732
Financial Income		574	732
Decrease in fair value of derivatives		(912)	(2,424)
Interest expense		(2,338)	(2,473)
Financial Expenses		(3,250)	(4,897)
Net Financing Costs		(2,676)	(4,165)

8. Trade and Other Receivables

	NOTE	2012 $'000	2011 $'000
Current			
Funds on deposit		2,000	–
Trade receivables		2,776	2,189
Less: allowance for doubtful debts		–	–
	27	4,776	2,189
Non-Current			
Lease receivables	27	1,282	941

9. Investments

	NOTE	2012 $'000	2011 $'000
Non-Current Investments			
• Income Securities of National Australia Bank and Macquarie Bank, fair value as at 31 December		207	219
• Investment in AMREP AS Pty Ltd – animal facility 306 fully paid shares at cost		2,265	2,265
• Fully paid ordinary shares in Ascend Biopharmaceuticals Pty Ltd valued at cost		–	–
	27	2,472	2,484
Reconciliation:			
Total investments opening balance		2,484	3,020
Write up/(down) of income securities to fair value		(12)	(21)
Increase in value of investment in SZCF to fair value		–	13
Transfer of assets of SZCF to the Institute		–	(528)
Total Investments Closing Balance		2,472	2,484

As at 31 December 2012, the Institute controlled 12.3% (2011:17.1%) of Ascend Biopharmaceuticals Pty Ltd (formerly IgAvax Pty Ltd). The amount of investment in this company was $nil and the contribution to the surplus of the Institute was $nil.

As at 31 December 2012, the Institute controlled nil% (2011: 25.7%) of 4G Vaccines Pty Ltd. The amount of investment in this company was $nil and the contribution to the surplus of the Institute was $nil. During the year shares in 4G Vaccines Pty Ltd were exchanged for shares in Ascend Biopharmaceuticals Pty Ltd on a one-for-one basis.

10. Other Assets

	NOTE	2012 $'000	2011 $'000
Prepayments		449	243

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

11. Property, Plant and Equipment	Leasehold buildings $'000	Plant and equipment $'000	Total $'000
Cost			
Balance at 1 January 2011	71,302	9,655	80,957
Acquisitions	34	892	926
Disposals	–	(679)	(679)
Balance at 31 December 2011	71,336	9,868	81,204
Balance at 1 January 2012	71,336	9,868	81,204
Acquisitions	552	544	1,096
Disposals	–	(552)	(552)
Balance at 31 December 2012	71,888	9,860	81,748
Depreciation			
Balance at 1 January 2011	(3,839)	(6,720)	(10,559)
Depreciation charge for the year	(1,699)	(666)	(2,365)
Disposals	–	556	556
Balance at 31 December 2011	(5,538)	(6,830)	(12,368)
Balance at 1 January 2012	(5,538)	(6,830)	(12,368)
Depreciation charge for the year	(1,707)	(635)	(2,342)
Disposals	–	438	438
Balance at 31 December 2012	(7,245)	(7,027)	(14,272)
Carrying amounts			
At 1 January 2011	67,464	2,934	70,398
At 31 December 2011	65,798	3,038	68,836
At 1 January 2012	65,798	3,038	68,836
At 31 December 2012	64,643	2,833	67,476

The existing leasehold within the Burnet Tower is subject to a 50 year lease ending in 2060. A peppercorn rent is payable each year. The Alfred Centre Stage 2 (ACS2) leasehold building floors are subject to a 40 year lease for levels 4 to 6 (ending 2050) and a 50 year lease for level 7 (ending 2060). A peppercorn rent is payable each year.

The Burnet Institute completed the construction of the ACS2 project which comprises 14,490 square metres of net lettable area contained in levels 4 to 7 of the ACS2 project. The carrying value of the Burnet Institute's interest in the ACS2 project is based on the March 2010 valuation of the future cash flows, discounted to their present value. The final carrying value was transferred to fixed assets as at 4 March 2010, the date of practical completion.

12. Trade and Other Payables

	2012 $'000	2011 $'000
Trade creditors	743	989
Other payables	2,961	2,894
	3,704	3,883

13. Borrowings

This note provides information about the contractual terms of the Burnet Institute's interest-bearing loans and borrowings which are measured at amortised cost.

	2012 $'000	2011 $'000
Current		
Finance lease liabilities	–	18
Current portion of secured bank loans (ACS2)	300	300
	300	318
Non-current		
Non-current portion of secured bank loans (ACS2)	34,500	34,800

Finance lease liabilities
Finance lease liabilities are payable as follows:

31 December 2012 ($'000)	Minimum Lease Payments	Interest	Principal
	–	–	–

31 December 2011 ($'000)	Minimum Lease Payments	Interest	Principal
Less than one year	19	1	18
Between one and five years	–	–	–
More than five years	–	–	–
	19	1	18

Financing arrangements – Bank loans
Interest rate on finance lease liabilities was nil% (2011: 7.40%). The lease liability was paid in full in March 2012.
During 2008, the Institute entered into an arrangement with its bank to borrow $35.25 million at the prevailing 90-day BBSW plus 0.85 per cent line fee. This bank loan is secured by a fixed and floating charge over all of the Burnet Institute's assets. The loan is for a period of ten years effective May 2011. Refer Note 17 for details of the swap and cap associated with this loan. The Burnet Institute is compliant with all bank covenants. One of the bank covenants requires the Institute to maintain an investment balance of at least $5 million, which as at 31 December 2012 and 31 December 2011 is all invested in short-term deposits.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

14. Current Tax Liabilities	NOTE	2012 $'000	2011 $'000
FBT Provision	27	110	100

There are no income tax liabilities as the Institute is a tax exempt entity.

15. Provisions

	2012 $'000	2011 $'000
Current		
Liability for long-service leave	1,530	1,899
Liability for annual leave	950	1,113
	2,480	3,012
Non-current		
Liability for long-service leave	1,312	1,394

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

	2012	2011
Assumed rate of increase in wage and salary rates	3.1%	3.1%
Average discount rate	3.1%	3.4%
Settlement term (years)	9	9
Number of employees		
Number of employees at year end (FTE)	157	194

Superannuation plans

The Institute contributes to various accumulation style superannuation plans. Employer contributions are at the rate required to satisfy its obligations under the Superannuation Guarantee Legislation, currently 9% of salary. The Institute may make additional contributions by agreement with employees.

16. Deferred Income	2012 $'000	2011 $'000
Current		
Other grants	7,773	8,861
Deferred Donations	1,052	1,266
Rentals received in advance	829	829
	9,654	10,956

General research operating grants are deferred where there is an obligation to repay amounts which are not spent in accordance with the conditions specified.

	2012 $'000	2011 $'000
Non-current		
Rentals received in advance	11,661	12,490

The rentals received in advance relate to: The Baker IDI Heart and Diabetes Institute's contribution to the ACS2 project which covers a 21 year lease of part of level 4; and to Monash University in respect of space given up in the Burnet Tower in exchange for 13 years rent free space in the ACS2 project.

17. Derivatives

	2012 $'000	2011 $'000
Current		
Interest rate swap	165	–
Non-current		
Interest rate swap	3,172	2,426
Interest rate cap	391	390
	3,563	2,816

The Institute entered into an interest rate swap transaction in 2008 whereby $6.8 million of the secured bank loan to finance ACS2 is fixed at an interest rate of 6.07% (before line fees) until 31 December 2013. The Institute also entered into an interest rate cap transaction whereby $27.2 million of the secured bank loan to finance ACS2 is subject to a capped BBSW rate of 7.5% per annum for a fixed rate of 0.58% until 31 December 2015. In 2010, the Institute entered into another interest rate swap transaction whereby $20.4 million of the secured bank loan to finance ACS2 is fixed at an interest rate of 6.025% (before line fees) until 30 September 2020. The cap and swap transactions were taken out to provide long-term protection from exposure to rising interest rates.

18. Capital and Reserves

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investments are derecognised or impaired.

Building reserve

The building reserve relates to building and relocation grants received and expenses incurred in connection with the premises occupied by the Institute. Where a building is permanently vacated the related reserve will be derecognised.

19. Operating Leases

	2012 $'000	2011 $'000
Leases as lessee		
Non-cancellable operating lease rentals payable:		
Less than one year	74	74
Between one and five years	62	135
More than five years	–	–
	136	209

Leases as lessor

The Institute leases out space that it controls to third parties.

	2012 $'000	2011 $'000
Non-cancellable operating lease rentals receivable:		
Less than one year	2,953	2,852
Between one and five years	12,687	12,556
More than five years	50,692	53,776
	66,332	69,184

During the year $4.0 million was recognised as rental income in the profit or loss (2011: $4.4 million).

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

20. Notes to the Statement of Cash Flows

(i) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	NOTE	2012 $'000	2011 $'000
Cash	27	11,888	17,842

(ii) Reconciliation of operating profit/(loss) after income tax to net cash from operating activities:

Cash flows from operating activities			
(Loss)/Profit for the period		(1,900)	(4,770)
Adjustments for:			
Depreciation	11	2,342	2,365
Amortisation of rent in advance		(829)	(644)
Lease revenue not billed		(341)	(941)
Change in fair value of derivatives	7	912	2,424
Loss on revaluation of investments	9	12	8
Amounts set aside in provisions		(614)	400
Gain on disposal of property, plant and equipment		(4)	(4)
Operating profit before changes in working capital and provisions		**(422)**	**(1,162)**
(Increase)/decrease in trade and other receivables		(2,587)	4,175
(Increase)/decrease in inventories		28	42
(Increase)/decrease in other assets		(206)	(140)
(Decrease)/increase in grant deferred income		(1,302)	8
(Decrease)/increase in trade and other payables		(179)	(111)
(Decrease)/increase in current tax liabilities		10	(54)
Net Cash from Operating Activities		(4,658)	2,758

21. Remuneration of Key Management Personnel

	2012 $	2011 $
Short-term employee benefits	1,397,000	1,426,000
Termination benefits	–	–
	1,397,000	1,426,000

22. Particulars in Relation to Controlled Entities

The Burnet Institute has an interest in a number of subsidiary companies which were originally formed to manage R&D projects in partnership with other parties. Other than intellectual property these companies have no material assets or liabilities. As there is no reliable measure of the value of this intellectual property, the carrying value of the investment in the following companies is recorded as $nil:

22. Particulars in Relation to Controlled Entities (Continued)

Entity	Interest Held 2012 %	Interest Held 2011 %	Amount of Investment 2012 $	Amount of Investment 2011 $
Macfarlane Burnet Syndicate No. 1 Pty Ltd	100	100	–	–
Macfarlane Burnet Syndicate No. 2 Pty Ltd	100	100	–	–
Hep R&D Pty Ltd	100	100	–	–
Actract Pty Ltd	100	100	–	–

23. Related Party Transactions

The Institute purchased services from AMREP AS Pty Ltd during the year on normal commercial terms amounting to $298,500 (2011: $356,000). During the year various directors made donations to the institute totalling $655,100 (2011: $236,660).

24. Subsequent Events

On 19 February 2013 the Burnet Institute acquired all of the issued shares of the dormant company, Burnet Institute (Hong Kong) Limited for consideration of HKD $100. Other than this event, there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Burnet Institute, the results of those operations, or the state of the Burnet Institute in future financial years.

25. Segment Information

The Institute has two reportable segments, as described below, which represent the two main focuses of the Institute. For each segment the CEO reviews internal management reports on a quarterly basis. The Institute operates in one geographical area, Australia. The following summary describes the operations in each of the Institute's reportable segments:

- Property Management – Includes rental income and expenses associated with the space leased;
- Medical Research and Public Health – Includes activities around the conduct of medical research and the provision of public health work.

Information regarding the results of each reportable segment are included below. Performance is measured based on segment surplus or deficit in addition to a number of non-financial metrics.

Information about reportable segments **($'000)**	Property Management		Medical Research & Public Health		Total	
	2012	2011	2012	2011	2012	2011
External revenues	4,036	4,374	38,857	42,256	42,893	46,630
Inter-segment revenue	–	–	–	–	–	–
Interest income	306	314	268	418	574	732
Interest expense	(2,338)	(2,473)	–	–	(2,338)	(2,473)
Depreciation and amortisation	(1,270)	(1,270)	(1,072)	(1,095)	(2,342)	(2,365)
Reportable segment profit/(loss)	(366)	(1,682)	(1,534)	(3,088)	(1,900)	(4,770)
Other material non-cash items						
• Fair value adjustment of derivative	(912)	(2,424)	–	–	(912)	(2,424)
Reportable segment assets	55,966	55,987	32,410	36,609	88,376	92,596
Investment in associates	–	–	2,265	2,265	2,265	2,265
Capital expenditure	552	–	544	926	1,096	926
Reportable segment liabilities	51,642	51,743	15,807	18,026	67,449	69,769

Notes to the Financial Statements

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26. Financial Risk Management

Overview

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

- credit risk
- liquidity risk
- market risk
- interest-rate risk

This note presents information about the Institute's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this Financial Report. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is also responsible for developing and monitoring risk management policies. Risk management policies are established to identify and analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board oversees how management monitors compliance with the Institute's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

Credit risk

Credit risk is the risk of financial loss to the Institute if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash on deposit and from the Institute's receivables from customers and investment securities. In relation to credit risk arising from cash on deposit, the Institute only deposits with highly rated counterparties as approved by the Board.

Trade and other receivables

The Institute's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. Work is only undertaken for another entity once a contract for services has been signed. The demographics of the Institute's debtor base, including the default risk of the industry and country in which debtors operate, have less of an influence on credit risk. Approximately 54% (2011: 53%) of the Institute's revenue is attributable to transactions with a single debtor. However, geographically there is only concentration of credit risk in Australia. Most of the Institute's debtors have been transacting with the Institute for a number of years, and losses have occurred infrequently. In monitoring debtor credit risk, debtors' ageing profiles are reviewed as well as any existence of previous financial difficulties. The Institute has established an allowance for impairment that represents its estimate of possible losses in respect of trade and other receivables. This allowance is the aggregate of specific possible losses from identified debtors.

Investments

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

Liquidity risk

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations as they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation. Management monitors cash flow requirements on a daily basis to optimise its cash return on investments. Typically the Institute ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations without the need to draw down from its investments; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Institute maintains the following line of credit:

- $250,000 overdraft facility that is secured against the assets of the Institute. Interest would be payable at the base lending rate plus 0.75% margin.

Capital risk management

During 2008, the Institute entered into an arrangement with its bank to borrow $35.25 million at the prevailing 90-day BBSW plus 0.85 per cent line fee. This bank loan is secured by a fixed and floating charge over all of the Burnet Institute's assets. The loan translated from a construction facility to a term facility in May 2011 and is for a period of 10 years. Refer to Note 17 for details of the swap and cap associated with this loan. Principal is repaid over the course of the term facility according to an agreed schedule as set out in the Loan Agreement. Management monitors the loan facility on a regular basis to ensure that all loan covenants and reporting requirements are met.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Institute's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Institute can enter into derivatives in order to manage market risks in consultation with the Board and other advisors. As explained above, the only derivative financial instruments the Institute is currently involved in are a cap and two swap transactions (Note 17) to manage potential interest rate fluctuations on the ACS2 loan facility. Institute risk is also minimised due to limited holdings of foreign currency and equities.

26. Financial Risk Management (continued)

Interest rate risk

The Institute has adopted a policy to mitigate its interest rate risk by entering into interest rate swaps and caps to manage its overall exposure. Refer Note 17.

27. Financial Instruments

Credit risk

Exposure to credit risk

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

Carrying amount	NOTE	2012 $'000	2011 $'000
Investments	9	2,472	2,484
Receivables	8	6,058	3,130
Cash and cash equivalents	20(i)	11,888	17,842
		20,418	23,456

The Institute's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Carrying amount	2012	2011
Australia	3,456	2,753
Asia	434	287
North America	166	16
Europe	2	74
	4,058	3,130

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

Carrying amount	2012	2011
Not past due	3,438	2,666
Past due 0-30 days	389	202
Past due 31-60 days	60	90
More than 60 days past due	171	172
Less allowance for doubtful debts	–	–
	4,058	3,130

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

Liquidity risk

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

31 December 2012 ($'000)	Carrying amount	Contractual cash flows	6 mths or less	6–12 mths	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loan	34,800	55,112	1,403	1,398	2,779	8,638	40,894
Trade and other payables	3,704	3,704	3,704	–	–	–	–
Current tax liabilities	110	110	110	–	–	–	–
	38,614	58,926	5,217	1,398	2,779	8,638	40,894

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

27. Financial Instruments (continued)

31 December 2011 ($'000)	Carrying amount	Contractual cash flows	6 mths or less	6–12 mths	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loan	35,100	57,935	1,414	1,409	2,801	8,422	43,889
Trade and other payables	3,883	3,883	3,883	–	–	–	–
Current tax liabilities	100	100	100	–	–	–	–
Finance lease liabilities	18	19	19	–	–	–	–
	39,101	61,937	5,416	1,409	2,801	8,422	43,889

Contractual cash flows for the secured bank loan are estimated assuming an average interest rate of 7.21% over the life of the loan with principal repayments as set out in the loan agreement.

Foreign currency risk

The Institute is exposed to foreign currency risk on revenue, purchases and bank accounts that are denominated in a currency other than the functional currency of the Institute. The currency giving rise to this risk is primarily US dollars (USD). At any point in time the Institute has a natural hedge on USD transactions as it holds a USD bank account to pay USD denominated expenses.

Sensitivity analysis

For the year ended 31 December 2012, it is estimated that a general increase of one percentage point in interest rates would have increased the Institute's profit by approximately $83,000 (2011: $107,000).

As at 31 December 2012, it is estimated that a general increase of ten percentage points in the value of the AUD against other foreign currencies would have decreased the Institute's profit by approximately $56,400 (2011: $52,000).

Fair values

The fair value of relevant recognised assets and liabilities are approximate to the values shown in the Statement of Financial Position.

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, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2012 ($'000)				
Financial assets at fair value through the profit or loss	207	–	–	207
Derivative financial liabilities	–	3,728	–	3,728
31 December 2011 ($'000)				
Financial assets at fair value through the profit or loss	219	–	–	219
Derivative financial liabilities	–	2,816	–	2,816

Burnet Institute International Development Activities Operating Statement *(FOR THE YEAR ENDED 31 DECEMBER)*

	2012 $'000	2011 $'000
Revenue		
Donations and gifts – monetary	80	181
Donations and gifts – non-monetary	–	–
Bequests and legacies	–	–
Grants:		
• AusAID	12,030	12,715
• Other Australian	251	120
• Other Overseas	2,223	1,829
Investment Income	–	–
Other Income	428	1,144
Revenue for international political or religious proselytisation programs	–	–
Total revenue	**15,012**	**15,989**
Expenditure		
International aid and development programs expenditure		
International programs:		
• Funds to international programs	10,918	12,902
• Program support costs	812	1,445
Community education	–	–
Fundraising costs:		
• Public	14	3
• Government, multilaterals and private	298	445
Accountability and administration	498	682
Non-monetary expenditure	–	–
Total international aid and development programs expenditure	**12,540**	**15,477**
Expenditure for international political or religious proselytisation programs	–	–
Domestic programs expenditure	3,086	2,102
Total expenditure	**15,626**	**17,579**
Excess/(Shortfall) of revenue over expenditure	**(614)**	**(1,590)**

Notes:

No single appeal or form of fundraising for a designated purpose generated 10% or greater of the Burnet Institute's total income.

This operating statement represents IFRS financial information and is extracted specifically for the operations of the Centre for International Health as required by the ACFID Code of Conduct.

ACFID CODE
integrity·values·accountability

The Macfarlane Burnet Institute for Medical Research and Public Health Limited is a signatory to the Australian Council for International Development Code of Conduct. The Code requires members to meet high standards of corporate governance, public accountability and financial management. More information about the ACFID Code of Conduct can be obtained from ACFID.

www.acfid.asn.au
Tel: (02) 6285 1816
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Directors' Declaration

(FOR THE YEAR ENDED 31 DECEMBER 2012)

1. In the opinion of the Directors of the Burnet Institute:

   (a) the Financial Statements and Notes, set out on pages 27 to 47, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Burnet Institute at 31 December 2012 and of 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 and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Burnet Institute will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this

23rd day of April 2013

Signed in accordance with a resolution of the Directors:

Alastair Lucas AM
Director

Ross Cooke
Director

Independent Auditor's Report

KPMG

Independent auditors' report to the members of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd

Report on the financial report

We have audited the accompanying financial report of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd (the Company) which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity, the statement of cash flows and the Burnet Institute International Development Activities Operating Statement for the year then ended on that date, notes 1 to 27 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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 standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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

Independence

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

Auditor's opinion

In our opinion, the financial report of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

KPMG

KPMG

Alison Kitchen
Partner

Melbourne

23 April 2013

Burnet Institute
Medical Research. Practical Action.

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