



Annual Financial Report

Menzies School of Health Research

ABN 70 413 542 847

31 December 2015



Auditor-General

Independent Auditor's Report to the Minister for Health Menzies School of Health Research

I have audited the accompanying financial report of Menzies School of Health Research ("the School"), which comprises the statement of financial position as at 31 December 2015, the income statement, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended, notes comprising a summary of significant accounting policies and other explanatory information, and the statement on behalf of the Board of Governors.

The Responsibility of the Board of Governors for the Financial Report

The Board of Governors of the Menzies School of Health Research is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards; the *Australian Charities and Not-for-profits Commission Act 2012*; the Australian Charities and Not-for-Profits Commission Regulation 2013, the requirements of the *Higher Education Support Act 2003* and other State and Commonwealth Government legislative requirements and for such internal control as the Board of Governors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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. Those 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 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 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.

Opinion

In my opinion the financial report of Menzies School of Health Research has been prepared in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission Act 2012*, including:

- (a) giving a true and fair view of the Menzies School of Health Research's financial position as at 31 December 2015, and of its financial performance and its cash flows for the year ended on that date; and
- (b) complying with Australian Accounting Standards and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

Julie Crisp

Auditor-General for the Northern Territory

Darwin, Northern Territory

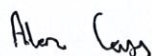
30 March 2016

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, the Australian Charities and Not-for-Profits Commission Act 2012 (ACNC Act) and other mandatory professional reporting requirements in Australia;
- The attached financial statements conform to the Department of Education Financial Statements Guidelines for Australian Higher Education Providers for the 2015 reporting period;
- 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 the financial reporting have been effective throughout the reporting period;
- At the time of the 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 the 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.

Signed this eleventh day of March 2016



Professor Alan Cass
Director
Location: Darwin



David Blair
Chief Operating Officer
Location: Darwin

Statement on Behalf of the Board of Governors

The following persons were members of the Menzies School of Health Research (Menzies) Board of Governors; Finance Committee and Risk and Audit Committee for the year ended 31 December 2015.

Board Meetings		A	B
Mr Peter Plummer	Chairperson	4	4
Ms Clare Martin	Deputy Chairperson	3	4
Mr Richard Ryan AO	Treasurer	3	4
Prof Alan Cass	Board Member	4	4
Prof Simon Maddocks	Board Member	4	4
Prof Sharon Bell	Board Member	4	4
Prof David Celermajor	Board Member	4	4
Ms Hilary Hannam	Board Member	3	4
Mr Robert Wells	Board Member	4	4
Mr Rowan Johnston	Board Member	4	4
Mr Ken Davies	Board Member	4	4
Dr Leonard Notaras	Board Member	2	4
Ms Donna Ah Chee (Appointed 30 June 2015)	Board Member	2	2

A = Number of meetings attended, B = Number of meetings held during the time the member held office.

Meetings	Finance Committee		Risk & Audit Committee	
	A	B	A	B
Mr Richard Ryan AO	2	3		
Mr Tom Ganley	3	3		
Ms Tracy Scott	3	3		
Mr Rowan Johnston	3	3		
Prof Alan Cass	3	3	2	4
Ms Louise Dutton*			0	4
Mr Robert Hudson			4	4
Ms Clare Martin			3	4
Mr Peter Hopton			3	4
Mr Robert Wells			4	4
Mr Ross Springolo (ex officio member)			2	4
Ms Sophie Cleveland			3	4

A = Number of meetings attended, B = Number of meetings held during the time the member held office.

* Leave of absence from November 2014

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 2015 year.

Review of Operations

In 2015 Menzies reported a surplus of \$7.9m. The surplus includes a gain on disposal of assets for \$8.9m mainly derived from the difference between:

- a) The costs borne by Menzies to refurbish an existing research and training building located on the Royal Darwin Hospital Campus that has been transferred to the Northern Territory Government Department of Health (NTG DoH) at the carrying amount of \$8.4m and;
- b) The recognition of an intangible asset at fair value of \$17.3m. The intangible asset is the right granted to Menzies to use the refurbished building at a peppercorn rent of \$1.00 per annum. The value of the intangible asset has been calculated as the present value of future fair value lease payments based on market valuation of the property as determined on 31 December 2015.

Completion of this refurbishment brings to a close a major building project that has seen construction of new world-class research and training facilities located on the Charles Darwin University Casuarina Campus and Royal Darwin Hospital Campus. The funding for the project was provided by the Commonwealth and Northern Territory Governments.

Excluding the gain on disposal of assets, Menzies posted an operational deficit of \$955,888 represented by the following:

Interest earned on capital funding	20,355
Research and Education activities	1,716,083
Administration & Research Support	(326,321)
Depreciation & Amortisation	<u>(2,366,005)</u>
Operating Deficit	<u>(955,888)</u>

The surplus in Research and Education activities reflects the timing difference between the receipt of research and education income recognised at the time of receipt and when expenditure occurs. Research and Education funding carried forward at 31 December 2015 was \$19.5m.

2015 saw the completion of the refurbishment of our John Mathews building and completion of our auditorium on the Royal Darwin Hospital campus. On 20th November 2015 we were honoured to have Prime Minister, the Honourable Malcolm Turnbull open both our Royal Darwin Hospital and Charles Darwin facilities.

2015 marked Menzies 30th anniversary and a number of events were held to commemorate this. Not only did these events celebrate Menzies work but also assisted in raising the profile of Menzies both locally and nationally.

Likely Developments and Expected Results of Operations

Menzies continues to operate in a challenging funding environment and diversifying Menzies income base remains a key focus of both the board and senior management. In November Menzies launched a charitable foundation, a separate legal entity with its own board, the purpose of which is to generate funding for Menzies. The board and senior management see this as an important part of its income diversification strategy.

Significant Changes in the State of Affairs

There were no significant changes in Menzies affairs during the 2015 year.

Matters Subsequent to the End of the Financial Year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Menzies, the results of those operations, or the state of the affairs of Menzies in future financial years.

Environmental Regulations

Menzies is subject to the following environment regulations:

- a. Gene Technology Act 2000 (amended 2008);
- b. Northern Territory Radiation Protection Act 2009. Valid to 10 June 2015. All radioactive materials have since been removed from the premises;
- c. Transport of Dangerous Goods by Road and Rail (Nation Uniform Legislation) Act 2010;
- d. Industry Code of Practice for the Management of Clinical & Related Wastes 5th Edition 2007.

Insurance of Officers

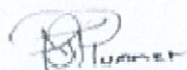
Menzies has Not-for-Profit insurance to insure the members of the Board of Governors and the officers of Menzies against any claim arising from Menzies related activities. Cover is limited to \$5,000,000 in any one year and in 2015 the premium was \$4,942.

Proceedings on Behalf of Menzies School of Health Research

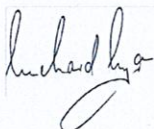
There were no legal proceedings undertaken by Menzies in the 2015 year and no legal proceedings taken against Menzies.

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

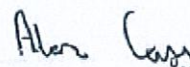
Signed this eleventh day of March 2016



Peter Plummer
Chair
Board of Governors
Location: Darwin



Richard Ryan AO
Treasurer
Board of Governors
Location: Darwin



Professor Alan Cass
Director
Location: Darwin

Income Statement

Menzies School of Health Research

	Notes	2015 \$	2014 \$
Income from continuing operations			
Australian Government financial assistance			
National Health & Medical Research Council	2	12,451,542	11,088,447
Other Government Agencies	2	4,899,826	10,159,253
NT Government financial assistance	3	4,640,060	4,340,423
Fees and charges	4	3,916,103	2,931,803
Investment income	5	706,971	1,062,378
Consultancy and contract research	6	6,668,651	9,629,081
Other revenue	7	3,491,095	4,111,925
Total revenue from continuing operations		36,774,248	43,323,310
Gain on disposal of assets	8	8,901,734	(3,821,386)
Total income from continuing operations		45,675,982	39,501,924
Expenses from continuing operations			
Employee related expense	9	22,584,392	23,338,819
Depreciation and amortisation	10	2,366,005	638,343
Repairs and maintenance	11	1,122,791	717,858
Other expenses	12	11,656,948	13,208,605
Total expenses from continuing operations		37,730,136	37,903,625
Operating result from continuing operations		7,945,846	1,598,299
Operating result attributable to members		7,945,846	1,598,299

Statement of Comprehensive Income

Menzies School of Health Research

	Notes	2015 \$	2014 \$
Operating result for the year		7,945,846	1,598,299
Revaluation of investment	22	<u>5,003</u>	<u>(1,604)</u>
Total Comprehensive Income		<u>7,950,850</u>	<u>1,596,695</u>
Total Comprehensive Income attributable to members		<u>7,950,850</u>	<u>1,596,695</u>

Statement of Financial Position

Menzies School Of Health Research

	Notes	2015 \$	2014 \$
Assets			
Current Assets			
Cash and cash equivalents	13	5,526,088	28,974,181
Trade and other receivables	14	1,285,006	4,040,212
Other financial assets	15	22,747,637	1,208,822
Other non-financial assets	16	211,197	263,509
Total Current Assets		29,769,929	34,486,724
Non-Current Assets			
Property, plant and equipment	18	2,905,960	10,359,614
Intangible assets	17	31,717,832	15,866,301
Other financial assets	15	27,745	22,742
Total Non-Current Assets		34,651,537	26,248,657
Total Assets		64,421,466	60,735,381
Liabilities			
Current Liabilities			
Trade and other payables	19	559,977	5,163,856
Provisions	20	3,463,251	3,256,453
Other liabilities	21	363,184	263,600
Total Current Liabilities		4,386,413	8,683,909
Non-Current Liabilities			
Provisions	20	481,104	306,938
Total Non-Current Liabilities		481,104	306,938
Total Liabilities		4,867,516	8,990,847
Net Assets		59,553,950	51,744,534
Equity			
Reserves	22	6,077,224	6,814,786
Retained earnings	23	53,476,726	44,929,748
Total Equity		59,553,950	51,744,534

Statement of Changes in Equity

Menzies School of Health Research

	Note	Reserves Note 22 \$	Retained Surplus Note 23 \$	Total \$
Balance at 1 January 2014		9,992,081	56,073,776	66,065,857
Operating result for the year		-	1,598,299	1,598,299
Net Revaluation gain on investments	22	(1,604)	-	(1,604)
Total Comprehensive Income		9,990,477	57,672,075	67,662,552
Transfer to/(from) Revaluation Reserves		-	(15,918,018)	(15,918,018)
Transfers	23	(3,175,690)	3,175,690	-
Balance at 31 December 2014		6,814,786	44,929,748	51,744,534
Balance at 1 January 2015		6,814,786	44,929,748	51,744,534
Operating result for the year	23.1	-	7,945,846	7,945,846
Net Revaluation gain on investments	22	5,003	-	5,003
Total Comprehensive Income		6,819,789	52,875,594	59,695,384
Distribution to Owners	23	-	(141,434)	(141,434)
Transfers	23	(742,565)	742,565	-
Balance at 31 December 2015		6,077,225	53,476,726	59,553,950

Statement of Cash Flows

Menzies School of Health Research

	Notes	2015 \$	2014 \$
Cash flows from operating activities			
Australian Government grants		20,190,631	18,708,953
NT Government funding		4,640,060	4,395,982
Receipts from Student Fees		3,916,103	3,010,133
Interest received		706,971	1,062,378
Consultancies and Contract research		6,668,651	10,212,880
Other receipts		4,656,188	3,879,620
Payments to suppliers		(17,292,687)	(10,562,138)
Payments to employees		(22,203,428)	(23,228,380)
Net cash provided by operating activities	28	<u>1,282,490</u>	<u>7,479,428</u>
Cash flows from investing activities			
Charles Darwin University - Menzies investments funds		(22,727,000)	-
Proceeds from sale of plant and equipment		500	19,273
Payments for property, plant and equipment		(2,004,082)	(11,615,822)
Net cash outflow from investing activities		<u>(24,730,582)</u>	<u>(11,596,549)</u>
Net decrease in cash and cash equivalents		<u>(23,448,093)</u>	<u>(4,117,121)</u>
Cash and cash equivalents at the beginning of the year		<u>28,974,181</u>	<u>33,091,302</u>
Cash and cash equivalents at end of the year	13	<u>5,526,088</u>	<u>28,974,181</u>

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Note 1: Summary of significant accounting policies

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 Australia and the Asia Pacific region.

The principal place of business is Building 58, Royal Darwin Hospital Campus, Rocklands Drive, Tiwi, Northern Territory 0810; Australia.

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.

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.

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 AASB Interpretations); the Australian Charities and Not-for-Profits Commission Act 2012 (ACNC Act); the Australian Charities and Not-for-Profits Commission Regulation 2013, 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 not consistent with the IFRS requirements.

Date of authorisation for issue:

The financial statements were authorised for issue by the board members of Menzies on 11 March 2016.

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.

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 organisation's 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:

(i) 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 the grants can be reliably measured.

(ii) 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.

(iii) Other income

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

c) Employee benefits

(i) Short-term obligations

Liabilities for short term employee benefits including wages and salaries and 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) Other Long-term obligations

The liabilities for long-term obligations are those that are not expected to be settled wholly before twelve months after the end of the annual reporting period. Other long-term employee benefits include such things as annual leave and long service leave liabilities.

The obligations are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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.

c) Employee benefits (Contd.)

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) Retirement benefit obligations

All employees at Menzies are entitled to benefits on retirement, disability or death from the organisation's 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 organisation's legal or constructive obligation is limited to these contributions.

(iv) Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts benefits in exchange for the termination of employment. 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.

Termination benefits are measured on initial recognition and subsequent changes are measured and recognised in accordance with the nature of the employee benefit. Benefits not expected to be settled wholly before twelve months after balance date are discounted to present value.

d) Taxation

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

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 Australian Tax Office, the GST 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 presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities which are disclosed as operating cash flows.

Menzies incurs Payroll Tax at the rate determined by the state and territory governments for payments made to and benefits received by employees.

e) Depreciation and amortisation

Depreciation is calculated on a straight line basis (except for Motor Vehicles which are 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

e) Depreciation and amortisation (Contd.)

Amortisation of intangible assets is calculated using the cost model. Intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. The intangible asset for the right of use of the research buildings (prepaid rent); for the newly constructed Menzies School of Health building and the refurbished Building 58 located on the Royal Darwin Hospital campus; will be amortised over the life of the lease using a systematic basis (the lease term). The lease term is twenty years with a commencement date of 1 November 2014.

f) Impairment of assets

Menzies assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. 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.

g) Property, plant and equipment

Property, Plant and Equipment is stated at historical cost, less depreciation and impairment, except where plant and 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 assets are taken into account in determining the result for the year.

h) Trade and other payables

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

i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, liquid investments pooled with parent entity Charles Darwin University, 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.

In 2015 the Board of Menzies School of Health Research agreed to a change to the investment method for liquid investments. Effective from September 2015 Menzies liquid investments have been pooled with Charles Darwin University (CDU) investments and are reported in Other Financial Assets.

j) Trade receivables

Trade receivables are recognised initially at fair value being original invoice amount, subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement within no more than 30 days. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment of receivables is established when there is objective evidence that Menzies will not be able to collect all amounts due. Bad debts are written off as they occur.

k) 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.

l) 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.

m) 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 professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Menzies accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

n) 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.

In 2015 the Finance Committee of Menzies School of Health Research agreed to a change to the investment method for liquid investments. Effective from September 2015 Menzies liquid investments have been pooled with Charles Darwin University (CDU) investments. The investments will be in the name of the CDU and not in the name of Menzies. Interest is applied quarterly based on the weighted average interest rate obtained from all CDU funds. Menzies can make additional investments at any stage. Menzies is required to provide notice of 35 days when draw down on the funds is required. A minimum transaction limit of \$500,000 applies.

o) Intangible assets - right of use of research building (prepaid rent)

Menzies has constructed, at their cost, a new Administration/Research building and refurbished an existing Administration/Research building known as Building 58 on the Royal Darwin Hospital Campus of the Northern Territory Government Department of Health (NTG DoH).

At completion of construction of the new building on 31 October 2014, the building was transferred to the NTG DoH at no cost. The NTG DoH have granted Menzies the right to use the building under a 20 year lease at a peppercorn rent being \$1.00 per annum thereby creating an intangible asset. The value of the intangible asset has been calculated as the present value of future fair value of lease payments based on market valuation of the property as determined on 31 December 2014.

Refurbishment of the existing building known as the John Mathews Building, Building 58, reached completion on 23 March 2015. The cost of refurbishment has been transferred to the NTG DoH. In turn, the NTG DoH has granted Menzies the right to use the building at a peppercorn rent being \$1.00 per annum thereby creating an intangible asset. The value of the intangible asset has been calculated as the present value of future fair value of lease payments based on market valuation of the property as determined on 31 December 2015.

A variation to the current lease which expires in 13 August 2018 will grant Menzies the right to use the building to 16 September 2034.

Note 2: Australian Government Financial Assistance

	2015 \$	2014 \$
Non Capital		
National Health & Medical Research Council grants	12,451,542	11,088,447
Australian Research Council	90,000	408,639
Australian Agency for International Development (AusAid)	239,541	344,829
Department of Education and Training	223,812	635,548
Department of Social Services	95,665	318,882
Department of Prime Minister in Cabinet	711,920	-
Department of Health	3,538,888	1,611,355
Total	17,351,368	14,407,700
Capital		
Department of Health & Aged Care grants	-	6,840,000
	-	6,840,000
Total Australian Government Financial Assistance	17,351,368	21,247,700

Note 3: Northern Territory Government Financial Assistance

Non Capital		
NT Government other grant funding	4,640,060	4,340,423
Total Northern Territory Government Financial Assistance	4,640,060	4,340,423

Note 4: Fees and Charges

Course fees and charges		
Fee-paying overseas students	65,689	60,546
Fee-paying domestic postgraduate students	1,529,754	1,434,346
Total course fees and charges	1,595,443	1,494,892
Other Fees and charges		
Administration receipts	619,144	648,983
Reimbursements	1,701,516	787,928
Total other fees and charges	2,320,660	1,436,911
Total Fees and Charges	3,916,103	2,931,803

Note 5: Investment Income

Interest on investments	686,616	946,910
Interest on capital funding	20,355	115,468
Total Investment Income	706,971	1,062,378

Note 6: Consultancy and Contract Research

	2015 \$	2014 \$
Consultancies	250,844	216,164
Contract Research	6,417,807	9,412,916
Total Consultancy and Contract Research	6,668,651	9,629,081

Note 7: Other Revenue

Menzies Foundation	75,000	75,000
Charles Darwin University	3,056,121	2,775,998
Donations	347,757	440,316
Other	12,217	20,610
	3,491,095	3,311,925
Capital		
Charles Darwin University grants	-	800,000
	-	800,000
Total Other Revenue	3,491,095	4,111,925

Note 8: Other Gains and Losses**Continuing operations**

Gain on disposal of assets	8,901,734	(3,821,386)
	8,901,734	(3,821,386)

For the year ending 31 December 2015, the gain on disposal of property, plant and equipment is mainly due to the *difference* between the costs borne by Menzies to refurbish the building located on the Royal Darwin Hospital Campus that have been transferred to the Northern Territory Government Department of Health at the carrying amount of \$8.4m; and the recognition of an intangible asset at fair value of \$17.3m. The intangible asset is the right granted to Menzies to use the refurbished building at a peppercorn rent. The value of the intangible asset has been calculated as the present value of future fair value lease payments based on market valuation of the property as determined on 31 December 2015.

Note 9: Employee Related Expenses**Research**

Salaries	11,676,754	12,288,616
Superannuation	1,438,950	1,518,221
Payroll tax	709,436	746,612
Worker's compensation	86,317	108,441
Long service leave expense	323,363	256,890
Leave loading	202,075	241,589
Annual leave	1,406,627	1,501,444
Total Research	15,843,522	16,661,813

Note 9: Employee Related Expenses (Contd.)

	2015 \$	2014 \$
<u>Education and Training</u>		
Salaries	630,393	551,851
Superannuation	93,414	70,431
Payroll tax	40,690	34,387
Worker's compensation	4,660	4,870
Long service leave expense	17,322	21,237
Leave loading	11,152	9,068
Annual leave	83,856	72,899
Total Education	881,487	764,743
<u>Non Research and Education</u>		
Salaries	4,274,486	4,464,949
Superannuation	602,890	646,454
Payroll tax	136,450	121,667
Worker's compensation	31,599	39,401
Long service leave expense	297,096	(32,683)
Leave loading	65,207	58,356
Annual leave	451,657	614,119
Total Non-Research and Education	5,859,383	5,912,263
Total Employee Benefits	22,584,392	23,338,819

Note 10: Depreciation and Amortisation

Plant and Equipment	787,689	473,826
Motor Vehicles	88,258	30,819
Amortisation Prepaid Rent	1,490,058	133,699
Total Depreciation and Amortisation	2,366,005	638,343

Note 11: Repairs and Maintenance

General	50,785	57,964
Maintenance Contracts	1,072,006	659,894
Total Repairs and Maintenance	1,122,791	717,858

Note 12: Other Expenses

	2015 \$	2014 \$
Administration	2,596	-
Communications	114,226	229,420
Consultants	812,893	1,044,206
Education	115,960	98,559
Equipment Costs	84,205	114,714
Information Technology	73,222	633,793
Insurance	90,680	134,674
Lowitja Institute	20,000	100,000
Laboratory	736,601	1,008,776
Licences, Memberships, Fees and Charges	158,629	129,802
Materials	9,078	53,873
Research Project Costs	4,832,112	4,247,229
Scholarship Payments	391,656	765,507
Stationery, Printing and Postage	383,797	326,968
Travel, Staffing and Related Costs	2,618,502	3,057,114
Utilities and Facilities Management	376,568	357,741
Other	836,223	906,230
Total Other Expenses	11,656,948	13,208,605

Note 13: Cash and Cash Equivalents

Cash at Bank	2,803,035	2,118,287
Term Deposits & Call Accounts	2,723,053	26,855,894
Total Cash and Cash Equivalents	5,526,088	28,974,181

(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	5,526,088	28,974,181
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(b) Term deposits & Call Accounts

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

During 2015 the method of investment for liquid assets was changed. Liquid funds are now pooled with Charles Darwin University and are accounted for in Other Financial Assets.

Note 14: Receivables

Current		
Debtors	1,285,006	4,040,212
Total current receivables	1,285,006	4,040,212

Note 14: Receivables (Contd.)**(a) Impaired receivables**

As at 31 December 2015, there were no impaired receivables (2014: \$0). There was no movement during the year.

Prior year debtor balance at 31 December 2014 includes the GST component invoiced as part of transactions relating to the new building transfers:

	2015 \$	2014 \$
Charles Darwin University	-	1,591,802
NT Department of Health	-	1,600,000
	-	3,191,802

As at 31 December 2015 trade receivables of \$69,485 (2014: \$848,410) 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	62,885	816,364
3 to 6 months	6,600	32,045
	69,485	848,410

Note 15: Other Financial Assets**Current**

Other Receivables	-	23,092
Charles Darwin University - Menzies investment funds	22,727,000	-
Accrued Revenue	20,637	1,185,730
	22,747,637	1,208,822

Non-current

Australian listed equity securities available for sale	27,745	22,742
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Total Other Financial Assets	22,775,383	1,231,564
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Note 16: Other Non-Financial Assets

Prepaid Expenses	141,622	193,814
Other Assets	69,575	69,695
Total Other Non-Financial Assets	211,197	263,509

Note 17: Intangible Assets

	2015 \$	2014 \$
Balance at 1 January 2014		
Additions:	-	-
Other	-	-
Balance at 31 December 2014	16,000,000	16,000,000
Additions:		
Other - Research building right of use	17,341,589	-
Balance at 31 December 2015	33,341,589	16,000,000
Accumulated amortisation and impairment:		
Balance at 1 January 2014		
Amortisation expense	-	133,699
Balance at 31 December 2014	133,699	133,699
Amortisation expense	1,490,058	-
Balance at 31 December 2015	1,623,757	133,699
Total Carrying Amount	31,717,832	15,866,301

Note 18: Property, Plant and Equipment

	Leasehold Improvements	Plant & Equipment	Motor Vehicles	Work in Progress	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2014					
Opening net book amount	-	507,113	133,738	34,366,262	35,007,113
Additions	-	3,095,637	39,119	11,435,803	14,570,559
Disposals	-	(37,376)	(31,809)	(38,700,069)	(38,769,254)
Depreciation charge	-	(473,826)	(30,819)	-	(504,645)
Write-Back Acc.Depreciation	-	37,376	18,465	-	55,841
Closing net book amount	-	3,128,924	128,694	7,101,996	10,359,614
At 31 December 2014					
- Cost	708,035	3,852,811	195,826	7,101,996	11,858,668
- Valuation	-	2,680,334	158,059	-	2,838,393
Accumulated depreciation	(708,035)	(3,404,221)	(225,191)	-	(4,337,447)
Net book amount	0	3,128,924	128,694	7,101,996	10,359,614
Year ended 31 December 2015					
Opening net book amount	-	3,128,924	128,694	7,101,996	10,359,614
Additions	-	524,288	-	1,839,102	2,363,391
Disposals	-	-	(55,674)	(8,941,098)	(8,996,772)
Depreciation charge	-	(787,689)	(88,258)	-	(875,947)
Write-Back Acc.Depreciation	-	-	55,675	-	55,675
Closing net book amount	-	2,865,524	40,437	-	2,905,960
At 31 December 2015					
- Cost	708,035	4,377,100	140,152	-	5,225,287
- Valuation	-	2,680,334	158,059	-	2,838,393
Accumulated depreciation	(708,035)	(4,191,910)	(257,774)	-	(5,157,719)
Net book amount	-	2,865,524	40,437	-	2,905,960

Note 19: Trade and Other Payables

	2015 \$	2014 \$
Trade and Other Payables	112,238	3,167,571
Accrued Expenses	447,739	1,996,285
Total Trade and Other Payables	559,977	5,163,856

Note 20: Provisions**Current Provisions expected to be settled within 12 months**

Employee benefits		
- Annual leave	2,153,599	2,213,302
- Long service leave	1,309,652	1,043,150
Total Current	3,463,251	3,256,453

Non-Current

Employee benefits		
- Long service leave	481,104	306,938
Total Non-Current	481,104	306,938

Total Provisions	3,944,355	3,563,391
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Note 21: Other Liabilities

Revenue Received in Advance	330,176	243,354
Credit Card Clearing	33,008	20,246
Total Other Liabilities	363,184	263,600

Note 22: Reserves**(a) Reserves Comprise**

Revaluation Reserve	52,903	52,903
Capital Asset Reserve	5,790,923	4,915,033
Investment Revaluation Reserve	32,199	27,196
Restricted Reserve Building	201,199	1,819,654
Total Reserves	6,077,224	6,814,786

(b) Movement In Reserves**Revaluation Reserve**

Balance at the Beginning of the Financial Year	52,903	52,903
Balance at the End of the Financial Year	52,903	52,903

Capital Assets Reserve

Balance at the Beginning of the Financial Year	4,915,033	4,410,389
Plus: Annual Contribution transferred from retained earnings	875,890	504,645

Balance at the End of the Financial Year	5,790,923	4,915,033
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Transfers to Capital Asset Reserves are for an amount equal to the depreciation expense for year ending 31 December 2015 of \$875,890 (2014 \$504,645).

Note 22: Reserves (Contd.)

	2015 \$	2014 \$
Investment Revaluation Reserve		
Balance at the Beginning of the Financial Year	27,196	28,800
Increment	5,003	(1,604)
Balance at the End of the Financial Year	32,199	27,196

Transfers of \$5,003 relate to the revaluation of shares for year ending 31 December 2015.

Restricted Reserve Building		
Balance at the Beginning of the Financial Year	1,819,654	5,499,989
Decrement	(1,618,455)	(3,680,335)
Balance at the End of the Financial Year	201,199	1,819,654

Transfers of \$1,618,455 relate to the movement of new building work in progress and funding for year ending 31 December 2015.

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 23: Retained Earnings

Balance at the Beginning of the Financial Year	44,929,748	56,073,776
Operating Result	7,945,846	1,598,299
Distribution of earnings	(141,434)	(15,918,018)
Transfers to Reserve	742,565	3,175,690
Balance at the End of the Financial Year	53,476,726	44,929,748

Distribution of earnings of (\$141,434) represents the final transfer of costs associated with the new Menzies Administration/Research building on the Charles Darwin University Casuarina Campus. Menzies constructed the building at their own cost. Most of the total cost of construction for the building was derecognised and the carrying amount recognised as a distribution to the owners within the statement of changes in equity in year ending 31 December 2014. Charles Darwin University granted Menzies, the right to use the building under a 20 year lease at a peppercorn rent being \$1.00 per annum.

Transfers of \$742,565 include an amount equal to the depreciation expense (\$875,890) to Capital Asset Reserves and movement of new building Work in Progress of \$1,618,455 for year ending 31 December 2015.

Note 23.1: Analysis of Net Surplus

The Surplus for the year ending 31 December 2015 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.

The gain on disposal of assets is mainly due to the difference between the costs associated with the building on the RDH Campus refurbished at Menzies cost and transferred to the Northern Territory Government Department of Health at a carrying amount of \$8.4m; and the recognition of an intangible asset at fair value of \$17.3m. The intangible asset is the right granted to Menzies to use the refurbished building at a peppercorn rent of \$1.00 per annum. The value of the intangible asset has been calculated as the present value of future fair value lease payments based on market valuation of the property as determined on 31 December 2015.

		2015 \$	2014 \$
Reconciliation of Total Net (Deficit) Surplus		7,945,846	1,598,299
Represented by:			
Capital Funding (Buildings)			
NTG Department of Health	Note 2	-	6,840,000
Charles Darwin University	Note 7	-	800,000
Interest earned	Note 5	20,355	115,468
Total capital funding		20,355	7,755,468
Plus/(Minus)			
Research and Education surplus		1,716,083	(1,246,583)
Non-research deficit		(326,321)	(450,857)
Depreciation and amortisation	Note 10	(2,366,005)	(683,343)
Gain on disposal of assets	Note 8	8,901,734	(3,821,386)
		7,945,846	1,598,299

Note 24: Key Management Personnel Disclosures**(a) Names of responsible persons and executive officers**

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

Mr Peter Plummer - Chairperson
Ms Clare Martin - Deputy Chairperson
Mr Richard Ryan AO - Treasurer
Prof Alan Cass - Director/Board Member
Prof Simon Maddocks - Board Member
Prof Sharon Bell - Board Member
Prof David Celermajer - Board Member
Ms Hilary Hannam - Board Member
Mr Robert Wells - Board Member
Mr Rowan Johnston - Board Member
Mr Ken Davies - Board Member
Dr Leonard Notaras - Board Member
Ms Donna Ah Chee - Board Member
Prof Ross Andrews - Deputy Director
Mr David Blair - Chief Operating Officer
Ms Heather D'antoine - Division Leader
Prof Nick Anstey - Division Leader
Prof Anne Chang - Division Leader

Note 24: Key Management Personnel Disclosures (Contd.)

A/Prof Gail Garvey - Division Leader
A/Prof David Thomas - Division Leader
Prof Gary Robinson - 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:

	2015	2014
Remuneration of Board Members		
Nil to \$9,999	12	11
Remuneration of Executive Officers		
\$ 100,000 to \$109,999	-	1
\$ 110,000 to \$119,999	-	-
\$ 120,000 to \$129,999	1	-
\$ 130,000 to \$139,999	-	1
\$ 140,000 to \$149,999	1	-
\$ 150,000 to \$159,999	2	2
\$ 180,000 to \$189,999	-	-
\$ 200,000 to \$209,999	-	2
\$ 210,000 to \$219,999	2	-
\$ 220,000 to \$229,999	-	-
\$ 230,000 to \$239,999	1	1
\$ 270,000 to \$279,999	-	-
\$ 360,000 to \$369,999	-	1
\$ 380,000 to \$389,999	1	-
\$ 400,000 to \$409,999	-	1
\$ 430,000 to \$439,999	1	-

Menzies receives reimbursements for a portion of salary costs for key personnel holding clinical roles at the Royal Darwin Hospital. Reimbursements are not included in the table above.

(c) Loans and other transactions with key management personnel

During the 2015 financial year no loans or other related party transactions were made to any Board members or executive officers.

(d) Key management personnel compensation

Short-term employee benefits	2,069,142	1,749,573
Post employee benefits	222,567	214,908
	<u>2,291,709</u>	<u>1,964,480</u>

Note 25: 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 Key Management Personnel

Disclosures relating to Board members and specified executives are set out in note 24.

(c) Transactions with related parties

In the year ending December 2015, Menzies received student fee income of \$1,580,102 from CDU (2014 \$1,564,778). 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 institutions, 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. This will be reviewed annually."

	2015	2014
	\$	\$
Menzies received :		
Student Fee Income	1,580,102	1,564,778
Research Infrastructure Block Grant	1,421,829	1,428,625
Sustainable Research Excellence	1,067,472	1,001,217
Joint Research Engagement	384,820	557,756
Salaries	918,555	55,000
Project Transfers	416,640	2,996,307
Awards	25,000	10,000
	<u>5,814,418</u>	<u>7,613,683</u>
Payments To CDU		
Service level agreements, printing and joint appointments	1,476,526	1,521,929
Charles Darwin University - Menzies investment funds	22,727,000	-

In 2015 the Finance Committee of Menzies agreed to a change to the investment method for liquid investments. Effective from September 2015 Menzies liquid investments have been pooled with Charles Darwin University (CDU) investments. As at 31 December 2015 Menzies has transferred \$22,727,000 to CDU to be invested on behalf on Menzies.

Note 26: Economic Dependency

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

Note 27: Events Occurring after the End of the Reporting Period

For events relating to the Building Project please refer to Note 32.

Note 28: Reconciliation of Operating Result to Net Cash Flows from Operating Activities

Operating Result	7,945,846	1,598,299
Depreciation and amortisation	2,366,005	638,343
Net (Loss)/Gain on disposal of assets	(8,901,734)	3,821,386
	1,410,117	6,058,028
Changes in Assets and Liabilities		
Decrease in receivables	2,755,205	(1,738,974)
Decrease in prepayments	52,192	48,325
Decrease in other assets	23,212	21,326
Decrease in accrued revenue	1,165,093	(232,304)
Decrease in trade and other payables	(25,103)	(724,233)
Decrease in accrued expenses	(1,548,546)	825,038
Decrease in GST receivable	(3,014,704)	3,193,870
Increase in other liabilities	84,058	(82,085)
Increase in employee provisions	380,964	110,439
	(127,628)	1,421,400
Net Cash Generated From Operating Activities	1,282,490	7,479,428

Note 29: 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 affected 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.

Note 29: Financial Risk (Contd.)*(iv) Summarised sensitivity analysis*

The following table summarises the sensitivity of Menzies' financial assets to interest rate risk. The table is based on the significant areas of risk being cash and cash equivalents. Interest rate risk is set at 2.00% based on leading economic data at 31 December 2015.

		Interest Rate Risk			
Financial Assets		-2.00%		2.00%	
31 December 2015	Carrying Amount	Result	Equity	Result	Equity
Cash & Cash Equivalents	5,526,088	(110,522)	(110,522)	110,522	110,522
		Interest Rate Risk			
Financial Assets		-1.75%		1.75%	
31 December 2014	Carrying Amount	Result	Equity	Result	Equity
Cash & Cash Equivalents	28,974,181	(507,048)	(507,048)	507,048	507,048

(b) Credit risk

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 does not hold any credit derivatives to offset its credit exposure. Menzies trade only with recognised, creditworthy third parties and as such collateral is not requested nor is it Menzies' policy to secure its trade and other receivables. In addition, receivable balances are monitored on an ongoing basis with the result that Menzies' experience of bad debts has not been significant.

(c) Liquidity risk

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. Menzies manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. Menzies manages liquidity risk by monitoring and reporting to the finance committee payables over 60 days. There have been no changes in liquidity risk from the previous period.

(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.

Note 30: Remuneration of Auditors

Menzies is responsible for payment of audit services to the Auditor-General. Total payments amounted to \$34,895 (\$35,164 in 2014).

Note 31: Commitments

	2015 \$	2014 \$
Lease commitments		
Commitments in relation to leases contracted for at the reporting		
Within one year	110,653	191,164
Later than one year but not later than five years	4	110,657
Later than five years	14	15
	110,671	301,836
Representing:		
Cancellable operating leases	110,671	301,836
	110,671	301,836

(i) Operating leases

147 Wharf Street, Brisbane

Rental and Term of Payment: The initial rental was \$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 (\$79,200 inclusive GST) immediately upon the signing of the Agreement to lease. Option periods were reviewed on the 9 October 2013 at which time a additional term of 3 years commencing 01 August 2013 and expiring 31 July 2016 was entered into.

The rental for the first year of the renewed term (01/08/13-31/07/14) was \$175,380 excl GST.

Term of Lease: Two (2) years

Option Period: Three (3) terms; one of three (3) years and two of one (1) year each

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 was 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: 1 December 2012

Due to the transfer of the Trial associated with activities in country this Lease was been novated effective 17 July 2015.

Building Red 9, Charles Darwin University, Casuarina Campus.

Operating lease relates to portion of the land in CUFT 736 003 (Lot 09198 Town of Nightcliff Plan S85/246) with a lease term of 20 years.

Rent of \$1.00 per annum is payable to the lessor over the leasing period.

Term of Lease: Twenty (20) years

Option Period: Negotiable

Commencing Date: 1 April 2014

Menzies Building, Royal Darwin Hospital Campus.

Operating lease relates to portion of Lot 9731 Town of Nightcliff with a lease term of 20 years.

Rent of \$1.00 per annum is payable to the lessor over the leasing period.

Term of Lease: Twenty (20) years

Option Period: Negotiable

Commencing Date: 17 September 2014

John Mathews Building 58, Royal Darwin Hospital Campus.

Operating lease relates to portion of Lot 9731 Town of Nightcliff with a lease term of 20 years.

Rent of \$1.00 per annum is payable to the lessor over the leasing period.

Term of Lease: Ten (10) years

Option Period: Extension to 16 September 2034

Commencing Date: 14 August 2008

Note 31: Commitments (Contd.)

	2015	2014
	\$	\$
(ii) Other expenditure commitments		
Within one year	10,000	10,000
Later than one year but not later than five years	40,000	40,000
Later than five years	-	-
	50,000	50,000

Lowitja Institute for future core partner payments \$10,000 per annum.

(iii) Capital commitments

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

Within one year	201,474	1,819,654
After one year	-	-
	201,474	1,819,654

Note 32: Work in Progress

Menzies was 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 refurbishing an existing building known as Building 58 at the RDH campus. In the year ending 31 December 2014, Menzies transferred costs of the newly constructed buildings to CDU and NTG Department of Health. Menzies will occupy the buildings for nominal rent. The remaining construction; being the refurbishment of an existing building on the RDH Campus reached completion on 23 March 2015.

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**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.

Menzies has constructed, at their cost, a new Administration / Research building on the Casuarina Campus, owned by CDU. At completion of construction on 31 March 2014 the new building was transferred over to CDU at no cost. The building has been derecognised and the carrying amount of \$15.9m was recognised as a distribution to the owners within the statement of changes in equity. CDU has granted Menzies the right to use the building under a 20 year lease at a peppercorn rent being \$1.00 per annum.

For the year ending 31 December 2015 a further distribution of \$141,434 was made; this amount being the final costs associated with construction of the building.

Note 32:**Work in Progress (Contd.)****Royal Darwin Hospital Building Project***Accounting Treatment on transfer of Ownership to NTG Department of Health*

Menzies has constructed, at their cost, a new Administration / Research building on the RDH Campus of the NTG Department of Health. At completion of construction of the new building on 31 October 2014 the building was transferred to the NTG Department of Health at no cost. The NTG Department of Health have granted Menzies, the right to use the building under a 20 year lease at a peppercorn rent being \$1.00 per annum thereby creating an intangible asset. The intangible asset value of \$16.0m has been calculated as the present value of future fair value lease payments. The difference between the carrying amount of the capital works (\$19.8m) and the intangible asset (\$16.0m) has been recognised as a loss on disposal of assets in the profit and loss account for year ending 31 December 2014.

The remaining construction works; being the refurbishment of the existing building on the RDH Campus reached completion on 23 March 2015 at a cost of \$8.4m.

The NTG Department of Health has granted Menzies, the right to use the refurbished building under a lease (current lease expires in August 2018 with an option to extend to September 2034) at a peppercorn rent being \$1.00 per annum thereby creating an intangible asset. The intangible asset value of \$17.3m and has been calculated as the present value of future fair value lease payments based on market valuation of the property as determined on 31 December 2015. The difference between the carrying amount of the capital works (\$8.4m) and the intangible asset (\$17.3m) has been recognised as a gain on disposal of assets in the profit and loss account.

Project Revenue and Costs

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

	Total	Received to 31/12/14	Received in Subsequent Periods
	\$ millions	\$ millions	\$ millions
Revenue:			
Commonwealth Government	39.5	6.8	32.7
NT Government	4.5	0	4.5
Charles Darwin University	1.2	0.8	0.4
Interest	2.8	0.1	2.7
	48.0	7.7	40.3
Project Costs	48.0	9.8	38.2
		2015	2014
		\$	\$
Project Revenue and Costs			
Unspent project income received		0.2	1.8
Project income received in subsequent		0.0	0.0
Committed Costs at 31/12/15		0.2	1.8

Restricted Reserve

The balance of unspent project funds of \$201,199 at 31 December 2015 (2014: \$1,819,654) 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	100%
Royal Darwin Hospital Building Project - new building	100%
Royal Darwin Hospital Building Project - refurbishment	100%

Note 33: Assets Pledged as Security

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

- i. a maximum of 1 x \$380,820 in respect of the contract for Menzies developments at Charles Darwin University (released 7 December 2015);
- ii. a maximum of 3 x \$26,273 in respect of the contract for Menzies developments at Royal Darwin Hospital Extension to Palliative Care Hospice (released 24 November 2014);
- iii. a maximum of 3 x \$537,884 in respect of the contract for Menzies developments at Royal Darwin Hospital (pending completion of works including defects liability period).