



FINANCIAL REPORT 2017



Auditor-General

Independent Auditor's Report to the Minister for Health Menzies School of Health Research Year Ended 31 December 2017

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Opinion

I have audited the accompanying Financial Report of Menzies School of Health Research.

The Financial Report comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other 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.

In my opinion, the accompanying 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 financial position of Menzies School of Health Research as at 31 December 2017, 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*.

Basis for Opinion

I conducted the audit in accordance with *Australian Auditing Standards*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of my report.

I am independent of Menzies School of Health Research in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to the audit of the Financial Report in Australia. I have fulfilled my other ethical responsibilities in accordance with the Code.

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

Responsibilities of the Board of Governors for the Financial Report

The Board of Governors of Menzies School of Health Research is responsible for:

- (a) 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.
- (b) implementing necessary internal control 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.
- (c) assessing Menzies School of Health Research's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate Menzies School of Health Research or cease operations, or have no realistic alternatives but to do so.



Auditor-General

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Other Information

Other Information is financial and non-financial information in Menzies School of Health Research's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Board of Governors is responsible for the Other Information.

The Other Information I obtained prior to the date of this Auditor's Report was the "*Statement on Behalf of the Board of Governors*" shown on page 7 of the Financial Report.

My opinion on the Financial Report does not cover the Other Information and, accordingly, I do not express any form of assurance conclusion thereon.

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

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

Auditor's Responsibilities for the audit of the Financial Report

My objective is:

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

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

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

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Menzies School of Health Research's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Auditor-General

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Menzies School of Health Research's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report however, future events or conditions may cause Menzies School of Health Research to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

A handwritten signature in blue ink, appearing to read 'Julie Crisp'.

Julie Crisp
Auditor-General for the Northern Territory
Darwin, Northern Territory

28 March 2018

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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 Australia Higher Education Providers for the 2017 reporting period where required;
- The attached financial statements are in accordance with the accounts and records of Menzies School of Health Research 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;
- 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 incurring expenditure.

Signed this 23rd day of March 2018.



Professor Alan Cass
Director
Location: Darwin



David Blair
Chief Operating Officer
Location: Darwin

STATEMENT OF 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 2017:

2017 BOARD MEETINGS			
BOARD MEMBER	POSITION	A	B
Mr Peter Plummer	Chairperson	3	4
Ms Donna Ah Chee	Deputy Chairperson	3	4
Mr Richard Ryan AO	Co-Treasurer	3	4
Mr Rowan Johnston	Co-Treasurer	4	4
Mr Ken Davies	Board Member	4	4
The Hon Trevor Riley	Board Member	3	4
Prof Alan Cass	Board Member	4	4
Prof Simon Maddocks	Board Member	3	4
Prof Catherine Stoddart (appointed 24 October 2017)	Board Member	1	1
Ms Olga Havnen (appointed 24 October 2017)	Board Member	1	1
A=Number of meetings attended, B=Number of meetings held during the time the member held office.			

2017 SUB-COMMITTEE MEETINGS				
	Finance Committee		Risk & Audit Committee	
COMMITTEE MEMBER	A	B	A	B
Mr Richard Ryan AO	1	4		
Mr Rowan Johnston	4	4		
Mr Tom Ganley	4	4		
Ms Tiziana Hucent (appointed 24 July 2017)	2	2		
Prof Alan Cass	4	4	4	4
Mr Robert Hudson			4	4
Ms Louise Dutton			0	4
Mr Ken Davies			2	4
Mr Peter Hopton			3	4
Mr Ross Springolo (ex officio member)			3	4
Ms Sophie Cleveland			3	4
The Hon Trevor Riley			2	4
A=Number of meetings attended, B=Number of meetings held during the time the member held office.				

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 2017 year.

STATEMENT ON BEHALF OF THE BOARD OF GOVERNORS

Review of Operations

In 2017 Menzies posted an operating deficit of \$3,374,164 represented by the following:

	2017 \$	2016 \$
Interest earned on capital funding	302	1,294
Research and Education (deficit)/surplus	(981,955)	1,203,690
Non-research surplus	186,315	204,729
NTG Research Investment funding	-	5,000,000
Depreciation and amortisation	(2,577,823)	(2,556,646)
(Loss)/Gain on disposal of assets	(1,003)	8,000
	(3,374,164)	3,861,067

The movement in operating result between 2016 (\$3,861,067 surplus) and 2017 (\$3,374,164 deficit) is due to a number of factors. In particular, in late 2016 Menzies received \$5M in one-off research funding from the Northern Territory Government. This was recorded as income and surplus in 2016, with funds to be expended in following years. In addition, there is often a timing difference between the receipt of research project income and incurring project expenditure. This, coupled with the fact that research projects can be multi-year, can result in income and associated expenditure falling in different financial years. This in turn leads to reporting research surpluses in one financial year, as income is received, followed by research deficits as the associated expenditure is incurred in subsequent years. The research and education surplus of \$1,203,690 in 2016, and deficit of \$981,955 in 2017 arises because of the factors outlined above.

In 2017, Menzies' new 5 year strategic plan – *Menzies 2021* – was finalised. *Menzies 2021* builds upon the institutes' history of achievement and will position Menzies as:

1. A recognised innovator and leader in Indigenous and tropical health and wellbeing;
2. Achieving excellence in research translation and impact; and
3. A strong and resilient organisation.

Likely Developments and Expected Results of Operations

Menzies continues to operate in a challenging and competitive medical research funding environment. Changes to the National Health and Medical Research Councils' research funding structures, the medical research future fund as well as continuing strategies to diversify Menzies' income base all remain key areas of focus for the Board and senior management.

In 2018, Menzies will officially launch the Menzies School of Health Foundation (the Foundation). The Foundation has been established to encourage and foster interest in and financial support of Menzies, and is expected to assist in Menzies' pursuit to diversify and grow its income base.

Significant Changes in the State of Affairs

There were no significant changes in Menzies affairs during the 2017 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.

STATEMENT OF BEHALF OF THE BOARD OF GOVERNORS

Environmental Regulations

Menzies is subject to the following environment regulations:

- a) Gene Technology Act 2000 No. 169, Compilation No.13 (Registered 13 July 2016);
- b) Transport of Dangerous Goods by Road and Rail (National Uniform Legislation) Act;
- c) Industry code of practise for the management of biohazardous waste (including clinical and related) wastes, 7th Edition 2014;
- d) Biosecurity Act 2015 No. 61, Compilation No.5 (Registered 20 September 2017);
- e) International Air Transport Association (IATA) Dangerous Goods Regulations;
- f) Regulations pertaining to Defence Export Controls registration.

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 2017 the premium was \$7,400.

Proceedings on Behalf of Menzies School of Health Research

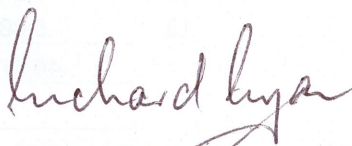
There were no legal proceedings undertaken by Menzies in the 2017 year and no legal proceedings taken against Menzies.

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

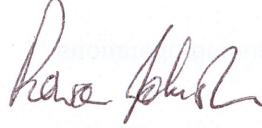
Signed this 23 day of March 2018.




Peter Plummer
Chair
Board of Governors
Location: Darwin



Richard Ryan AO
Co-Treasurer
Board of Governors
Location: Darwin



Rowan Johnston
Co-Treasurer
Board of Governors
Location: Darwin



Professor Alan Cass
Director
Location: Darwin

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2017

	Note	2017 \$	2016 \$
Income from continuing operations			
Australian Government financial assistance			
National Health & Medical Research Council	2	10,959,791	11,687,385
Other Government Agencies	2	2,448,708	3,986,501
NT Government financial assistance	3	5,161,924	9,787,331
Fees and charges	4	3,090,634	3,501,465
Investment income	5	816,782	769,509
Consultancy and contract research	6	10,353,570	9,408,806
Other revenue	7	4,265,807	3,944,465
Total revenue from continuing operations		37,097,216	43,085,462
(Loss)/Gain on disposal of assets	8	(1,003)	8,000
Total income from continuing operations		37,096,213	43,093,462
Expenses from continuing operations			
Employee related expenses	9	24,904,426	23,335,161
Depreciation and amortisation	10	2,577,823	2,556,646
Repairs and maintenance	11	1,261,071	1,178,544
Direct research costs	12	5,843,061	5,695,057
Other expenses	13	5,883,996	6,466,987
Total expenses from continuing operations		40,470,377	39,232,395
Operating result from continuing operations		(3,374,164)	3,861,067
Operating result attributable to members		(3,374,164)	3,861,067
Revaluation of investment	23	3,732	5,967
Total comprehensive (loss)/income attributable to members		(3,370,432)	3,867,034

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

For the Year Ended 31 December 2017

	Note	2017 \$	2016 \$
Assets			
Current Assets			
Cash and cash equivalents	14	2,473,893	10,645,929
Trade and other receivables	15	625,870	596,372
Other financial assets	16	31,727,000	24,727,000
Other non-financial assets	18	692,571	658,795
Total Current Assets		35,519,334	36,628,096
Non-Current Assets			
Other financial assets	16	39,907	34,744
Property, plant and equipment	19	1,683,874	2,364,712
Intangible assets	17	28,337,831	30,027,832
Total Non-Current Assets		30,061,612	32,427,288
Total Assets		65,580,946	69,055,384
Liabilities			
Current Liabilities			
Trade and other payables	20	841,545	594,160
Provisions	22	4,072,346	4,424,968
Other liabilities	21	212,730	120,852
Total Current Liabilities		5,126,621	5,139,980
Non-Current Liabilities			
Provisions	22	403,773	494,420
Total Non-Current Liabilities		403,773	494,420
Total Liabilities		5,530,394	5,634,400
Net Assets		60,050,552	63,420,984
Equity			
Reserves	23	7,657,326	6,831,863
Retained earnings	24	52,393,226	56,589,121
Total Equity		60,050,552	63,420,984

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2017

	Note	Retained Earnings \$	Reserves \$	Total \$
Balance at 1 January 2017		56,589,121	6,831,863	63,420,984
Operating result for the year	25	(3,374,164)	-	(3,374,164)
Net Revaluation gain on investments	23	-	3,732	3,732
Total Comprehensive Income		53,214,957	6,835,595	60,050,552
Transfers	24	(821,731)	821,731	-
Balance at 31 December 2017		52,393,226	7,657,326	60,050,552
Balance at 1 January 2016		53,476,726	6,077,224	59,553,950
Operating result for the year	25	3,861,067	-	3,861,067
Net Revaluation gain on investments	23	-	5,967	5,967
Total Comprehensive Income		57,337,793	6,083,191	63,420,984
Transfers	24	(748,672)	748,672	-
Balance at 31 December 2016		56,589,121	6,831,863	63,420,984

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Australian Government grants		13,345,614	16,093,962
NT Government funding		5,161,924	9,787,331
Receipts from Student Fees		3,090,634	3,501,465
Interest received		815,351	768,478
Consultancies and contract research		10,248,315	9,408,806
Other receipts		4,265,807	3,662,621
Payments to suppliers		(13,308,550)	(12,619,736)
Payments to employees		(24,583,143)	(23,165,688)
Net cash (used in)/provided by operating activities	27	(964,048)	7,437,239
Cash flows from investing activities			
Charles Darwin University - Menzies investments funds	29	(7,000,000)	(2,000,000)
Proceeds from sale of plant and equipment		-	8,000
Payments for property, plant and equipment	19	(207,988)	(325,398)
Net cash outflow from investing activities		(7,207,988)	(2,317,398)
Net (decrease)/increase in cash and cash equivalents		(8,172,036)	5,119,841
Cash and cash equivalents at the beginning of the year		10,645,929	5,526,088
Cash and cash equivalents at end of the year	14	2,473,893	10,645,929

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

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 (as in force from 12th April 2017) stipulates that the Council of Charles Darwin University will be responsible for appointing at least five (5) with a maximum of nine (9) of the board positions required under section 11 (1) (c) of 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 break the cycle of disease and improve health outcomes for people in Australia and the Asia-Pacific region, particularly Aboriginal and Torres Strait Islander communities, through excellence and leadership in research, education and capacity development 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 23 March 2018.

New Accounting Standards:

Several new standards, amendments to standards or interpretations have been promulgated by the Australian Accounting Standards Board but are not yet mandatorily effective and Menzies did not adopt any standard early in this financial period. Menzies has not evaluated the impact of these new standards yet and intends to adopt these standards, interpretations and amendments, if applicable, when they become mandatorily effective.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

Those relevant to Menzies for adoption within the next two years are:

AASB	Name	Adoption date
AASB 9	Financial Instruments	1 January 2018
AASB 15	Revenue from Contracts with Customers	1 January 2019 (when AASB 1058 is also adopted)
AASB 16	Leases	1 January 2019
AASB 1058	Income of Not-for-Profit Entities	1 January 2019

At date of this report, Menzies is assessing the impact and its approach to transition. Upon finalisation of this process, Menzies will be in a position to determine and disclose the likely impact of the adoption of these new standards, including approach on transition. Until this time, the impact of these new standards cannot be quantified.

Further information on these key standards for adoption in the next two years is provided below.

AASB 9 Financial Instruments

AASB 9 addresses classification and measurement of financial assets and liabilities and prescribes new principles on the impairment of financial assets. Given Menzies' portfolio of Financial Instruments, adoption of this standard is not expected to have a material impact on Menzies' Financial Statements.

AASB 1058 Income of Not-for-Profit Entities

AASB 1058 applies to all transactions of a not-for-profit entity where the consideration provided to acquire an asset is significantly less than its fair value and that discount is provided to principally enable the not-for-profit to further its objectives. AASB 1058 required the not-for-profit entity to initially recognise:

- the fair value of the asset obtained in accordance with the applicable Australian Accounting Standard;
- any related credit amounts, measured in accordance with the applicable Australian Accounting Standard (which could include AASB 1004 *Contributions*, AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*, AASB 9 *Financial Instruments*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*); and
- income immediately for any excess of the initial carrying amount of the asset (a) over the related amounts recognised in (b).

AASB 1058 has an effective date of 1 January 2019, and Menzies expects to adopt the standard on the effective date, in line with its parent entity the Charles Darwin University.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principle is to provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2019 with early adoption permitted. Menzies intends to adopt the standard on the effective date, in line with parent entity the Charles Darwin University.

AASB 16 Leases

AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets are exempt from the lease accounting requirement. The new lease standard is effective for annual periods on or after 1 January 2019 with early adoption permitted. Menzies expects to adopt the standard on the effective date, in line with parent entity the Charles Darwin University.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

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 or 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 Menzies' accounting policies. The estimates and underlying assumptions are reviewed on an ongoing basis.

Comparatives:

Where applicable, prior period financial statement amounts have been reclassified to conform to current period presentation and to better reflect the current operations and structure.

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) Grants

Menzies treats operating grants received from Australian Government and other entities as income in the year of receipt. Grants 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.

A provision in respect of grants is recognised if, as a result of past event, Menzies has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

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.

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

Menzies does not have any retirement benefit obligations.

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	5 years
Motor Vehicles	4.4 years

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

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).

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, other short-term, highly liquid investments with original maturities of twelve 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 can be pooled with Charles Darwin University investments and such funds are reported under 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

m) 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 can be pooled with Charles Darwin University investments. The investments will be in the name of the Charles Darwin University and not in the name of Menzies. Interest is applied quarterly based on the weighted average interest rate obtained from all Charles Darwin University 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.

n) 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.

At completion of construction of the new building on 31 October 2014, the building was transferred to the Northern Territory Government Department of Health at no cost. The Northern Territory Government 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 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 Northern Territory Government Department of Health. In turn, the Northern Territory Government Department of Health 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.

o) Superannuation

Menzies contributes to several superannuation funds on a pay-as-you-go basis. Employee contributions are based on various percentages of their gross salaries. After serving a qualifying period, all employees are entitled to benefits on retirement, disability or death. Under these schemes Menzies legal obligation is limited to the amounts that it agrees to contribute to the fund and the actuarial and investment risks fall on the employee.

Most of the funds provide defined benefits based on years of service, employee contributions and final average salary. Menzies is under no legal obligation to make up any shortfall in the funds' assets to meet payments due to employees.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 2. AUSTRALIAN GOVERNMENT FINANCIAL ASSISTANCE

	2017 \$	2016 \$
Non Capital		
National Health & Medical Research Council Grants	10,959,791	11,687,385
Other Australian Government Financial Assistance		
Australian Research Council	-	40,000
Australian Agency for International Development (AusAid)	600,000	400,000
Department of Prime Minister and Cabinet	334,941	1,195,260
Department of Health	1,513,767	2,351,241
Total Other Australian Government Financial Assistance	2,448,708	3,986,501
Total Australian Government Financial Assistance	13,408,499	15,673,886

NOTE 3. NORTHERN TERRITORY GOVERNMENT FINANCIAL ASSISTANCE

Northern Territory Government other grant funding	5,161,924	9,787,331
Total Northern Territory Government Financial Assistance	5,161,924	9,787,331

NOTE 4. FEES AND CHARGES

Course fees and charges		
Fee-paying overseas students	14,728	28,280
Fee-paying domestic postgraduate students	1,784,338	1,543,464
Total course fees and charges	1,799,066	1,571,744
Other Fees and charges		
Administration receipts	127,379	584,718
Reimbursements	1,164,189	1,345,003
Total other fees and charges	1,291,568	1,929,721
Total Fees and Charges	3,090,634	3,501,465

NOTE: 5. INVESTMENT INCOME

Interest on investments	815,049	767,184
Interest on capital funding	302	1,294
Dividends	1,431	1,031
Total Investment Income	816,782	769,509

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 6. CONSULTANCY AND CONTRACT RESEARCH

	2017 \$	2016 \$
Consultancies	118,978	160,736
Contract Research	10,234,592	9,248,070
Total Consultancy and Contract Research	10,353,570	9,408,806

NOTE 7. OTHER REVENUE

Menzies Foundation	75,000	75,000
Charles Darwin University	3,978,452	3,528,290
Donations	209,565	336,420
Other	2,790	4,755
Total Other Revenue	4,265,807	3,944,465

NOTE 8. OTHER GAINS AND LOSSES

(Loss)/Gain on disposal of assets	(1,003)	8,000
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NOTE 9. EMPLOYEE RELATED EXPENSES

Research

Salaries	15,403,547	14,399,238
Superannuation	1,880,600	1,776,884
Payroll tax	928,914	858,073
Worker's compensation	77,273	83,535
Long service leave expense	393,136	366,223
Leave loading	273,264	252,523
Annual leave	1,796,354	1,648,156
Total Research	20,753,088	19,384,632

Education and Training

Salaries	818,364	668,860
Superannuation	107,381	100,205
Payroll tax	50,523	44,721
Worker's compensation	4,105	4,015
Long service leave expense	17,770	15,365
Leave loading	15,275	11,837
Annual leave	101,450	86,667
Total Education	1,114,868	931,670

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 9. EMPLOYEE RELATED EXPENSES

	2017 \$	2016 \$
Non Research and Education		
Salaries	2,169,100	2,271,618
Superannuation	296,301	348,094
Payroll tax	67,006	95,031
Worker's compensation	10,882	13,033
Long service leave expense	130,440	3,015
Leave loading	31,941	31,393
Annual leave	330,800	256,675
Total Non-Research and Education	3,036,470	3,018,859
Total Employee Benefits	24,904,426	23,335,161

NOTE 10. DEPRECIATION AND AMORTISATION

Amortisation - Prepaid rent	1,690,000	1,690,000
Depreciation - Plant & Equipment	875,059	849,358
Depreciation - Motor Vehicles	12,764	17,288
Total Depreciation and Amortisation	2,577,823	2,556,646

NOTE 11. REPAIRS AND MAINTENANCE

General	48,022	70,015
Maintenance Contracts	1,213,049	1,108,529
Total Repairs and Maintenance	1,261,071	1,178,544

NOTE 12. DIRECT RESEARCH COSTS

Laboratory cost	993,509	772,303
Research project costs:		
Participant expenses	44,041	32,662
Database & Design work	250,425	148,709
Research return	263,300	959,637
Share grant/Overseas	4,136,235	3,624,016
Publication & Translations	155,551	157,730
Total Direct Research Costs	5,843,061	5,695,057

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 13. OTHER EXPENSES

	2017 \$	2016 \$
Advertising	20,680	143,118
Consultant	799,985	830,395
Education	37,206	120,769
Information Technology & Communications	209,209	246,278
Insurance	138,438	178,325
Lease rentals	419,259	422,470
Lowitja Institute	10,000	10,000
Licences, Memberships, Fees and Charges	103,254	105,843
Scholarships	397,600	469,380
Staff training	39,243	66,544
Printing, stationery, postage & freight	399,334	309,928
Subcontracting costs	316,916	491,755
Travel – direct research related	1,744,033	1,632,601
Travel – other	226,142	324,879
Utilities and facilities management	451,759	371,347
Other Operating expenses	570,938	743,355
Total Other Expenses	5,883,996	6,466,987

NOTE 14. CASH AND CASH EQUIVALENTS

Cash at Bank	2,473,893	1,805,692
Short-term deposits	-	8,840,237
Total Cash and Cash Equivalents	2,473,893	10,645,929

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

Term deposits have fixed rates of interest and maturity dates within the ensuing 12 months.

NOTE 15. TRADE AND OTHER RECEIVABLES

Current

Trade receivables	615,499	552,613
GST receivable	10,371	43,759
Total current trade and other receivables	625,870	596,372

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 15. TRADE AND OTHER RECEIVABLES

Aged Analysis

The ageing analysis of receivables is as follows: As at 31 December 2017 trade receivables of \$91,800 (2016: \$57,293) 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:

	2017 \$	2016 \$
Less than 1 month	523,699	495,320
1 to 3 months	12,789	20,763
3 to 6 months	79,011	36,530
	615,499	552,613

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

NOTE 16. OTHER FINANCIAL ASSETS

Financial assets at fair value through profit or loss

Current

Charles Darwin University - Menzies investment funds	31,727,000	24,727,000
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Non-current

Australian listed equity securities available for sale	39,907	34,744
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Total Other Financial Assets	31,766,907	24,761,744
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NOTE 17. INTANGIBLE ASSETS

Other - Research building right of use	33,341,589	33,341,589
Accumulated amortisation and impairment	(5,003,758)	(3,313,757)
Total intangibles	28,337,831	30,027,832

NOTE 18. OTHER NON-FINANCIAL ASSETS

Prepayments	193,818	269,873
Accrued Income	400,763	302,482
Deposits	97,990	86,440
Total other non-financial assets	692,571	658,795

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 19. PROPERTY, PLANT AND EQUIPMENT

Movements in carry amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant & Equipment	Motor Vehicles	Total
	\$	\$	\$
Year ended 31 December 2017			
Opening net book amount	2,341,563	23,149	2,364,712
Additions	207,988	-	207,988
Disposals	(1,189,544)	(42,590)	(1,232,134)
Depreciation charge	(875,059)	(12,764)	(887,823)
Write-Back Acc.Depreciation	1,188,541	42,590	1,231,131
Balance at the end of the year	1,673,489	10,385	1,683,874
Year ended 31 December 2016			
Opening net book amount	2,865,523	40,437	2,905,960
Additions	325,398	-	325,398
Disposals	-	(41,435)	(41,435)
Depreciation charge	(849,358)	(17,288)	(866,646)
Write-Back Acc.Depreciation	-	41,435	41,435
Balance at the end of the year	2,341,563	23,149	2,364,712

A review of Menzies' asset register identified assets with a net book value of \$1,003 requiring write-off (cost \$1,232,134, accumulated depreciation \$1,231,131).

Movement in the cost/valuation reconciliations:

	Plant & Equipment	Motor Vehicles	Leasehold Improvement s	Total
	\$	\$	\$	\$
At 31 December 2017				
Cost	4,902,453	182,371	708,035	5,084,824
Valuation	1,698,777	115,469	-	1,530,637
Accumulated depreciation	(4,727,786)	(203,801)	(708,035)	(4,931,587)
Balance at the end of the year	1,673,489	10,385	-	1,683,874
At 31 December 2016				
Cost	4,702,498	98,717	708,035	5,509,250
Valuation	2,680,334	158,059	-	2,838,393
Accumulated depreciation	(5,041,269)	(233,627)	(708,035)	(5,982,931)
Balance at the end of the year	2,341,563	23,149	-	2,364,712

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 20. TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
Current		
Trade Payables	170,608	28,942
Deposits	1,055	1,095
Accrued Expenses	669,882	564,123
Total Trade and Other Payables	841,545	594,160

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying amounts are considered to be a reasonable approximation of fair value.

NOTE 21. OTHER LIABILITIES

Other liabilities	212,730	108,314
Income received in advance	-	12,538
Total Other Liabilities	212,730	120,852

NOTE 22. PROVISIONS

Current Provisions expected to be settled within 12 months

Annual leave	2,194,027	2,149,526
Long service leave	1,758,850	1,469,881
Provision for Grant repayment and transfer	119,469	805,561

Total Current	4,072,346	4,424,968
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Non-Current

Employee benefits	403,773	494,420
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Total Non-Current	403,773	494,420
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 23. RESERVES

	2017 \$	2016 \$
Revaluation Reserve		
Opening balance	52,903	52,903
Less: Transfer to retained earnings	(34,091)	-
Balance at the end of the financial year	18,812	52,903
Capital Asset Reserve		
Opening balance	6,657,569	5,790,923
Plus: Annual Contribution transferred from retained earning	887,823	866,646
Balance at the end of the financial year	7,545,392	6,657,569
Investment Revaluation Reserve		
Opening balance	38,166	32,199
Increment/(Decrement) of investments on hand	3,732	5,967
Less: Transfer to retained earnings	(10,795)	-
Balance at the end of the financial year	31,103	38,166
Restricted Reserve Building		
Opening balance	83,225	201,199
Less: Committed expenditure released	(21,206)	(117,974)
Balance at the end of the financial year	62,019	83,225
Total Reserves	7,657,326	6,831,863

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. The transfer in 2017 of (\$34,091) to retained earnings represents the release of revaluation amounts recognised in the Revaluation Reserve for assets that were disposed in previous years. Also refer to Note 19.

Capital Asset Reserve

Transfers to Capital Asset Reserves are for an amount equal to the depreciation expense for the year - 2017: \$887,823 (2016: \$866,646). 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 the amount equal to the depreciation expense recorded for that year.

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. The increment in 2017 of \$3,732 (2016: \$5,967) relates to the revaluation of shares on hand for the year ending 31 December 2017. The transfer in 2017 of (\$10,795) to retained earnings represents the release of revaluation amounts recognised in the Investment Revaluation Reserve for investments that were disposed in previous years.

Restricted Reserve Building

The Restricted Reserve Building represents funds that are restricted for the use of completion of construction and fit out of the new buildings at Royal Darwin Hospital. All restricted funds are committed for the intended purpose.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 24. RETAINED EARNINGS

	2017 \$	2016 \$
Balance at the Beginning of the Financial Year	56,589,121	53,476,726
Operating Result	(3,374,164)	3,861,067
Transfers to Reserves	(821,731)	(748,672)
Balance at the End of the Financial Year	52,393,226	56,589,121

Transfers of (\$821,731) (2016: \$748,672) include an amount equal to the depreciation expense (\$887,823) (2016: (\$866,646)) to Capital Asset Reserves, \$21,206 (2016: \$117,974) movement of the Restricted Building Reserve as committed expenditure is expended, \$34,091 (2016: nil) movement of the Revaluation Reserve, and \$10,795 (2016: nil) movement of the Investment Revaluation Reserve.

NOTE 25. ANALYSIS OF NET DEFICIT

The deficit for the year ending 31 December 2017 includes expenditure against research projects for which revenue was received and recognised in previous years, as well as revenue received for research projects that have a life beyond the end of the financial year. Revenue received for research projects is recognised as revenue in the year of receipt. Future commitments for these projects will continue to extend beyond the year the income was received for those projects.

Reconciliation of Total Net (Deficit)/Surplus	(3,374,164)	3,861,067
Represented by:		
Interest earned on capital funding (note 5)	302	1,294
Research and Education surplus/(deficit)	(981,955)	1,203,690
Non-research surplus/(deficit)	186,315	204,729
NTG Research Investment funding	-	5,000,000
Depreciation and amortisation (note 10)	(2,577,823)	(2,556,646)
(Loss)/Gain on disposal of assets (note 8)	(1,003)	8,000
	(3,374,164)	3,861,067

NOTE 26. COMMITMENTS

Expenditure Commitments

not later than one year	10,000	10,000
between one year and five years	10,000	20,000
later than 5 years	-	-
Total	20,000	30,000

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

Operating leases

Minimum lease payments under non-cancellable operating leases:

not later than one year	281,728	243,593
between one year and five years	238,051	464,720
later than 5 years	36	39
Total	519,815	708,352

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 26. COMMITMENTS

147 Wharf Street, Brisbane

Operating lease relates to part of the first floor of the building at 147 Wharf Street, Brisbane, QLD.

The rental for the first year of the renewed term (01/08/16-31/07/19) shall be \$165,500 excl GST.

Term of Lease: Three (3) years

Option Period: one option of three (3) years

Commencing Date: 1 August 2016

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

Photocopiers - Darwin

Operating lease relates to lease of photocopiers in Darwin, NT.

Rent of \$4,632.50 per month is payable to the lessor over the leasing period.

Term of Lease: 52 months

Option Period: Negotiable

Commencing Date: November 2015

Photocopiers - Brisbane

Operating lease relates to lease of photocopiers in Brisbane, QLD.

Rent of \$1,973 per month is payable to the lessor over the leasing period.

Term of Lease: 60 months

Option Period: Negotiable

Commencing Date: 1 August 2016

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 26. COMMITMENTS

Capital commitments

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

	2017 \$	2016 \$
within one year	62,019	83,225
after one year	-	-
Total capital commitments	62,019	83,225

NOTE 27. RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating Result	(3,374,164)	3,861,067
Depreciation and amortisation	2,577,823	2,556,646
Loss/(gain) on disposal of assets	1,003	(8,000)
Dividends reinvested	(1,431)	(1,031)
	(796,769)	6,408,682
Changes in Assets and Liabilities		
(Increase)/Decrease in receivables	(62,886)	732,393
(Increase)/Decrease in prepayments	76,055	(128,251)
(Increase)/Decrease in other assets	(11,550)	(16,865)
(Increase)/Decrease in accrued revenue	(98,282)	(281,844)
Increase/(Decrease) in trade and other payables	162,019	(9,744)
Increase/(Decrease) in accrued expenses	105,759	116,383
Increase/(Decrease) in GST receivable	33,388	(46,230)
Increase/(Decrease) in other liabilities	(6,973)	(312,318)
Increase/(Decrease) in employee provisions	321,283	169,472
Increase/(Decrease) in grant repayment provisions	(686,092)	805,561
	(167,279)	1,028,557
Net Cash Generated From Operating Activities	(964,048)	7,437,239

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 28. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) The following people were responsible persons of Menzies during the year:

Mr Peter Plummer - Chairperson
 Ms Donna Ah Chee - Deputy Chairperson
 Mr Richard Ryan AO - Treasurer
 Prof Alan Cass - Director/Board Member
 Prof Simon Maddocks - Board Member
 Mr Rowan Johnston - Board Member
 Mr Ken Davies - Board Member
 The Hon Trevor Riley - Board Member
 Ms Olga Havnen – Board Member
 Prof Catherine Stoddart –Board Member
 Mr Brendon Douglas – Deputy Director
 Mr David Blair - Chief Operating Officer
 Ms Heather D'Antoine - Division Leader
 Prof Nick Anstey - Division Leader
 Prof Anne Chang - Division Leader
 Prof Gary Robinson - Division Leader
 A/Prof David Thomas - Division Leader
 A/Prof Gail Garvey - Division Leader

Board members may include employees who may be ex officio members or elected staff members. Neither Board members nor Board sub-committee members have received any remuneration in their capacity as a Board or sub-committee 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:

	2017	2016
Remuneration of Board Members		
Nil	9	13
Remuneration of Executive Officers		
\$ 120,000 to \$129,999	1	-
\$ 140,000 to \$149,999	-	2
\$ 150,000 to \$159,999	-	1
\$ 160,000 to \$169,999	2	1
\$ 180,000 to \$189,999	1	-
\$ 190,000 to \$199,999	-	1
\$ 210,000 to \$219,999	1	1
\$ 220,000 to \$229,999	1	-
\$ 390,000 to \$399,999	-	1
\$ 430,000 to \$439,999	1	1
\$ 450,000 to \$459,999	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. Key Management Personnel listed at a) above includes a Charles Darwin University employee. Remuneration for this position has not been included in the table presented at b) above.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 28. KEY MANAGEMENT PERSONNEL DISCLOSURES

(c) Loans and other transactions with key management personnel

During the 2017 financial year no loans or other related party transactions were made to any Board members or executive officers.

(d) Key management personnel compensation

	2017	2016
	\$	\$
Short-term employee benefits (salary and allowances)	1,775,735	1,652,029
Post-employee benefits (defined contribution retirement benefits)	205,691	192,271
Other long term benefits (long service leave entitlements)	311,758	263,201
Total	2,293,183	2,107,501

Noting that total key management personnel compensation is as reported in the 2016 Annual Financial Report, comparative balances by compensation category have been restated, in line with compensation categories disclosed in 2017.

NOTE 29. RELATED PARTIES

Parent entity

As of 1 January 2004 Menzies became a controlled entity of Charles Darwin University. Whilst Menzies retains its own Act of Parliament, Charles Darwin University exercises its control over Menzies by having the power to appoint all non-prescribed positions to the Board of Directors, with the Vice Chancellor of Charles Darwin University and the Director of Menzies being the prescribed members.

Board Members and Key Management Personnel

Disclosures relating to Board members and specified executives are set out in note 28.

Transactions with related parties

Menzies received from Charles Darwin University

Student Fee Income	1,799,066	1,527,682
Research Support Program - Research Block Grant Funds	3,954,952	-
Research Infrastructure Block Grant (RIBG)	-	1,494,388
Sustainable Research Excellence (SRE)	-	1,276,104
Joint Research Engagement (JRE)	-	627,798
Interest earned on Menzies investment funds	680,036	650,749
Salaries	605,945	505,326
Project Transfers	8,959	122,823
Awards	15,000	20,000
	7,063,958	6,224,870

Menzies paid to Charles Darwin University

Service level agreements, printing and joint appointments	1,369,288	1,339,112
Menzies investment funds	7,000,000	2,000,000
	8,369,288	3,339,112

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 29. RELATED PARTIES

In the year ending 31 December 2017, Menzies received student fee income of \$1,799,066 from Charles Darwin University (2016: \$1,527,682). The income was earned by Menzies from students enrolled with Charles Darwin University 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 Charles Darwin University will be entitled to complete their courses as HECS students, subject to reasonable academic progress and consistent with DEST policies. Charles Darwin University will provide Menzies 70% of the dollar value per EFTSU. This will be reviewed annually."

Also governed by the Memorandum of Understanding between Menzies and Charles Darwin University, Menzies received Research Block Grant Funding from the Research Support Program of \$3,954,952 (2016: \$3,398,290 combined from RIBG, SRE and JRE Research Block Grant schemes). The income was earned by Menzies based on Menzies' research outputs claimed by Charles Darwin University under the Commonwealth Government Research Block Grant program. The terms and conditions governing this funding are outlined in Attachment three of the Memorandum of Understanding, and in summary state:

"Charles Darwin University will forward to Menzies specified portions of the Commonwealth Government funding awarded to Charles Darwin University as a result of Menzies' research and training activities when it is received."

The agreement sets the specified portion at 80%. It also provides for Charles Darwin University to retain in full a base amount from total funding, and distribute the remaining funding based on the prescribed formula including specified portion. In 2017, the base amount retained was \$1,200,000.

In 2015 the Board of Menzies agreed to a change to the investment method for liquid investments. Effective from September 2015 Menzies liquid investments can be pooled with Charles Darwin University investments. In the year ending 31 December 2017 Menzies received \$680,036 (2016: \$650,749) from interest earned on funds it has pooled with Charles Darwin University for investment. As at 31 December 2017 Charles Darwin University holds a total of \$31,727,000 (2016: \$24,727,000) which it has invested in term deposits on behalf of Menzies.

NOTE 30. 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 31. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

No matter or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect:

- (a) operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the state of affairs in future financial years

NOTE 32. REMUNERATION OF AUDITORS

Menzies is responsible for payment of audit services to the Auditor-General. Total payments for the 2017 audit amount to \$54,050 (\$53,675 for 2016).

In 2017, Menzies is also responsible for the payment to the Auditor-General in respect of audit services provided to the Menzies School of Health Research Foundation Limited. Total payments amount to \$5,981.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 33. 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 Officers 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.

Market risk

a) 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\$/GBP£/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.

b) 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.

c) 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.

d) 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%.

		Interest Rate Risk			
Financial Assets		-2.00%		2.00%	
31 December 2017	Carrying Amount	Result	Equity	Result	Equity
Cash & Cash Equivalents	2,473,893	(49,478)	(49,478)	49,478	49,478

		Interest Rate Risk			
Financial Assets		-2.00%		2.00%	
31 December 2016	Carrying Amount	Result	Equity	Result	Equity
Cash & Cash Equivalents	10,645,929	(212,919)	(212,919)	212,919	212,919

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

NOTE 33. FINANCIAL RISK

Credit risks

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 trades 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.

Liquidity risk

Liquidity risk arises from the financial liabilities of Menzies and Menzies' subsequent ability to meet its 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.

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.

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