

Annual Financial Report

Menzies School of Health Research

ABN 70 413 542 847

31 December 2013

MENZIES SCHOOL OF HEALTH RESEARCH

ABN 70 413 542 847

Annual Financial Report
for the year ended 31 December 2013



Auditor-General

Independent Auditor's Report to the Minister for Health

Menzies School of Health Research

Year Ended 31 December 2013

I have audited the accompanying financial report of Menzies School of Health Research, which comprises the statement of financial position as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes.

The Responsibility of the Board of Governors for the Financial Report

The Board of Governors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I 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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Governors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of Menzies School of Health Research as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations).

F McGuinness

Auditor-General for the Northern Territory

Darwin, Northern Territory

14 May 2014

CERTIFICATE TO THE BOARD OF GOVERNORS

To the best of our knowledge and belief:

- the attached financial statements and notes thereto comply with the *Menzies School of Health Research Act*, applicable Australian Accounting Standards, conform to the Department of Education Financial Statement Guidelines for Australian Higher Education Providers for the 2013 reporting period and other mandatory professional reporting requirements in Australia, the financial position of Menzies as at 31 December 2013, the results of its operations and its cash flows for the year then ended;
- the attached financial statements are in accordance with the accounts and records of Menzies and give a true and fair view of the financial position and performance;
- internal controls over financial reporting have been effective throughout the reporting period;
- at the time of signing of this statement, there are reasonable grounds to believe that Menzies will be able to pay its debts as and when they become due and payable;
- that the amount of Australian Government financial assistance expended during the reporting period was for the purposes for which it was intended; and
- Menzies has complied with applicable legislation, contracts, agreements and program guidelines in making expenditure.



Prof. Alan Cass
Director
Darwin
Date: 13 May 2014



David Blair
Chief operating Officer
Darwin
Date: 13 May 2014

Statement on Behalf of the Board of Governors

The following persons were members of the Menzies School of Health Research Board of Governors and Finance Committee and Risk and Audit Committee for the year ended 31 December 2013

Board of Governors				
		Meetings Attended	Meetings Eligible	
Prof Simon Maddocks	Chairperson	4	4	
	Deputy			
Prof Clare Martin	Chairperson	4	4	
Mr Richard Ryan AO	Treasurer	4	4	
Prof Alan Cass	Board Member	4	4	
Prof Barney Glover (resigned 31 December 2013)	Board Member	3	4	
Prof Sharon Bell	Board Member	4	4	
Prof David Celermajer	Board Member	3	4	
Ms Hilary Hannam	Board Member	3	4	
Mr Jeffrey Moffet	Board Member	3	4	
Mr Robert Wells (appointed 28 June 2013)	Board Member	2	2	
Mr Rowan Johnston	Board Member	4	4	
Mr Ken Davies (appointed 21 May 2013)	Board Member	1	2	
Finance Committee			Risk and Audit Committee	
	Meetings		Meetings	
	Attended	Eligible	Attended	Eligible
Mr Richard Ryan AO	5	5		
Mr Jeffrey Moffat	1	5		
Mr Tom Ganley	3	5		
Ms Julie Crisp*	4	5		
Mr Rowan Johnston	2	2		
Prof Alan Cass	5	5	3	4
Ms Louise Dutton			2	4
Mr Robert Hudson			4	4
Prof Clare Martin			2	4
Mr Peter Hopton			4	4
Mr Robert Wells			2	4
Mr Ross Springolo (ex officio member)			1	2

* Ms Julie Crisp attends Finance Committee meetings as an observer.

Principal Activities

During the year, the principal continuing activities of Menzies consisted of:

- Promoting a broad understanding of health that reflects underlying socioeconomic, environmental, health and disease;
- Conducting high quality multidisciplinary research, research training, and public health education with a focus on indigenous, remote and tropical health;
- Advancing the local, national and international application of research findings to improve health;
- Advocating for research that will contribute to better health for people of the region; and
- Building strong partnerships with community groups, service providers, policymakers and other academic organisations.

There were no significant changes to the activities of Menzies during the 2013 year.

Review of Operations

In 2013 Menzies posted a surplus of \$23.7m. The total income of \$62.6m includes \$25.6m received from the Commonwealth for the purpose of constructing research and training facilities on the Charles Darwin University Casuarina campus and the Royal Darwin Hospital campus and \$0.3m for interest earned on this funding.

In accordance with accounting standards these funds have been recognised as income in the year in which the funds are received. Costs associated with building works are recorded as work in progress in the Balance Sheet.

Excluding the capital funding of \$25.9m Menzies posted a deficit of \$2.2m.

Research activities contribute \$1.1m to the deficit. This deficit reflects the timing difference between the receipt of research income, which is recognised at the time of receipt, and the incurring of research expenditure. The unused research project funding carried forward at 31 December 2013 was \$18.3m.

Non Research activities contribute \$1.1m (comprising depreciation expense of \$292k and administration deficit of \$820k) to this deficit. Reductions to Menzies' core funding during 2013 have contributed to this deficit, and measures were taken during the year to both reduce Menzies' administration costs and to develop new funding streams most notably fundraising.

Likely Developments and Expected Results of Operations

Whilst Menzies' core activities will remain unchanged in 2014, the move into the new world class research and training facilities affords Menzies' an exciting opportunity to further develop its portfolio of work, and exploit opportunities for collaboration with Charles Darwin University and the Royal Darwin Hospital.

Significant Changes in the State of Affairs

There were no significant changes in Menzies affairs during the 2013 year.

Matters subsequent to the End of the Financial Year

Building projects - Please see note 30 of the Financial Statements. This should be read in conjunction with note 31.

Environmental regulations

Menzies is subject to the following environment regulations:

- Gene Technology Act 2000 (amended 2008)
- Northern Territory Radiation Protection Act 2009
- Transport of Dangerous Goods by Road and Rail (National Uniform Legislation) Act 2010
- Industry Code of Practice for the Management of Clinical & Related Wastes 5th Edition 2007

Insurance of Officers

Menzies has not for profit organisation insurance to insure the members of the Board of Governors and the officers of Menzies against any claim arising from Menzies related activities. Cover is limited to \$5,000,000 in any one year and in 2013 the premium was \$9,202.

Proceedings on Behalf of Menzies School of Health Research

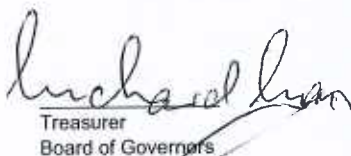
There were no legal proceedings undertaken by Menzies in the 2013 year and no legal proceedings taken against Menzies.

This report is made in accordance with a resolution of the members of the Menzies School of Health Research.


Chair
Board of Governors

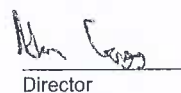
Location Darwin

13 May 2014


Treasurer
Board of Governors

Location Sydney

13 May 2014


Director

Location Darwin

13 May 2014

Income Statement *

MENZIES SCHOOL OF HEALTH RESEARCH
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 \$	2012 \$
Income from continuing operations			
Australian Government financial assistance	2	43,988,402	18,990,079
NT Government financial assistance	3	4,979,859	5,955,990
Fees and charges	4	2,449,308	1,931,691
Investment income	5	1,738,024	1,956,398
Consultancy and contract research	6	6,636,005	6,816,315
Other revenue	7	2,798,545	2,809,499
Total revenue from continuing operations		62,590,143	38,459,972
Gain on disposal of assets		11,310	996
Total income from continuing operations		62,601,453	38,460,968
Expenses from continuing operations			
Employee related expense	8	24,007,856	24,691,585
Depreciation	9	292,079	351,454
Repairs and maintenance	10	762,041	733,230
Impairment of assets		-	2,000
Other expenses	11	13,861,044	12,909,808
Total expenses from continuing operations		38,923,020	38,688,077
Operating result (deficit) from continuing operations		23,678,433	(227,109)
Operating result attributable to members		23,678,433	(227,109)

* To be read in conjunction with the Notes to the Financial Statements

Statement of Comprehensive Income*

MENZIES SCHOOL OF HEALTH RESEARCH
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 \$	2012 \$
Operating result (deficit) for the year	23,678,433	(227,109)
Gain (loss) on revaluation of investments	<u>3,983</u>	<u>(4,092)</u>
Total Comprehensive Income (Loss)	<u>23,682,416</u>	<u>(231,201)</u>
Total Comprehensive Income (Loss) attributable to members	<u>23,682,416</u>	<u>(231,201)</u>

* To be read in conjunction with the Notes to the Financial Statements

Statement of Financial Position*

MENZIES SCHOOL OF HEALTH RESEARCH
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 \$	2012 \$
ASSETS			
Current Assets			
Cash and cash equivalents	12	33,091,302	34,890,444
Trade and other receivables	13	2,301,238	2,100,039
Other financial assets	14	1,174,658	3,042,210
Other non financial assets	15	311,714	261,183
Total Current Assets		36,878,912	40,293,876
Non-Current Assets			
Property, plant and equipment	16	35,007,113	7,756,016
Other financial assets	14	24,346	20,363
Total Non-Current Assets		35,031,458	7,776,379
Total Assets		71,910,370	48,070,256
Current Liabilities			
Trade and other payables	17	2,038,395	2,487,749
Provisions	18	3,162,777	2,620,380
Other liabilities	19	353,166	33,864
Total Current Liabilities		5,554,339	5,141,992
Non-Current Liabilities			
Provisions	18	290,174	544,822
Total Non-Current Liabilities		290,174	544,822
Total Liabilities		5,844,513	5,686,814
Net Assets		66,065,857	42,383,442
Equity			
Reserves	20	9,992,080	10,988,211
Retained earnings	21	56,073,776	31,395,231
Total Equity		66,065,857	42,383,442

* To be read in conjunction with the Notes to the Financial Statements

Statement of Changes in Equity*

MENZIES SCHOOL OF HEALTH RESEARCH
FOR THE YEAR ENDED 31 DECEMBER 2013

	Reserves (Note 20)	Retained Surplus (Note 21)	Total
Balance at 1 January 2012	15,318,889	27,295,754	42,614,643
Profit or Loss	0	(227,109)	(227,109)
Net Revaluation loss on investments	(4,092)	0	(4,092)
Total Comprehensive Income	15,314,797	27,068,645	42,383,442
Transfers	(4,326,586)	4,326,586	0
Balance at 31 December 2012	10,988,211	31,395,231	42,383,442
Balance at 1 January 2013	10,988,211	31,395,231	42,383,442
Profit or Loss	0	23,678,433	23,678,433
Net Revaluation loss on investments	3,983	0	3,983
Total Comprehensive Income	10,992,194	55,073,663	66,065,857
Transfers	(1,000,113)	1,000,113	0
Balance at 31 December 2013	9,992,080	56,073,776	66,065,857

* To be read in conjunction with the Notes to the Financial Statements

Statement of Cash Flows*

**MENZIES SCHOOL OF HEALTH RESEARCH
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 \$	2012 \$
Cash flows from operating activities			
Australian Government grants		43,120,883	19,597,770
NT Government funding		5,002,461	6,072,463
Receipts from Student Fees		2,774,783	2,039,361
Interest received		1,738,024	1,955,772
Consultancies and Contract research		7,275,835	6,331,954
Other receipts		4,473,516	2,603,372
Payments to suppliers		(14,932,673)	(13,503,364)
Payments to employees		(23,720,106)	(24,695,347)
Net cash provided by operating activities	26	25,732,723	401,981
Cash flows from investing activities			
Proceeds from sale of plant and equipment		22,730	16,973
Payments for property, plant and equipment		(27,554,596)	(4,116,760)
		(27,531,866)	(4,099,787)
Net cash outflow from investing activities		(1,799,143)	(3,697,806)
Net increase in cash and cash equivalents			
	12	34,890,444	38,588,250
Cash and cash equivalents at the beginning of the year	12	33,091,302	34,890,444

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH
FOR THE YEAR ENDED 31 DECEMBER 2013

Contents of notes to the Financial Statements

Note Number	Note	Page
1	Summary of Significant Accounting Policies	12-15
2	Australian Government Financial Assistance	16
3	Northern Territory Government Funding	16
4	Fees and Charges	16
5	Investment Income	16
6	Consultancy and Contract Research	16
7	Other Revenue	16
8	Employee Related Expenses	17
9	Depreciation	17
10	Repairs and Maintenance	17
11	Other Expenses	18
12	Cash and Cash Equivalents	18
13	Trade and Other Receivables	18
14	Other Financial Assets	19
15	Other Non-Financial Assets	19
16	Property, Plant and Equipment	19
17	Trade and Other Payables	19
18	Provisions	20
19	Other Liabilities	20
20	Reserves	20-21
21	Retained Earnings	21
22	Key Management Personnel Disclosures	22-23
23	Related Parties	23
24	Economic Dependency	23
25	Events Occurring After Balance Sheet Date	23
26	Reconciliation of Operating Result to Net Cash Flow from Operating Activities	24
27	Financial Risk Management	24-25
28	Remuneration of Auditors	26
29	Commitments	26-27
30	Work in Progress	27-28
31	Assets Pledged as Security	28

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

INTRODUCTION

The Menzies School of Health Research (Menzies) was established as a body corporate of the Northern Territory Government under the Menzies School of Health Research Act, No 60 of 1985. Menzies School of Health Research operates as a medical research institute within the Northern Territory of Australia.

The principal place of business is:

Building 58, Royal Darwin Hospital Campus,
Rocklands Drive, Tiwi, Northern Territory 0810, Australia
Telephone Number: +61 8 8922 8196

Under the Menzies School of Health Research Amendment Act ('the Act') assented to on 29 August 2003 and coming into force on 1 January 2004, Menzies became a controlled entity of Charles Darwin University. The Act stipulates that Charles Darwin University will be responsible for nominating seven (7) of the thirteen (13) board positions required under the Act.

Menzies is still required to furnish an annual report and audited financial statements at an annual general meeting, however, the results will be consolidated with those of the Charles Darwin University.

Operations and principal activities

Menzies mission is to improve the health of people of northern and central Australia and regions to the near north through multidisciplinary research and education by:

- Promoting a broad understanding of health that reflects underlying socioeconomic, environmental, health and disease.
- Conducting high-quality multidisciplinary research, research training and public health education with a focus on Indigenous, remote and tropical health.
- Advancing the local, national and international application of research findings to improve health.
- Advocating for research that will contribute to better health for people of the region.
- Building strong partnerships with community groups, service providers, policymakers, and other academic organisations.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by Menzies in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

The annual financial statements represent the audited general purpose financial statements which have been prepared on an accrual basis in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) the requirements of the *Higher Education Support Act 2003* (Financial Statement guidelines) and other State and Commonwealth Government legislative requirements.

Menzies is a not-for-profit entity and these statements have been prepared on that basis. Some of the Australian Accounting Standards requirements for not-for-profit entities are consistent with the IFRS requirements.

Date of authorisation for issue

The financial statements were authorised for issue by the board members of Menzies on 13 May 2014.

New Accounting Standards

Several new standards, amendments to standards or interpretations have been promulgated by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods of the organisation.

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

Currency

The financial report is presented in Australian dollars and rounded to the nearest dollar.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by certain classes of property, plant and equipment being recognised at fair value through profit and loss.

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Menzies accounting policies. The estimates and underlying assumptions are reviewed on an ongoing basis.

b. Revenue Recognition Policy

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Menzies recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to it and specific criteria have been met for each of the organisations activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Menzies bases its estimates on historical costs, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

1) Government Grants

Menzies treats operating grants received from Australian government entities as income in the year of receipt.

Grants from the government are recognised at their fair value where Menzies obtains control of the right to receive the grant; it is probable that economic benefits will flow to Menzies and it can be reliably measured.

2) Student fees and charges

Fees and charges are recognised as income in the year of receipt, except to the extent that fees and charges relate to courses to be held in future periods. Such income is treated as income in advance. Conversely, fees and charges relating to debtors are recognised as revenue in the year to which the prescribed course relates.

3) Other income

All other income is recognised when it is earned and can be reliably measured.

c. Employee Benefits

i. Wages & salaries

Liabilities for short term employee benefits including wages and salaries, non-monetary benefits due to be settled within 12 months after the end of the period are measured at the amount expected to be paid when the liability is settled and recognised in other payables. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

ii. Annual leave and sick leave

The liability for long-term employee benefits such as annual leave and accumulating sick leave is recognised in current provisions for employee benefits as it is not due to be settled within 12 months after the end of the reporting period. It is measured at the amount expected to be paid when the liability is settled. Regardless of the expected timing of settlements, provisions made in respect of employee benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non current liability.

iii. Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

iv. Retirement benefit obligations

All employees of the group are entitled to benefits on retirement, disability or death from the organisations superannuation plan. The organisation has a defined benefit section and a defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from the organisation and the organisations legal or constructive obligation is limited to these contributions.

v. Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The organisation recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance date are discounted to present value.

d. Income Tax

Menzies is exempt from income tax pursuant to the provisions of Section 50-5 of the Income Tax Assessment Act, 1997.

e. Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of Cash Flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

f. Depreciation

Depreciation is calculated on a straight line (except for Motor Vehicles which is calculated on a diminishing value) basis so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The following estimated useful lives are used consistently in both years in the calculation of depreciation:

- | | |
|--------------------------|-----------|
| • Leasehold Improvements | 5 years |
| • Plant and Equipment | 3-5 years |
| • Motor Vehicles | 4.4 years |

g. Impairment of Assets

The carrying values of all assets are reviewed for impairment at each reporting date with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying amount may be impaired.

Menzies values the recoverable amount of plant and equipment at the equivalent to its depreciated replacement cost. Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount.

Impairment losses are recognised in the income statement unless the asset has previously been revalued, when the impairment loss will be treated as a revaluation decrement.

h. Property, Plant & Equipment

Property, Plant & Equipment is stated at historical cost, less depreciation and impairment, except where plant & equipment has undergone a valuation by an external independent valuer, where it is stated at fair value, less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Gains and losses on disposal of plant and equipment are taken into account in determining the result for the year.

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

i. Trade and other payables

These amounts represent liabilities for goods and services provided to the School prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

j. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Where accounts at financial institutions are overdrawn, balances are shown in current liabilities on the statement of financial position.

k. Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. An estimate for impairment is made when collection of the full amount is no longer probable. Bad debts are written-off to the Profit and Loss account as incurred.

l. Commitments

Commitments are recognised when Menzies has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Commitments recognised represent the best estimate of the amounts required to settle the obligation at reporting date.

m. Operating Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense in the income statement on a straight-line basis over the lease term.

n. Work in progress

Buildings in the course of construction for research, education or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Menzies accounting policy. Depreciation of these assets, on the same bases as other property assets, commences when the assets are ready for their intended use.

o. Investments and other financial assets

Menzies holds publicly listed shares that have been donated to Menzies. These shares are not actively traded and are designated as available for sale instruments. Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
	\$	\$
NOTE 2. AUSTRALIAN GOVERNMENT FINANCIAL ASSISTANCE		
Non Capital		
National Health & Medical Research Council grants	12,518,088	12,315,232
Australian Research Council	633,366	996,569
Australian Agency for International Development (AusAid)	1,035,044	2,185,831
DIISRTE	318,804	276,600
FaHCSIA	159,441	515,535
Department of Health & Aged Care grants	3,673,659	2,700,312
Total	18,338,402	18,990,079
Capital		
Department of Health & Aged Care grants	25,650,000	-
	25,650,000	-
Total Australian Government Financial Assistance	43,988,402	18,990,079
NOTE 3. NORTHERN TERRITORY GOVERNMENT FINANCIAL ASSISTANCE		
Non Capital		
NT Government other grant funding	4,979,859	5,955,990
Total Northern Territory Government Financial Assistance	4,979,859	5,955,990
NOTE 4. FEES AND CHARGES		
Course fees and charges		
Fee-paying overseas students	84,112	66,136
Fee-paying domestic postgraduate students	1,261,041	1,059,148
Total course fees and charges	1,345,153	1,125,284
Other Fees and charges		
Administration receipts	501,691	67,113
Reimbursements	602,464	739,294
Total other fees and charges	1,104,155	806,407
Total Fees and Charges	2,449,308	1,931,691
NOTE: 5. INVESTMENT INCOME		
Interest	1,738,024	1,956,398
Total Investment Income	1,738,024	1,956,398
NOTE 6. CONSULTANCY AND CONTRACT RESEARCH		
Consultancies	500,576	546,023
Contract Research	6,135,429	6,270,292
Total Consultancy and Contract Research	6,636,005	6,816,315
NOTE 7. OTHER REVENUE		
Menzies Foundation	75,000	75,000
Charles Darwin University	2,588,731	2,518,772
Donations	110,082	153,242
Other	24,732	62,485
Total Other Revenue	2,798,545	2,809,499

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 8. EMPLOYEE RELATED EXPENSES	2013 \$	2012 \$
Research:		
Salaries	13,620,023	15,132,145
Superannuation	1,672,633	1,923,995
Payroll tax	828,428	918,619
Worker's compensation	118,716	124,245
Long services leave expense	307,615	300,180
Leave Loading	247,234	241,499
Annual leave	1,671,613	1,801,484
Total Research	18,466,262	20,442,167
Education and Training:		
Salaries	813,987	441,495
Superannuation	105,356	52,435
Payroll tax	49,153	28,024
Worker's compensation	7,095	3,663
Long services leave expense	30,716	12,338
Leave Loading	13,791	7,105
Annual leave	109,235	58,137
Total Education	1,129,332	603,196
Non Research and Education:		
Salaries	3,232,410	2,937,164
Superannuation	471,990	411,941
Payroll tax	32,479	30,478
Worker's compensation	28,175	25,239
Long services leave expense	(42,757)	(212,081)
Leave Loading	48,391	41,292
Annual leave	641,574	412,189
Total Non-Research and Education	4,412,262	3,646,222
Total Employee Benefits	24,007,856	24,691,585
NOTE 9. DEPRECIATION		
Plant and Equipment	264,579	322,998
Leasehold Improvements	-	1,911
Motor Vehicles	27,501	26,544
Total Depreciation	292,079	351,453
NOTE 10. REPAIRS AND MAINTENANCE		
General	98,433	107,138
Maintenance Contracts	663,608	626,092
Total Repairs and Maintenance	762,041	733,230

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
	\$	\$
NOTE 11. OTHER EXPENSES		
Administration	159,358	68,877
Communications	242,629	270,962
Consultants	1,657,327	1,503,074
Education	86,591	92,336
Equipment Costs	179,010	184,996
Information Technology	326,740	342,088
Insurance	215,656	193,861
Joint Venture Costs - CRC	200,000	200,000
Laboratory	989,257	789,151
Licences, Memberships, Fees and Charges	156,448	293,148
Materials	74,253	63,082
Research Project Costs	4,077,407	2,605,884
Scholarship Payments	854,325	743,265
Stationery, Printing and Postage	393,857	456,839
Travel, Staffing and Related Costs	2,906,094	3,761,373
Utilities and Facilities Management	362,709	338,708
Other	979,384	1,002,164
Total Other Expenses	13,861,044	12,909,808

NOTE 12. CASH AND CASH EQUIVALENTS

Cash at Bank	2,278,376	2,659,067
Term Deposits & Call Accounts	30,812,926	32,231,377
Total cash and cash equivalents	33,091,302	34,890,444

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the year as shown in the statement of cash flows as follows:

Balance as per statement of cash flows	33,091,302	34,890,444
--	------------	------------

(b) Term deposits

Term deposits fixed rates of interest of and an average maturity of 120 days.

NOTE 13. RECEIVABLES

Current		
Debtors	2,301,238	2,100,039
Less: Provision for impairment	-	-
Total current receivables	2,301,238	2,100,039

(a) Impaired receivables

As at 31 December 2013, there were no impaired receivables (2012: \$0). There was no movement during the year.

As at 31 December 2013 trade receivables of \$483,019 (2012: \$1,093,198) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these:

Less than 3 months	371,851	961,773
3 to 6 months	111,168	131,415
Over 6 months	-	-
	483,019	1,093,188

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 \$	2012 \$
NOTE 14. OTHER FINANCIAL ASSETS		
Current		
GST Receivable	176,694	310,533
Other Receivables	44,538	98,016
Accrued Revenue	953,426	2,633,661
	<u>1,174,658</u>	<u>3,042,210</u>
Non-current		
Australian listed equity securities available for sale	24,346	20,363
	<u>1,199,004</u>	<u>3,062,573</u>
Total other financial assets		

NOTE 15. OTHER NON-FINANCIAL ASSETS

	242,139	181,278
Prepaid Expenses	69,575	79,905
Other Assets		
	<u>311,714</u>	<u>261,183</u>

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Plant & Equipment	Motor Vehicles	Work in Progress	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2012					
Opening net book amount	1,911	791,159	123,736	2,171,402	3,088,208
Additions	-	81,074	18,263	4,935,902	5,035,239
Disposals	-	0	(62,920)	-	(62,920)
Depreciation charge	(1,911)	(322,998)	(26,544)	-	(351,454)
Write-Back Accumulated Depreciation	-	0	46,943	-	46,943
Closing net book amount	-	549,235	99,478	7,107,304	7,756,016
At 31 December 2012					
- Cost	708,035	623,761	90,598	7,107,304	8,529,698
- Valuation	-	2,680,334	158,059	-	2,838,393
Accumulated depreciation	(708,035)	(2,754,860)	(149,179)	-	(3,612,075)
Net book amount	-	549,235	99,478	7,107,304	7,756,016
Year ended 31 December 2013					
Opening net book amount	-	549,235	99,478	7,107,304	7,756,016
Additions	-	222,456	73,182	27,258,958	27,554,596
Disposals	-	(51,667)	(22,205)	0	(73,872)
Depreciation charge	-	(264,579)	(27,501)	0	(292,079)
Write-Back Accumulated Depreciation	-	51,667	10,785	0	62,452
Closing net book amount	-	507,113	133,739	34,366,262	35,007,113
At 31 December 2013					
- Cost	708,035	794,550	188,517	34,366,262	36,057,364
- Valuation	-	2,680,334	158,059	-	2,838,393
Accumulated depreciation	(708,035)	(2,967,771)	(212,837)	-	(3,888,644)
Net book amount	-	507,113	133,739	34,366,262	35,007,113

	2013 \$	2012 \$
NOTE 17. TRADE AND OTHER PAYABLES		
Trade and Other Payables	867,148	271,801
Accrued Expenses	1,171,247	2,215,948
	<u>2,038,395</u>	<u>2,487,749</u>
Total Payables		

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 \$	2012 \$
NOTE 18. PROVISIONS		
Current Provisions expected to be settled within 12 months		
Employee benefits		
- Annual leave	2,083,136	2,029,954
- Leave Loading	-	1,698
- Long service leave	1,079,641	588,727
Total Current	3,162,777	2,620,380
Non-Current		
Employee benefits		
- Long service leave	290,174	544,822
Total Non-Current	290,174	544,822
Total Provisions	3,452,952	3,165,202
NOTE 19. OTHER LIABILITIES		
Revenue Received in Advance	325,431	3,845
Credit Card Clearing	27,735	30,019
Total Other Liabilities	353,166	33,864
NOTE 20. RESERVES		
(a) Reserves Comprise		
Revaluation Reserve	52,903	52,903
Capital Asset Reserve	4,410,389	4,118,309
Restricted reserve Building	5,499,989	6,792,181
Investment Revaluation Reserve	28,800	24,817
Total Reserves	9,992,080	10,988,211
(b) Movement In Reserves		
Revaluation Reserve		
Balance at the Beginning of the Financial Year	52,903	52,903
Assets retired transferred to equity	-	-
Balance at the End of the Financial Year	52,903	52,903
Capital Assets Reserve		
Balance at the Beginning of the Financial Year	4,118,309	3,766,856
Plus: Annual Contribution transferred from retained earnings	292,079	351,453
Balance at the End of the Financial Year	4,410,389	4,118,309
Investment Revaluation Reserve		
Balance at the Beginning of the Financial Year	24,817	28,909
Increment/(Decrement)	3,983	(4,092)
Balance at the End of the Financial Year	28,800	24,817
Restricted Reserve Building		
Balance at the Beginning of the Financial Year	6,792,181	11,470,219
Increment/(Decrement)	(1,292,193)	(4,678,038)
Balance at the End of the Financial Year	5,499,989	6,792,181

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 20. RESERVES (Cont.)

Nature and purpose of reserves

Revaluation reserve

The Revaluation Reserve is used to record increases in the fair value of assets and decreases to the extent that such decreases relate to an increase on the same asset previously recorded in equity.

Capital Assets Reserve

In recognition of the need to plan for the purchase of large capital items, the Governing Board approved the establishment of a Capital Assets Reserve. Amounts transferred to the Capital Assets Reserve are calculated on an annual basis as follows:

- an amount equal to the depreciation expense recorded for that year
- an amount equal to twenty (20) per cent of any surplus generated by the administration cost centre
- an amount equal to ten (10) per cent of any surpluses generated from the research projects that are not tied to grant funding and have been undertaken on a fee for service basis.

Investment revaluation reserve

The Investment Revaluation Reserve is used to record increases in the fair value of investments and decreases to the extent that the reserve has available funds.

NOTE 21. RETAINED EARNINGS

	2013	2012
	\$	\$
Balance at the Beginning of the Financial Year	31,395,231	27,295,754
Operating Result	23,678,433	(227,109)
Transfers to Reserve	1,000,113	4,326,585
Balance at the End of the Financial Year	56,073,776	31,395,231

Transfers to reserves include an amount equal to the depreciation expense for 2013 of \$292,079 to Capital Asset Reserves and movement of new building WIP and funding for 2013 of \$1,292,193.

21.1 ANALYSIS OF NET SURPLUS

Surplus/(Deficit) for the year includes revenue received for research projects that have a life beyond the end of the financial year. Revenue received for these projects is recognised in the year of receipt. Future commitments for these projects will extend beyond the year the income was received for those projects.

Administration Surplus/(Deficit)	24,834,752	(661,543)
Research Project Surplus	(1,156,319)	434,434
Total Net Surplus	23,678,433	(227,109)

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 22. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Names of responsible persons and executive officers

The following persons were responsible persons of Menzies during the year:

Prof Simon Maddocks (Chair)
 Prof Clare Martin (Deputy Chair)
 Mr Richard Ryan AO - Treasurer
 Prof Alan Cass - Director/Board Member*
 Prof Barney Glover - Board Member (resigned 31 December 2013)
 Prof Sharon Bell - Board Member
 Prof David Celamajer - Board Member
 Ms Hilary Hannam - Board Member
 Mr Jeffrey Moffet - Board Member
 Mr Robert Wells - Board Member (appointed 28 June 2013)
 Mr Rowan Johnston - Board Member
 Mr Ken Davies - Board Member (appointed 21 May 2013)
 Prof Ross Andrews - Deputy Director (appointed 31 January 2013)
 Mr David Blair - Chief Operating Officer
 Ms Adrienne Farago - Executive Officer
 Ms Heather D'antoine - Division Leader
 Prof Nick Anstey - Division Leader
 Prof Anne Chang - Division Leader
 A/Prof Gail Garvey - Division Leader
 Dr Julie Brimblecombe - Division Leader

** Board members may include employees who may be ex-officio members or elected staff members. No Board member has received any remuneration in their capacity as a Board member. Board members may also be executive officers. Where this is the case they have been included in the executive officer remuneration band below.*

(b) Remuneration of responsible persons

Income paid or payable or otherwise made available to Board members and executive officers in connection with the management of affairs of Menzies:

	2013	2012
Remuneration of Board Members		
Nil to \$9,999	11	11
Remuneration of Executive Officers		
Nil to \$9,999	-	-
\$ 50,000 to \$ 59,999	-	-
\$ 60,000 to \$ 69,999	-	1
\$ 80,000 to \$ 89,999	1	1
\$ 100,000 to \$ 109,999	-	-
\$ 110,000 to \$ 119,999	-	1
\$ 120,000 to \$ 129,999	2	2
\$ 130,000 to \$ 139,999	-	1
\$ 140,000 to \$ 149,999	2	1
\$ 150,000 to \$159,999	-	1
\$ 160,000 to \$ 169,999	-	-
\$ 190,000 to \$199,999	1	1
\$ 200,000 to \$209,999	1	1
\$ 280,000 to \$289,999	-	-
\$ 320,000 to \$329,999	1	1
\$ 390,000 to \$399,999	1	1
\$ 460,000 to \$ 469,999	-	-

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 22. KEY MANAGEMENT PERSONNEL DISCLOSURES (Cont)

(c) Loans and other transactions with key management personnel

During the 2013 financial year no loans or other related party transactions were made to any Board members or executive officers.

(d) Key management personnel compensation

	2013	2012
	\$	\$
Short-term employee benefits	1,552,168	1,661,536
Post employee benefits	195,150	198,795
	<u>1,747,318</u>	<u>1,860,331</u>

NOTE 23. RELATED PARTIES

(a) Parent entity

As of 1 January 2004 Menzies became a controlled entity of Charles Darwin University (CDU). Whilst Menzies retains its own Act of Parliament, CDU exercises its control over Menzies by having the power to nominate seven (7) of the thirteen (13) members of the Board of Directors.

(b) Board Members and specified executives

Disclosures relating to Board members and specified executives are set out in note 22.

(c) Transactions with related parties

In 2013 Menzies received student fee income of \$1,555,478 from CDU (2012 \$1,071,124). The income was earned by Menzies from students enrolled with CDU but undertaking all course work with the Education Section of Menzies. The terms and conditions governing the payment of these fees to Menzies is covered in Attachments one and two of the Memorandum of Understanding signed between Menzies School of Health Research and Charles Darwin University in March 2004. In summary these conditions state:

"According to an agreed formula based on student load projections, consistent with the normal budgetary process of both institution, domestic students currently enrolled as HECS students with CDU will be entitled to complete their courses as HECS students, subject to reasonable academic progress and consistent with DEST policies. CDU will provide Menzies 70% of the dollar value per EFTSU for 2004. This will be reviewed annually."

Menzies received :

	2013	2012
	\$	\$
Student Fee Income	1,555,478	1,071,124
Research Infrastructure Block Grant	1,224,205	1,296,395
Sustainable Research Excellence	886,715	807,449
Joint Research Engagement	402,811	349,927
Salaries	50,000	53,108
Project Transfers	718,850	1,082,208
	<u>4,838,059</u>	<u>4,660,211</u>

Payments To CDU

Information technology and Student Fees	767,639	74,506
	<u>767,639</u>	<u>74,506</u>

NOTE 24: ECONOMIC DEPENDENCY

The management and operational ability of grant funded projects is dependent on the continued funding from the Northern Territory Government as well as the Australian Government.

NOTE 25. EVENTS OCCURRING AFTER BALANCE SHEET DATE

For events relating to the Building Project please refer to Note 30. In addition, Menzies is currently in the process of finalising its ongoing funding agreements with the Northern Territory Government.

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 26. RECONCILIATION OF OPERATING RESULT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013	2012
	\$	\$
Operating Result	23,678,433	(227,109)
Depreciation	292,079	351,454
Net gain on disposal of assets	(11,310)	(996)
	23,959,202	123,349
Changes in Assets and Liabilities		
(Increase)/Decrease in receivables	(201,198)	349,183
(Increase)/Decrease in prepayments	(60,861)	(13,383)
(Increase)/Decrease in other assets	63,808	29,120
(Increase)/Decrease in accrued revenue	1,680,235	(206,127)
Increase/(Decrease) in trade and other payables	595,348	(86,367)
Increase/(Decrease) in accrued expenses	(1,044,702)	332,073
Increase/(Decrease) in GST receivable	133,838	(113,603)
Increase/(Decrease) in other liabilities	319,303	(8,502)
Increase/(Decrease) in employee provisions	287,750	(3,762)
	1,773,521	278,632
Net Cash Generated From/(Used) in Operating Activities	25,732,723	401,981

Note 27 FINANCIAL RISK

Menzies activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Menzies overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of Menzies. Menzies does not use derivative financial instruments such as foreign exchange contracts and interest swaps to hedge certain risk exposures. Menzies uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by the executive officer under policies approved by the Board of Directors. Menzies identifies, evaluates and hedges financial risks in close co-operation with Menzies operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Menzies has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency, and Menzies statement of financial position can be effected by movement in US\$/Euro/AU\$ exchange rates.

Considering the limited exposure to these risks, Menzies does not engage in any form of hedging.

There has been no change in Foreign exchange risk since the previous period

(ii) Price risk

Menzies exposure to commodity and equity securities risk is minimal.

Equity securities price risk arises from investments in equity securities. The equity investments are comparatively minor in terms of Menzies total assets and are publicly traded on the ASX. The price risk for these securities is immaterial in terms of a possible impact on profit and loss or total equity and such a sensitivity analysis has not been completed.

(iii) Interest rate risk

Menzies exposure to market interest rate relates primarily to its investments in term deposits.

Menzies monitors the future predicted interest rates and manages cash reserves by negotiating with financial institutions on term deposit rates. The finance committee are informed of the management of Menzies Cash Reserves.

MENZIES SCHOOL OF HEALTH RESEARCH
 FOR THE YEAR ENDED 31 DECEMBER 2013

(iv) Summarised sensitivity analysis

		Interest rate risk				Foreign exchange risk				Other price risk			
		-2%		2%		-2%		15%		-5%		15%	
		Result	Equity	Result	Equity	Result	Equity	Result	Equity	Result	Equity	Result	Equity
31 December 2013													
Financial assets	Carrying amount												
Cash and cash equivalents	33,091,302	(661,826)	(661,826)	661,826	661,826	-	-	-	-	-	-	-	-
31 December 2012													
Financial assets	Carrying amount												
Cash and cash equivalents	34,890,444	(697,809)	(697,809)	697,809	697,809	-	-	-	-	-	-	-	-

Credit risk arises from the financial assets of Menzies, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets. Menzies exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets.

Menzies trade only with recognised, creditworthy third parties, and as such collateral is not requested nor is it Menzies policy to securities its trade and other receivables.

Liquidity risk arises from the financial liabilities of Menzies and Menzies subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

(d) Fair value estimation

The carrying amount of cash and cash equivalents approximates fair value because of their short-term to maturity. The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature.

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE: 28 REMUNERATION OF AUDITORS

Menzies is responsible for payment of audit services to the Auditor-General. Total payments amounted to \$26,536, (\$34,806 in 2012).

Note: 29 COMMITMENTS

Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

	2013	2012
	\$	\$
Within one year	235,590	296,686
Later than one year but not later than five years	300,708	
Later than five years	-	-
	536,298	296,686

Representing:

Cancellable operating leases	536,298	296,686
Non-cancellable operating leases	-	-
Future finance charges on finance leases	-	-
	536,298	296,686

(i) Operating leases

20 Catherthun St, Winnellie

Lease over upper level of 20 Catherthun St, Winnellie - Lettable Area : Buildings approx 966sqm

Rental and Terms of Payment : The initial rental shall be \$199,365 per annum (inclusive of GST) to be in equal monthly payments in advance with the first payment due upon the signing of this Agreement to lease. A lease extension has been agreed upon to 6 April 2014.

Term of Lease : Two (2) YEARS

Option Period : Two (2) terms of six (6) months each

Commencement Date : 7 July 2010

147 Wharf Street, Brisbane

Lease on 147 Wharf Street Brisbane.

Rental and Term of Payment: The initial rental shall be \$158,400 (GST inclusive) exclusive of outgoings to be in equal monthly payments in advance with the security bonds of an amount equal to 6 months' rent (\$79200 inclusive GST) immediately upon the signing of the Agreement to lease. Option periods were reviewed on the 9 October 2013.

Term of Lease: Two (2) years

Option Period: Three (3) terms; one of three (3) years and two of

Commencing Date: 23 July 2011

Vietnam

Lease of office Level 3, Department of Control and Prevention of Disease, Pasteur Institute, Hochiminh City, Vietnam.

Rental and Term of Payment: The initial rental shall be US\$5,040 to be paid in six (6) monthly equal payments in advance.

Term of Lease: Three (3) years

Option Period: Negotiable

Commencing Date: 23 April 2013

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

(ii) other expenditure commitments

	2013	2012
	\$	\$
Within one year	55,000	200,000
Later than one year but not later than five years	40,000	100,000
Later than five years	-	-
	95,000	300,000

Commitments for future core partner payments to the Lowitja Institute at reporting date but not recognised as liabilities payable. The current agreement expires 30 June 2014 at which time the future payments will reduce from \$100,000 per annum to \$10,000 per annum.

(iii) Capital commitments

The following capital expenditure commitments with respect to the building projects were entered into:

Within one year	14,015,978	34,815,716
After one year	-	-
	14,015,978	34,815,716

Note 30: WORK IN PROGRESS

Menzies has been granted funds from the Australian and Northern Territory Governments (NTG) for the purpose of constructing research and training facilities at Charles Darwin University (CDU) and Royal Darwin Hospital (RDH) and for refurbishing an existing building at RDH.

Menzies intends to transfer ownership of the buildings to CDU and NTG respectively upon completion of the works and for Menzies to occupy the buildings for nominal rent thereafter.

The new buildings will accommodate 420 Menzies staff and will allow Menzies to continue to conduct medical research and training, including laboratory and clinical research.

Accounting Treatment - Construction

Receipt of funding income has been recognised as revenue at time of receipt in accordance with AASB 1004 Contributions. Expenditure on the building project to date has been recognised as work in progress within the balance sheet.

Charles Darwin University Building

Menzies is in the process of constructing a new Administration / Research building on the Casuarina Campus of Charles Darwin University. The construction is being funded by the Commonwealth Department of Health and Ageing under a Funding Agreement. At completion the building will be handed over to Charles Darwin University at no cost. Charles Darwin University have offered Menzies a 40 year lease at a peppercorn rent over the building. The university will also occupy a portion of the building (the extent is yet to be determined).

Accounting Treatment on transfer of Ownership to Charles Darwin University (CDU)

Australian accounting pronouncements do not deal specifically with the recognition of the costs of a self constructed building that is to be subsequently gifted to another entity. The appropriate accounting for such property is therefore determined in accordance with the general principles.

The cost or reduction in future economic benefits arising from the gifting of the building does not meet the definition of an expense. Expenses are defined in the framework as "decreases in economic benefits during the accounting period... other than those relating to distributions to equity participants". As the transaction is a transaction between Menzies and its parent entity CDU it is considered to be a common control transaction that will be accounted for within equity.

When the building is transferred to CDU, the building will be derecognised by Menzies and the carrying amount of the asset will be recognised in the statement of changes in equity as a distribution to CDU, the controlling entity.

In accounting for the peppercorn lease of the CDU building, Menzies will apply the recognition and measurement requirements of AASB 117 Leases.

Royal Darwin Hospital Building Project

Menzies School of Health Research is in the process of constructing a new Administration / Research building on the Royal Darwin Hospital Campus of the Northern Territory Department of Health. The construction is being funded by the Commonwealth Department of Health and Ageing under a Funding Agreement. The building is being constructed on the Royal Darwin Hospital Campus owned by the Northern Territory Department of Health. At completion the building will be handed over to the Northern Territory Department of Health at no cost. The Northern Territory Department of Health are required to provide Menzies with a 20 year lease at a peppercorn rent being \$1.00 per annum over the building under the Funding Agreement.

Notes to the Financial Statements

MENZIES SCHOOL OF HEALTH RESEARCH FOR THE YEAR ENDED 31 DECEMBER 2013

Note 30: WORK IN PROGRESS (contd.)

Accounting Treatment on transfer of Ownership to Royal Darwin Hospital (RDH)

Upon completion of the building and gifting to the Northern Territory Department of Health, Menzies will derecognise the building and an intangible asset will be recognised for the fair value of the total future lease payment. The carrying amount of the asset will be recognised as a "prepaid rent" intangible asset. Any difference between the carrying amount of the capital work in progress and the prepaid rent will be recognised as a gain / (loss) in the profit and loss account.

Subsequent to initial recognition, the intangible asset shall be measured at cost less any accumulated amortisation and any accumulated impairment losses. The prepaid rent asset will then be amortised over the life of the lease using a systematic basis.

Project Revenue and Costs

Total estimated project revenue and costs, including amounts received and spent to date have been summarised below:

	Total	Received to 31/12/13	Received in Subsequent Periods
	\$ millions	\$ millions	\$ millions
Revenue:			
Commonwealth Government	39.5	32.7	6.8
NT Government	4.5	4.5	0.0
Charles Darwin University	1.2	0.0	1.2
Interest	2.7	2.7	0.0
	47.9	39.9	8.0
Project Costs *	47.9	33.8	14.1
Unspent project income received		5.5	
Project income received in subsequent period		8.0	
Committed Costs @ 31/12/13		14	

* Costs incurred to 31/12/13 of \$34.4m (including accruals of \$0.6m) have been recorded as Work in Progress (WIP) on the Balance Sheet.

Restricted Reserve

The balance of the unspent project costs of \$5,499,989 at 31 December 2013 (2012: \$6,792,181) forms part of reserves at year end. These funds are restricted for the use of constructing the new buildings as detailed above.

Stage of completion:

Charles Darwin University Building Project	79%
Royal Darwin Hospital Building Project	76%

Impairment Assessment

At 31 December Menzies assessed the building projects for indicators of impairment. The carrying amount of the building projects does not yet include all the cash outflows to be incurred before it is ready for use. In making an assessment for indicators of impairment any future cash outflow that is expected to be incurred before the asset is ready for use or sale has also been considered. No impairment assessment was performed in 2013 as there were no identified indicators of impairment.

Note 31: ASSETS PLEDGED AS SECURITY

Menzies have accepted unconditional undertakings in the form of bank guarantees (to pay on demand) in favour of Lahey Construction Pty Ltd as follows:

- a maximum of \$380,820 in respect of the contract for Menzies developments at Charles Darwin University.
- a maximum of \$26,273 in respect of the contract for Menzies developments at Royal Darwin Hospital Extension to Palliative Care Hospice.
- a maximum of \$537,884 in respect of the contract for Menzies developments at Royal Darwin Hospital.