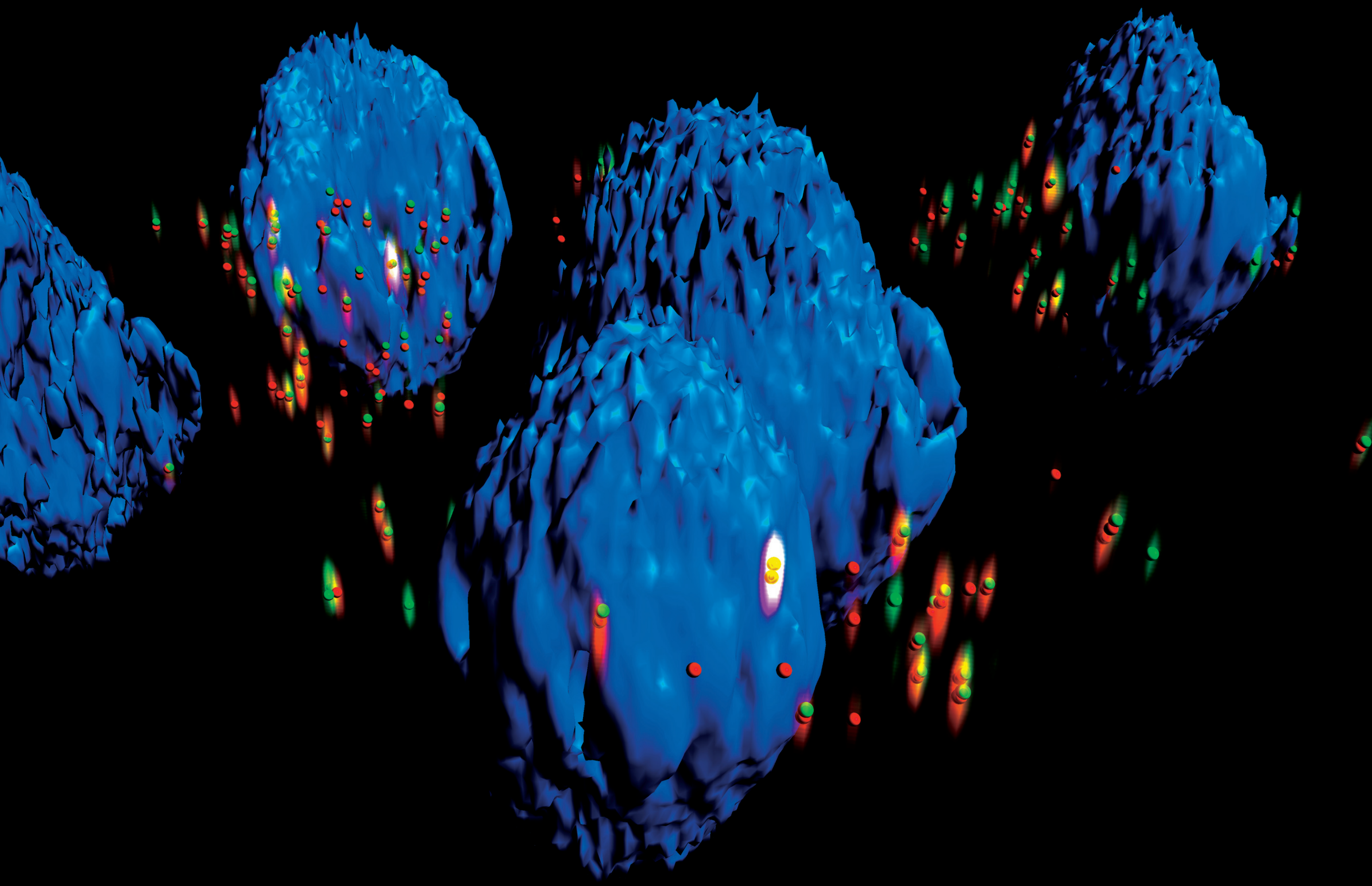
Burnet Institute
Medical Research. Practical Action.

Annual Financial Report

For the year ended 31 December 2010



MACFARLANE BURNET INSTITUTE FOR MEDICAL RESEARCH AND PUBLIC HEALTH LTD A.B.N. 49 007 349 984

Contents

Directors' Report

The Directors present their report together with the Financial Report of the Macfarlane Burnet Institute for Medical Research and Public Health Limited (Burnet Institute) for the year ended 31 December 2010 and the Audit Report thereon.

Directors

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

Mr Alastair Lucas, BCom, FCPA
Chair, Burnet Institute Board of Directors; **Director** since 1998; **Chair,** Fundraising Committee; **Member,** Audit, Finance and Risk Committee, Investment Committee, ACS2 Project Committee; **Vice Chair and Managing Director,** Goldman Sachs; **Chair,** Cell Care Australia; **Member,** Founder's Board, Fauna & Flora International Australia; **Director,** Monash Institute of Medical Research; **Member,** Dean's Advisory Board for Monash University, Faculty of Medicine, Nursing and Health Sciences; **Deputy Chair,** Market Policy Group, Finsia; **Member,** Australian Takeovers Panel.

Professor Brendan Crabb, BSc(Hons), PhD
Executive Director and CEO since March 2008; **Member,** Research Advisory Committee, Fundraising Committee and ACS2 Project Committee; **Adjunct Professor,** University of Melbourne; **Adjunct Professor,** La Trobe University; **Adjunct Professor,** Monash University; **Director,** AMREP Animal Services Pty Ltd; **Member,** Gene Technology Access Board of Management.

Ms Denise Allen
Director since 2006 and resigned February 2011; **Chair,** Investment Committee; **Director,** Medical Research Commercialisation Fund (MRCF); **Former Chair and Managing Director,** Legg Mason Asset Management Australia Ltd; **Director,** Utilities of Australia; **Director,** AvSuper.

Associate Professor David Anderson, PhD
Director since 2006 and resigned February 2011; **Deputy Executive Director; Member,** Research Advisory Committee; **NHMRC Senior Research Fellow; Associate Professor,** Department of Microbiology and Immunology, University of Melbourne; **Director,** Hepitope Limited.

Professor Peter Colman, BSc, PhD
Director since 2011; **Head** Structural Biology Division, WEHI; **Former Chief,** CSIRO Division of Biomolecular Engineering.

Mr Ross E Cooke, BCom, ACA
Director since 1998; **Chair,** Audit, Finance and Risk Committee, and **Member,** ACS2 Project Committee; **Director,** Paxton Partners; **Director and President,** Wintringham, and Wintringham Housing Ltd.

Professor Peter Doherty, AC, FAA, FRS
Director since 2002 and resigned March 2011; **Nobel Laureate,** Department of Microbiology and Immunology, University of Melbourne.

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

Mr Neil Edwards, BEcon (Hons), FAICD, FIPAA
Director since 2006 and resigned June 2010; **Member,** Audit, Finance and Risk Committee and ACS2 Project Committee; **CEO,** Chifley Business School; **Chairman,** Regional Channels Authority.

Professor P Mark Hogarth, PhD
Director since 2006 and resigned February 2011; **Member,** Research Advisory Committee, and ACS2 Project Committee; **Deputy Executive Director** to February 2011; **NHMRC Senior Principal Research Fellow; Former Executive Director,** Austin Research Institute; **Adjunct Professor,** University of Melbourne; **Adjunct Professor,** Monash University; **Director,** IgAvax Pty Ltd.

Professor, the Hon Barry O Jones, AO, FAA, FAHA, FTSE, FASSA, FRSA, FRSV, FAIM
Director since 2000; **Chair,** Vision 2020 Australia; **Chair,** Port Arthur Historic Site Management Authority; **Professorial Fellow,** University of Melbourne; **Former Vice Chancellor's Fellow,** University of Melbourne; **Former Commonwealth Minister for Science; Former Chair,** Victorian Schools Innovation Commission.

Directors' Report

Directors (con't)

Mr Henry Lanzer, BCom, LLB
Director since 2008; **Member,** Fundraising Committee; **Managing Partner,** Arnold Bloch Leibler; **Director,** Premier Investments; **Director,** The Just Group; **President,** Mount Scopus Memorial College Foundation.

Professor James McCluskey,
MBBS, B Med Sci, MD, FRACP, FRCPA
Director since 1998 and resigned March 2011; **Chair,** Research Advisory Committee; **Pro Vice-Chancellor,** Research Partnerships at The University of Melbourne; **Deputy Head,** Department of Microbiology and Immunology; **Consultant Immunologist** to the Victorian Transplantation and Immunogenetics Service, Australian Red Cross Blood Service.

Mr Robert L Milne, BEng (Civ), FIE (Aust), CP Eng
Director since 2000; **Chair,** ACS2 Project Committee and **Member,** Fundraising Committee; **Chair,** Cockram Corporation and subsidiaries.

Mrs Maria Myers, AO, BA, BSW, LLB
Director since 2004; **Member,** Fundraising Committee; **Chairman,** Kimberly Foundation Australia; **Director,** Mary Ward International Australia; **Director,** Australian String Quartet; **Director,** Elisabeth Murdoch Sculpture Foundation; **Director,** Dunkeld Pastoral Company Pty Ltd; **Member,** Loreto College Ballarat School Council.

Ms Mary Padbury, BA, LLB
Director since 2011; **Chairman,** Blake Dawson; **Domain Name Panelist,** World Intellectual Property Organisation; **Director,** Australasian Gastrointestinal Trials Group (GI Cancer Institute); **Member,** Chief Executive Women.

Ms Natasha Stott Despoja
Director since 2008; **Member,** Fundraising Committee; **Former Senator** for South Australia; **Former Leader,** Australian Democrats; **Director,** beyondblue; **Director,** South Australian Museum; **Director,** Australian Defense Association; **Member,** Advisory council, Museum of Australian Democracy; **Member,** Alumni Advisory Board, University of Adelaide; **Member,** Advertising Standards Board; **Honorary Research Fellow,** University of Adelaide.

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

Resigned as Director during 2010 or since year end:

Mr Neil Edwards, BEcon (Hons), FAICD, FIPAA
Director since 2006 and resigned June 2010

Ms Denise Allen
Director since 2006 and resigned February 2011

Associate Professor David Anderson, PhD
Director since 2006 and resigned February 2011

Professor P Mark Hogarth, PhD
Director since 2006 and resigned February 2011

Professor Peter Doherty, AC, FAA, FRS
Director since 2002 and resigned March 2011

Professor James McCluskey,
MBBS, B Med Sci, MD, FRACP, FRCPA
Director since 1998 and resigned March 2011.

Directors' Meetings

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

Directors	Board of Directors		Audit, Finance and Risk Committee		ACS2 Project Committee		Investment Committee		Fundraising Committee		Research Advisory Committee	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Alastair Lucas	5	5	4	3	3	3	1	0	5	4	-	-
Brendan Crabb	5	5	-	-	3	3	-	-	5	3	1	1
Denise Allen	5	2	-	-	-	-	1	1	-	-	-	-
David Anderson	5	5	-	-	-	-	-	-	-	-	1	1
Ross Cooke	5	4	8	8	3	2	-	-	-	-	-	-
Peter Doherty	5	0	-	-	-	-	-	-	-	-	-	-
John Dowling	5	5	-	-	-	-	-	-	-	-	1	1
Neil Edwards	2	1	3	2	3	1	-	-	-	-	-	-
P Mark Hogarth	5	2	-	-	3	3	-	-	-	-	1	0
Barry Jones	5	2	-	-	-	-	-	-	-	-	-	-
Henry Lanzer	5	2	-	-	-	-	-	-	5	2	-	-
James McCluskey	5	4	-	-	-	-	-	-	-	-	1	1
Robert Milne	5	3	-	-	3	3	-	-	5	3	-	-
Maria Myers	5	2	-	-	-	-	-	-	5	4	-	-
Natasha Stott Despoja	5	4	-	-	-	-	-	-	5	4	-	-

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

Principal Activities

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

Operating Results

The surplus of the Burnet Institute amounted to $3,296,860 (2009: deficit $3,570,721). Depreciation and amortisation amounted to $2,257,606 (2009: $1,181,472). This surplus is influenced by a partial reversal of the prior impairment charge of the Alfred Centre Stage 2 (ACS2) project which contributed $2,806,647 to the result. Income tax is not applicable.

Dividends

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

Directors' Report

Objectives

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

For 2010, a further objective was the successful recruitment of additional high-quality research leaders to the Institute. In addition to the ongoing objectives of the laboratory research and public health activities there were two specific financially related short term objectives for the Institute in 2010:

(a) Timely completion of the ACS2 construction project and occupancy of it, and the extended premises in the Burnet Tower.

(b) Regular review and compliance with the financial aspects of the ACS2 project, including the commencement of tenancy arrangements ($2m revenue stream) and the $35m loan with the ANZ. This also included the revaluation of the freehold asset of ACS2.

The Directors, via a Board Sub-Committee, monitored progress of these objectives via traditional building industry indicators such as granting of practical completion, cost versus budget, time versus budget, and actual relocation dates as compared to projections (objective (a)), and the development of check lists and other management tools for the Property Management Area of the Institute. Other objectives included a closer relationship with the Financier and the commissioning and submission of a revised (increased) valuation which was accepted by ANZ in February 2011.

State of Affairs

The Burnet Institute had an active and successful year in its core activities of laboratory and field research and delivery of public health programs in the areas of infectious diseases and related health disciplines.

A highlight during the year was the completion of the ACS2 project. For a number of years the Burnet Institute has been working to facilitate growth and incorporate the merger of the Austin Research Institute. Grants from the Victorian State and Federal Governments, together with the generosity of donors enabled the project to proceed. The Institute also contributed from its own resources and put in place a long-term loan facility with an external financier.

This purpose-built medical research facility of 14,490 square meters will deliver four strategic benefits to the Institute. It will enable all Melbourne-based staff to be located together on the one campus, provide modern/high level laboratory facilities and supporting accommodation, provide future expansion options and deliver a long-term external rental revenue stream. This project was successfully completed on time and on budget on 4 March 2010.

In reviewing the carrying value of this asset at 31 December 2010, the Board elected to adopt a valuation prepared for the Institute's financier in November 2010. The Board believes this valuation was based on a number of conservative assumptions. The application of this valuation has resulted in a part reversal to the impairment in the carrying value of the ACS2 facility made in 2009. This reversal of the 2009 write-down amounted to $2.8 million. The Directors believe that the current replacement cost of the building would exceed the project's cost to the Burnet Institute.

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

Events Subsequent to Balance Date

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

Likely Developments

The Directors of the Burnet Institute do not anticipate any major changes in the basis of the Burnet Institute's operations other than those detailed in this Report.

Directors’ Benefits

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

Indemnification and Insurance of Officers

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

Rounding Off

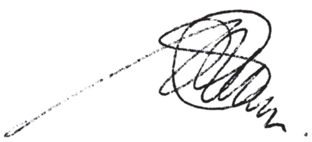
The Institute is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors’ Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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

The lead auditor’s independence declaration is set out on page 8 and forms part of the Directors’ Report for the year ended 31 December 2010.

Dated at Melbourne this 12th day of April 2011.

Signed in accordance with a resolution of the Directors.



Alastair Lucas
Director

Ross Cooke
Director

Lead Auditor's Independence Declaration

Under Section307C of the Corporations Act 2001

To: The Directors of the Macfarlane Burnet Institute for Medical Research and Public Health Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2010 there have been:

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

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

KPMG

Alison Kitchen
Partner
Melbourne
12 April 2011

Statement of Comprehensive Income

AS AT 31 DECEMBER 2010

	Notes	2010 $'000	2009 $'000
Operating revenue	3	46,684	44,988
Research and development laboratory consumables expenses		(3,494)	(4,158)
Employee expenses	4	(20,505)	(20,517)
Depreciation and amortisation expenses		(1,200)	(1,181)
Research and development non-laboratory expenses		(16,363)	(16,739)
Other expenses from ordinary activities	5	(5,101)	(4,220)
Total operating expenses		(46,663)	(46,815)
Results from operating activities		21	(1,827)
Financial income	7	709	1,094
Financial expenses	7	(1,955)	(293)
Net finance (costs)/ income		(1,246)	801
Property management income	3	3,040	-
Reversal of impairment		2,807	-
Depreciation and amortisation expenses – property management		(1,058)	-
Property management operating costs		(267)	-
Net property management income		4,522	-
Capital grants and income on capital grants	3	-	20,945
Building costs		-	(790)
Impairment of construction in progress		-	(22,700)
Capital profit/(loss) before income tax		-	(2,545)
Profit/(loss) before income tax		3,297	(3,571)
Income tax attributable to profit		-	-
Profit/(loss) after income tax		**3,297**	**(3,571)**
Other Comprehensive Income			
Net change in fair value of available-for-sale financial assets		(83)	12
Income tax on other comprehensive income		-	-
Other comprehensive income for the period net of income tax		(83)	12
Total Comprehensive Income for the period		**3,214**	**(3,559)**

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27

Statement of Financial Position

AS AT 31 DECEMBER 2010

	Notes	2010 $'000	2009 $'000
CURRENT ASSET			
Cash and cash equivalents – operating	21(i)	15,574	16,331
Trade and other receivables	8	6,364	4,845
Inventories		103	83
Other financial assets	10	103	82
TOTAL CURRENT ASSETS		22,144	21,341
NON-CURRENT ASSETS			
Investments	9	3,020	3,064
Property, plant and equipment	11	70,398	17,079
Construction in progress	12	-	42,086
TOTAL NON-CURRENT ASSETS		73,418	62,229
TOTAL ASSETS		95,562	83,570
CURRENT LIABILITIES			
Trade and other payables	13	3,994	4,923
Borrowings	14	388	378
Current tax liabilities	15	154	140
Provisions	16	3,086	2,877
Deferred income	17	11,133	13,354
TOTAL CURRENT LIABILITIES		18,755	21,672
NON-CURRENT LIABILITIES			
Borrowings	14	34,950	25,621
Provisions	16	920	884
Deferred income	17	12,948	10,660
Derivatives	18	392	350
TOTAL NON-CURRENT LIABILITIES		49,210	37,515
TOTAL LIABILITIES		67,965	59,187
NET ASSETS		**27,597**	**24,383**
EQUITY			
Retained earnings		7,741	7,281
Building reserve		19,856	17,019
Fair value reserve		-	83
TOTAL EQUITY		**27,597**	**24,383**

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27.

The Macfarlane Burnet Institute for Medical Research and Public Health Limited is a signatory to the Australian Council for International Development (ACFID) Code of Conduct. The Code requires members to meet high standards of corporate governance, public accountability and financial management. In accordance with the ACFID code of conduct, the Institute had nil balances in the following categories as at the end of the financial year which are required to be disclosed separately:
Non-Current Assets: other financial assets, investment property, intangibles, and other non-current assets; Current Liabilities: other financial liabilities and other current liabilities; Non-Current Liabilities: trade and other payables, other financial liabilities and other non-current liabilities.

Statement of Changes in Equity

AS AT 31 DECEMBER 2010

	Retained Profits $'000	Building Reserve $'000	Fair Value Reserve $'000	Total $'000
Balance at 1 January 2009	8,773	19,098	71	27,942
Fair value adjustment	-	-	12	12
Total other comprehensive income for the period	-	-	12	12
Operating profit/(loss)	(1,492)	(2,079)	-	(3,571)
Total comprehensive income for the period	(1,492)	(2,079)	12	(3,559)
Balance at 31 December 2009	**7,281**	**17,019**	**83**	**24,383**
Balance at 1 January 2010	7,281	17,019	83	24,383
Fair value adjustment	-	-	(83)	(83)
Total other comprehensive income for the period	-	-	(83)	(83)
Operating profit/(loss)	460	2,837	-	3,297
Total comprehensive income for the period	460	2,837	(83)	3,214
Balance at 31 December 2010	**7,741**	**19,856**	**-**	**27,597**

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27.

Statement of Cash Flows

AS AT 31 DECEMBER 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		50,344	57,064
Cash payments in the course of operations		(52,790)	(53,822)
Cash generated from operations		(2,446)	3,242
Interest received		698	355
Interest paid		(1,912)	(471)
Net cash provided by operating activities	21(ii)	(3,660)	3,126
Cash flows from investing activities			
Payments for property, plant and equipment		(630)	(1,085)
Payment for construction in progress		(5,781)	(53,488)
Interest payments capitalised in construction in progress		(135)	(258)
Proceeds from disposal of property, plant and equipment		52	184
Proceeds received for relocation including investment income		-	485
Payments for other building costs ACS2 project		-	(790)
Proceeds/(payments) for investments		58	(235)
Net cash provided by/(used in) investing activities		(6,436)	(55,187)
Cash flows from financing activities			
Finance lease proceeds		-	220
Finance lease payments		(65)	(127)
Proceeds from borrowings		9,404	25,846
Net cash provided by/(used in) financing activities		9,339	25,939
Net increase/(decrease) in cash held		(757)	(26,122)
Cash at the beginning of the financial year		16,331	42,453
Cash at the end of the financial year	**21(i)**	**15,574**	**16,331**

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 13 to 27.

Significant Accounting Policies

The Financial Report was authorised for issue by the Directors on 12 April 2011.

1. Statement of Compliance

The Financial Report is a general purpose Financial Report which has been prepared in accordance with Australian Accounting Standards (AASBs), (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. International Financial Reporting Standards (IFRSs) form the basis of Australian Accounting Standards (AASBs) adopted by the AASB.

1.1 Basis of Preparation

The Financial Report is presented in Australian dollars and is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale. The Burnet Institute is a company limited by guarantee.

The Burnet Institute is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a Financial Report in conformity with Australian Accounting Standards requires the Directors to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Burnet Institute. The Long Service Leave estimates and assumptions including current versus non-current classifications have changed (refer Note 16 - Provisions).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following note: Note 1.13 – Impairment and Note 16 - Provisions.

1.2 Basis of Accounting

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

1.3 Financial Instruments

(i) Non-Derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. Non-derivative financial instruments are recognised initially at fair value.

A financial instrument is recognised if the Institute becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Institute's contractual rights to the cash flows expire or if the Institute transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Institute commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Institute's obligations in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprises cash balances and at call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Burnet Institute's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

Available-for-sale financial assets

Other financial instruments held by the Burnet Institute are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses.

When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the Statement of Comprehensive Income. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the Statement of Comprehensive Income.

(ii) Derivative Financial Instruments

The Institute has chosen to hedge its interest rate risk exposure on the ACS2 loan facility by a cap and swap transaction (refer Note 18). This is the only derivative financial instrument that the Institute is involved in and is considered by the Directors to be a prudent means to manage risk associated with fluctuations in interest rates.

Derivatives are recognised initially at fair value: attributable transaction costs are recognised in the Statement of Comprehensive Income when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are recognised immediately in the Statement of Comprehensive Income. The fair value of interest rate swaps and caps is based on lender quotes.

1.4 Inventories

The inventory of laboratory materials is valued at the lower-of-cost and net realisable value as determined on the first-in/first-out basis.

1.5 Property, Plant and Equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below). Cost includes expenditure that is directly attributable to the acquisition of the asset. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Burnet Institute assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy Note 1.13). The cost of self-constructed assets under lease arrangements includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see below). Lease payments are accounted for as described in accounting policy note 1.10(i).

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The depreciation rates used for each class of asset are as follows:

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

The residual value, if not insignificant, is reassessed annually.

1.6 Employee Benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

(ii) Long-term service benefits

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

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

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

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

1.7 Payables

Payables are stated at cost.

1.8 Revenue Recognition

(i) Contract R&D revenue/consultancies

R&D contract income is recognised in the Statement of Comprehensive Income to the extent that R&D expenditure to which it relates has been incurred. Until this time, funds drawn down in accordance with the relevant R&D funding agreement are recognised in the Balance Sheet as deferred income.

(ii) Grant income

Reciprocal grants

Grants received on the condition that specified services be delivered, or conditions fulfilled, are considered reciprocal. Such grants are initially recognised as a liability and revenue is recognised as services are performed or conditions fulfilled.

Non-reciprocal grants

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

(iii) Government contributions towards capital works (capital grants)

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

(iv) Donations and dividends

Donations and dividends are recognised as income in the Statement of Comprehensive Income, as and when received.

(v) Interest and other income

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

(vi) Asset sales

The net gain or loss from the disposal of property, plant and equipment is recorded as other income or other expense, and recognised on the date that an unconditional agreement of sale is signed or when the revenue is received, whichever is sooner.

(vii) Rental Income

Rental income is recognised as income in the Statement of Comprehensive Income as it is earned.

1.9 Finance Income and Expenses

Finance income comprises interest income on funds invested (including available-for-sale), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets taken through the Statement of Comprehensive Income. Dividend income is recognised in the Statement of Comprehensive Income on the date that the Institute's right to receive the payment is established, which in the case of quoted securities is the ex-dividend date.

Finance Expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the Statement of Comprehensive Income, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in the Statement of Comprehensive Income. All borrowing costs are recognised in the Statement of Comprehensive Income using the effective interest rate method.

1.10 Expenses

(i) Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the Statement of Comprehensive Income.

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest method. Dividend income is recognised in the Statement of Comprehensive Income on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the Statement of Comprehensive Income using the effective interest method.

1.11 Income Tax

The Burnet Institute is exempt from paying income tax under section 23(e) of the Income Tax Assessment Act 1936.

1.12 Goods and Services Tax

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

1.13 Impairment

The carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the Statement of Comprehensive Income in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

2. New standards and interpretations not yet adopted

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

3. Revenue

	2010 $'000	2009 $'000
Grants – operating	16,948	17,432
Grants – Victorian Government operational infrastructure support	4,410	4,302
Donations	5,941	1,753
Contract R&D revenue/consultancies	18,871	20,722
Other income-miscellaneous	514	779
Operating revenue	46,684	44,988
Grants – capital	-	20,460
Investment fund revenue	-	485
Capital grants and income on capital grants	-	20,945
Rental income	2,169	-
Prepaid rent amortisation	871	-
Property management income	3,040	-

4. Employee Expenses

Salary and wages	19,068	19,557
Employee entitlements	1,437	960
	20,505	20,517

5. Other Expenses

Net loss on disposal of property, plant and equipment	-	27
Operating lease rental expenses	318	301
Facilities and laboratory support	2,899	1,510
Other administration	1,884	2,382
	5,101	4,220

6. Auditors' Remuneration Audit Service

KPMG Australia:	$	$
Audit and review of financial reports	45,000	42,000
Other regulatory audit services	33,085	25,546
	78,085	67,546
Other services		
KPMG Australia: Cash flow review for Alfred Centre Stage 2 project	-	167,500

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

7. Net Financing Costs	Notes	2010 $'000	2009 $'000
Interest income		698	355
Gain on revaluation of investments		11	53
Increase in fair value of derivatives		-	686
Financial income		709	1,094
Decrease in fair value of derivatives		(43)	-
Interest expense		(1,912)	(293)
Financial expenses		(1,955)	(293)
Net financing (costs)/income		(1,246)	801

8. Receivables

Current			
Funds on deposit		3,500	-
Trade receivables		2,889	4,870
Less: allowance for doubtful debts		(25)	(25)
	28	6,364	4,845

9. Investments

Current investments			
Equity securities available for sale:			
- 11.8 million fully paid ordinary Select Vaccines Ltd shares, fair valued at 31 December 2010		-	83
Other Investments			
- Income Securities of National Australia Bank and Macquarie Bank, fair valued at 31 December 2010		240	229
- Investment held by the Sir Zelman Cowen Foundation for Medical Research and Public Health (SZCF) valued at fair value of the net assets of the Foundation		515	487
- Investment in AMREP AS Pty Ltd – animal facility 306 fully paid shares at cost		2,265	2,265
- Fully paid ordinary shares in IgAvax Pty Ltd and 4G Vaccines Pty Ltd valued at cost		-	-
	28	3,020	3,064
Reconciliation:			
Opening balance		3,064	2,764
Purchase of investments		-	217
Proceeds on sale of Select Vaccines shares		(58)	-
Write up/(down) of income securities to fair value		11	53
(Decrement)/Increment in value of Select Vaccines shares		(25)	12
Increase in value of investment in SZCF to fair value		28	18
Closing balance		3,020	3,064

As at 31 December 2010, the Institute controlled 17.1% (2009:17.1%)of IgAvax Pty Ltd. The amount of investment in this company was $nil and the contribution to the surplus of the Institute was $nil.
As at 31 December 2010, the Institute controlled 28.6% (2009: 37.5%) of 4G Vaccines Pty Ltd. The amount of investment in this company was $nil and the contribution to the surplus of the Institute was $nil.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

10. Other Financial Assets	2010 $'000	2009 $'000
Prepayments	103	82

11. Property, Plant and Equipment	Leasehold buildings	Plant and equipment	Total
Cost	**$'000**	**$'000**	**$'000**
Balance at 1 January 2009	16,319	9,740	26,059
Acquisitions	-	1,085	1,085
Disposals	-	(1,159)	(1,159)
Balance at 31 December 2009	16,319	9,666	25,985
Balance at 1 January 2010	16,319	9,666	25,985
Acquisitions	4,173	630	4,803
Transfers from construction in progress	48,003	-	48,003
Reversal of Impairment	2,807	-	2,807
Disposals	-	(641)	(641)
Balance at 31 December 2010	71,302	9,655	80,957
Depreciation and impairment losses			
Balance at 1 January 2009	(2,051)	(6,622)	(8,673)
Depreciation charge for the year	(321)	(860)	(1,181)
Disposals	-	948	948
Balance at 31 December 2009	(2,372)	(6,534)	(8,906)
Balance at 1 January 2010	(2,372)	(6,534)	(8,906)
Depreciation charge for the year	(1,467)	(791)	(2,258)
Disposals	-	605	605
Balance at 31 December 2010	(3,839)	(6,720)	(10,559)
Carrying amounts			
At 1 January 2009	14,268	3,118	17,386
At 31 December 2009	13,947	3,132	17,079
At 1 January 2010	13,947	3,132	17,079
At 31 December 2010	67,464	2,934	70,398

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

The Burnet Institute completed the construction of the ACS2 project which comprises 14,490 square metres of net lettable area contained in levels 4 to 7 of the ACS2 project. The carrying value of the Burnet Institute's interest in the ACS2 project was written down in 2009 to its recoverable amount based on the March 2009 valuation of the future cash flows, discounted to their present value. The carrying value of the Burnet Institute's interest in the ACS2 project was $48.0 million as at practical completion. This amount was compared to the December 2010 valuation of future cash flow discounted to their present value and a partial reversal of the previous impairment was recognised to reflect a final carrying value of $50.8 million. The final carrying value was transferred to fixed assets as at 4 March 2010, the date of practical completion.

12. Construction in Progress	Notes	2010 $'000	2009 $'000
Construction in progress at cost		-	64,786
Impairment to recoverable amount		-	(22,700)
		-	42,086

Capitalised interest during the year ended 31 December 2010 was $135,323 (2009: $258,326).

13. Payables			
Trade creditors		641	469
Other creditors		3,353	4,454
	28	3,994	4,923

14. Borrowings

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

Current liabilities			
Finance lease liabilities		88	153
Current portion of secured bank loans (ACS2)		300	225
	28	388	378
Non-Current			
Non-Current portion of secured bank loans (ACS2)	28	34,950	25,621

Finance lease liabilities

Finance lease liabilities are payable as follows:

31 December 2010 ($'000)	Minimum Lease Payments	Interest	Principal
Less than one year	74	4	70
Between one and five years	19	1	18
More than five years	-	-	-
	93	5	88

31 December 2009 ($'000)	Minimum Lease Payments	Interest	Principal
Less than one year	74	9	65
Between one and five years	93	5	88
More than five years	-	-	-
	167	14	153

Financing arrangements

Bank loans

Interest rate on finance lease liabilities was 7.40% (2009: 7.40%). The lease liability is due to be paid in full by March 2012.

During 2008, the Institute entered into an arrangement with its bank to borrow $35.25 million at the prevailing 90-day BBSW plus 0.85 percent line fee. This bank loan is secured by a fixed and floating charge over all of the Burnet Institute's assets. The loan translates from a construction facility to a term facility and is for a period of 10 years from the date that all conditions for the term facility being met, which is estimated to be March 2011. Refer Note 18 for details of the swap and cap associated with this loan. The Burnet Institute is compliant with all bank covenants.

Notes to the Financial Statements

15. Current Tax Liabilities	Notes	2010 $'000	2009 $'000
FBT Provision	28	154	140

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

16. Provisions

	2010	2009
Current		
Liability for long-service leave	2,006	1,950
Liability for annual leave	1,080	927
	3,086	2,877
Non-Current		
Liability for long-service leave	920	884

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

	2010	2009
Assumed rate of increase in wage and salary rates	3.1%	3.1%
Discount rate	5.3%	5.2%
Settlement term (years)	7	7

The current and non-current long-service leave (LSL) liabilities were reassessed and all employees with greater than 9 years service (7 previously) are recorded as current liabilities. The prior year figures have been adjusted to conform with the current year's presentation. The assumptions used to calculate the LSL liability have also been changed for 2010. The employee oncost percentage has been reduced by 5% and the year when LSL is assumed to be fully taken has been increased by two years to better reflect the Institute's experience with LSL.

Number of employees		
Number of employees at year end (FTE)	209	213

Superannuation plans

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

17. Deferred Income	2010	2009
Current	**$'000**	**$'000**
Other grants	10,119	13,354
Rentals received in advance	1,014	-
	11,133	13,354

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

Non-Current		
Rentals received in advance	12,948	10,660

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

18. Derivatives	Notes	2010 $'000	2009 $'000
Interest Rate Swap (asset)		(22)	63
Interest Rate Cap		414	287
		392	350

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

19. Capital and Reserves

Fair value reserve

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

Building reserve

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

20. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals payable:			
Less than one year		210	301
Between one and five years		209	419
More than five years		-	-
		419	720

21. Notes to the Statement of Cash Flows

(i) Reconciliation of cash

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

Cash	28	15,574	16,331

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

Cash flows from operating activities			
(Loss)/Profit for the period		3,297	(3,571)
Adjustments for:			
Depreciation	4	2,257	1,181
Amortisation of rent in advance		(871)	-
(Reversal of impairment)/impairment of construction in progress	12	(2,807)	22,700
Change in fair value of derivatives	18	42	(686)
(Gain)/loss on revaluation of investments	9	(39)	(53)
(Gain)/loss on sale of shares	9	(58)	-
Amounts set aside in provisions		245	(256)
Provision for doubtful debts	8	25	25
(Gain)/loss on disposal of property, plant and equipment	4	(16)	27
Operating profit before changes in working capital and provisions		2,075	19,367

21. Notes to the Statement of Cash Flows (con't)	Notes	2010 $'000	2009 $'000
(Increase)/decrease in current receivables		(1,544)	(639)
(Increase)/decrease in other current assets		(41)	41
(Decrease)/increase in other liabilities		(3,235)	(18,324)
(Decrease)/increase in trade payables		(915)	2,681
Net cash from operating activities		(3,660)	3,126

Non-cash transactions include the recognition of Level 3 of the Burnet Tower at a value of $4,173K which was given to the Institute in exchange for rent free space in the ACS2 project for 13 years.

22. Remuneration of Key Management Personnel	2010 $	2009 $
Short-term employee benefits	1,360,000	1,280,000
Termination benefits	-	-
	1,360,000	1,280,000

23. Particulars in Relation to Controlled Entities

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

	Interest Held		Amount of Investment	
Entity	2010 %	2009 %	2010 $	2009 $
Macfarlane Burnet Syndicate No. 1 Pty Ltd	100	100	-	-
Macfarlane Burnet Syndicate No. 2 Pty Ltd	100	100	-	-
Hep R&D Pty Ltd	100	100	-	-
Actract Pty Ltd	100	100	-	-
Hepitope Pty Ltd	100	100	-	-

24. Related Party Transactions

The Institute purchased services from AMREP AS Pty Ltd during the year on normal commercial terms amounting to $409,000 (2009:$418,000).

25. Subsequent Events

The Burnet Institute commenced winding up Hepitope Pty Ltd during 2010. Deregistration occurred in March 2011. There was no financial effect to the Institute.

26. Changes in Accounting Policy

There have been no changes in accounting policy during the year.

27. Financial Risk Management

Overview

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

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

27. Financial Risk Management (con't)

This Note presents information about the Institute's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this Financial Report. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is also responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board oversees how management monitors compliance with the Institute's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

Credit risk

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

Trade and other receivables

The Institute's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. Work is only undertaken for another entity once a contract for services has been signed. The demographics of the Institute's debtor base, including the default risk of the industry and country in which debtors operate, have less of an influence on credit risk. Approximately 49% (2009: 41%) of the Institute's revenue is attributable to transactions with a single debtor. However, geographically there is no concentration of credit risk.

Most of the Institute's debtors have been transacting with the Institute for a number of years, and losses have occurred infrequently. In monitoring debtor credit risk, debtors' ageing profiles are reviewed as well as any existence of previous financial difficulties.

The Institute has established an allowance for impairment that represents its estimate of possible losses in respect of trade and other receivables. This allowance is the aggregate of specific possible losses from identified debtors.

Investments

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

Liquidity risk

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations as they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation.

Management monitor cash flow requirements on a daily basis to optimise its cash return on investments. Typically the Institute ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations without the need to draw down from its investments; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Institute maintains the following line of credit:

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

27. Financial Risk Management (con't)

Capital risk management

During 2008, the Institute entered into an arrangement with its bank to borrow $35.25 million at the prevailing 90-day BBSW plus 0.85 percent line fee. This bank loan is secured by a fixed and floating charge over all of the Burnet Institute's assets. The loan translates from a construction facility to a term facility and is for a period of 10 years from the date that all conditions for the term facility being met, which is estimated to be March 2011. Refer to Note 18 for details of the swap and cap associated with this loan. Principle is repaid over the course of the term facility according to an agreed schedule as set out in the Loan Agreement. Management monitor the loan facility on a regular basis to ensure that all loan covenants and reporting requirements are met.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Institute's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Institute can enter into derivatives in order to manage market risks in consultation with the Board and other advisors. As explained above, the only derivative financial instrument the Institute is currently involved in is a cap and swap transaction (Note 18) to manage potential interest rate fluctuations on the ACS2 loan facility.

Institute risk is also minimised due to limited holdings of foreign currency and equities.

Interest rate risk

The Institute has adopted a policy to mitigate its interest rate risk by entering into interest rate swaps and caps to manage its overall exposure. Refer Note 18.

28. Financial Instruments

Credit risk

Exposure to credit risk

The carrying amount of the Institute's financial assets represents the maximum credit exposure.

The Institute's maximum exposure to credit risk at the reporting date was:

Carrying amount	**Notes**	**2010 $'000**	**2009 $'000**
Investments	9	3,020	3,064
Receivables	8	6,364	4,845
Cash and cash equivalents	21(i)	15,574	16,331
		24,958	24,240

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

Carrying amount		
Australia	2,498	4,391
Asia	210	179
North America	49	214
Europe	107	61
	2,864	4,845

Impairment losses

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

Carrying amount		
Not past due	2,466	3,958
Past due 0-30 days	113	180
Past due 31-60 days	52	411
More than 60 days past due	258	321
Less allowance for doubtful debts	(25)	(25)
	2,864	4,845

28. Financial Instruments (con't)

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

Liquidity risk

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

31 December 2009 ($'000)	Carrying amount	Contractual cash flows	6 mths or less	6-12 mth	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loan	25,846	41,607	700	1,051	2,080	6,135	31,641
Trade and other payables	4,923	4,923	4,923	-	-	-	-
Current tax liabilities	140	140	140	-	-	-	-
Finance lease liabilities	153	167	37	37	93	-	-
	31,062	46,837	5,800	1,088	2,173	6,135	31,641

31 December 2010 ($'000)	Carrying amount	Contractual cash flows	6 mths or less	6-12 mth	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loan	35,250	59,354	1,416	1,416	2,812	8,306	45,404
Trade and other payables	3,994	3,994	3,994	-	-	-	-
Current tax liabilities	154	154	154	-	-	-	-
Finance lease liabilities	88	93	37	37	19	-	-
	39,486	63,595	5,601	1,453	2,831	8,306	45,404

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

Foreign currency risk

The Institute is exposed to foreign currency risk on revenue, purchases and bank accounts that are denominated in a currency other than the functional currency of the Institute. The currency giving rise to this risk is primarily US dollars (USD).

At any point in time the Institute has a natural hedge on USD transactions as it holds a USD bank account to pay USD denominated expenses.

Sensitivity analysis

For the year ended 31 December 2010, it is estimated that a general increase of one percentage point in interest rates would have increased the Institute's profit by approximately $34,000 (2009: $167,000).

As at 31 December 2010, it is estimated that a general increase of ten percentage points in the value of the AUD against other foreign currencies would have decreased the Institute's profit by approximately $56,500 (2009: $47,200).

Fair values

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

28. Financial Instruments (con't)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2009 ($'000)				
Financial assets at fair value through the profit or loss	229	-	-	229
Available-for-sale financial assets	83	-	-	83
	312	-	-	312
Derivative financial liabilities	-	350	-	350
31 December 2010 ($'000)				
Financial assets at fair value through the profit or loss	240	-	-	240
Derivative financial liabilities	-	392	-	392

International Development Activities
Operating Statement

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
Revenue	**$'000**	**$'000**
Donations and gifts – monetary	218	315
Donations and gifts – non-monetary	-	3
Legacies and bequests	-	-
Grants:		
AusAID	14,978	15,597
Australian organisations	302	1,250
Overseas organisations	1,767	1,284
Investment Income	-	-
Other Income	1,762	2,423
Total revenue	**19,027**	**20,872**
Disbursements		
International programs:		
Funds to international programs	13,286	14,101
Program support costs	1,854	2,871
Community education	-	-
Fundraising costs:		
Public	10	4
Government, multilaterals and private	365	234
Administration	1,214	1,011
Non-monetary expenditure	-	3
Total international aid and development expenditure	**16,729**	**18,224**
Expenditure for international political or religious proselytisation programs	-	-
Domestic projects	3,331	2,895
Total expenditure	**20,060**	**21,119**
Excess/(Deficiency) of revenue over disbursements	**(1,033)**	**(247)**

Notes:

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

The prior year's balances have been adjusted to conform with the current year's presentation.

ACFID CODE integrity·values·accountability

The Macfarlane Burnet Institute for Medical Research and Public Health Limited is a signatory to the Australian Council for International Development Code of Conduct. The Code requires members to meet high standards of corporate governance, public accountability and financial management. More information about the ACFID Code of Conduct can be obtained from ACFID.
Website: www.acfid.asn.au Tel: (02) 6285 1816 Fax: (02) 6285 1720.

Directors' Declaration

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

(a) the Financial Statements and Notes, set out on pages 9 to 28, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Burnet Institute at 31 December 2010 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and

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

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

Dated at Melbourne this 12th day of April 2011.

Signed in accordance with a resolution of the Directors:

Alastair Lucas
Director

Ross Cooke
Director

Independent auditor's report to the members of the MacFarlane Burnet Institute for Medical Research and Public Health Ltd

Report on the financial report

We have audited the accompanying financial report of the MacFarlane Burnet Institute for Medical Research and Public Health Ltd (the Company), which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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

Independence

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

Auditor's opinion

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

(a) giving a true and fair view of the Company's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

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

KPMG

KPMG

Alison Kitchen

Alison Kitchen
Partner

Melbourne

12 April 2011

Burnet Institute

Medical Research. Practical Action.

AUSTRALIA

Head Office

85 Commercial Road, Melbourne, Victoria 3004

Tel: +61 3 9282 2111

Fax: +61 3 9282 2100

Email: info@burnet.edu.au

www.burnet.edu.au

A.B.N. 49 007 349 984

Overseas Offices

The Burnet Institute has offices in Africa, South East Asia and China (Tibet). For more information about our work overseas or to contact our international offices, please email info@burnet.edu.au or call us on + 61 3 9282 2111

THAILAND – BURNET ASIA REGIONAL OFFICE

Charoen Nakhorn Road Soi 15A, Room 15B
Klongtonsai, Klongsan, Bangkok 10600
Thailand

MYANMAR (BURMA)

No 226, 4th Floor, 226 Wizaya Plaza U Wisara Road,
Bahan Township Yangon, Myanmar

CHINA

Baofa Hotel, No 6 Hong Qi Road Lhasa 850000, TAR
China

INDONESIA

Bali

Jalan Bypass Ngurah Rai No. 287 Sanur,
Bali 80228 Indonesia

Jakarta

Jalan Taman Bendungan Asahan II
No 7 Bendungan Hilir Jakarta Pusat 10210,
Indonesia

LAO PDR

SCC Co Ltd, Building No. 006,
Ban Sihom, Room 4B/01a,
Vientiane, Lao PDR

MOZAMBIQUE

Maputo

Praceta Tomás Nduda 22, 1º andar (1st Floor), Maputo,
Mozambique

Chimoio

Rua 16 de Junho Nº. 360, Chimoio, Manica,
Mozambique

PAPUA NEW GUINEA

Port Moresby

UPNG School of Medicine & Health Sciences,
Taurama Campus, Taurama Road,
Three Mile, Port Moresby Papua New Guinea

East New Britain

Butuwin Provincial Health Office,
PO Box 1458 Kokopo, East New Britain,
Papua New Guinea

Wewak

c/o Save the Children Office, PO Box 1383 Wewak, ESP,
Papua New Guinea