Garvan Institute of Medical Research

ABN 62 330 391 937

Financial Statements - 31 December 2016

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Garvan Institute of Medical Research (referred to hereafter as the 'Institute' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2016.

Directors
The following persons were directors of Garvan Institute of Medical Research during the financial year and up to the date of this report, unless otherwise stated:

John Schubert - Chairman
Helen Nugent
Patricia O'Rourke
Anthony Schembri
Anne Keating
John Mattick
Thomas Martin
Jillian Segal
Geoff Dixon
Annette Cunliffe
Stephen Johns
Rodney Phillips
Russell Scrimshaw
Annabelle Bennett (appointed on 6 April 2016)
Paul Kelly (appointed on 6 April 2016)
Daniel Petre (resigned on 6 April 2016)
Bernadette Tobin (resigned on 29 February 2016)

Objectives
The principal objective of the consolidated entity is to discover the nature and causes of human disease and other human afflictions, to improve methods of preventing, diagnosing and treating major diseases that afflict millions.

Strategy for achieving the objectives
The following research activities are being conducted to achieve its objectives:

- Bone biology research
- Cancer research
- Diabetes and obesity research
- Genomics and epigenomics research
- Immunology research
- Neuroscience research

Principal activities
During the financial year the principal continuing activities of the consolidated entity consisted of performing research activities in cancer, neurodegenerative and mental diseases, disorders of the immune system, diabetes and obesity, genomics and epigenetics and other skeletal disorders with a view to discovering the nature and causes of such disease so as, to improve methods of preventing, diagnosing and treating those diseases, providing and aiding in the provision of educational programmes, and disseminating information relating to the research conducted by the entity.

Performance measures
The consolidated entity measures its performance by reference to the peer reviewed grants and fellowship support obtained, the amount of donation and bequests received, and the number of articles published with an impact factor over 8.

Matters subsequent to the end of the financial year
On 1 May 2017, the consolidated entity renewed the $12,000,000 National Australia Bank (‘NAB’) loan facility for a period of three years.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor
PricewaterhouseCoopers continues in office in accordance with Section 327 of the Corporations Act 2001.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 60-40 of the Australian Charities and Not-for-Profit Commission (ACNC) Act 2012 is set out immediately after this report.

On behalf of the directors

John Schubert AO
Chairman
2 May 2017
Sydney

Stephen Johns
Director

Auditor's Independence Declaration

As lead auditor for the audit of Garvan Institute of Medical Research for the year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Garvan Institute of Medical Research and the entities it controlled during the period.

P.J. Carney

Paddy Carney
Partner
PricewaterhouseCoopers

Sydney
2 May 2017

General information

The financial statements cover Garvan Institute of Medical Research as a consolidated entity consisting of Garvan Institute of Medical Research and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Garvan Institute of Medical Research's functional and presentation currency.

Garvan Institute of Medical Research was founded under the Garvan Institute of Medical Research Act 1984 in New South Wales.

The financial statements were authorised for issue on 2 May 2017.

Garvan Institute of Medical Research
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

	Note	Consolidated 2016 $'000	2015 $'000
Revenue	3	104,834	101,243
Share of profits of associates accounted for using the equity method		57	3,577
Net gain on interest rate swap derivative		202	153
Net gain/(loss) on disposal of property, plant and equipment		38	(4)
Investment income	4	4,234	1,900
Total revenue		109,365	106,869
Expenses			
Sequencing consumables expense		(7,724)	(2,073)
Employee benefits expense		(49,505)	(46,315)
Other research expenses		(12,875)	(12,102)
Depreciation and amortisation expense		(11,356)	(12,594)
Administration expense		(7,139)	(4,787)
Fund raising expenses		(2,669)	(2,914)
Building and scientific expense		(7,045)	(5,528)
Finance costs	5	(988)	(1,083)
Total expenses		(99,301)	(87,396)
Surplus before income tax expense		10,064	19,473
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Garvan Institute of Medical Research	20	10,064	19,473
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the members of Garvan Institute of Medical Research		10,064	19,473

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Garvan Institute of Medical Research
Statement of financial position
As at 31 December 2016

	Note	Consolidated 2016 $'000	2015 $'000
Assets			
Current assets			
Cash and cash equivalents	6	16,313	39,879
Term deposits	7	41,504	16,556
Trade and other receivables	8	5,937	5,862
Financial assets at fair value through profit or loss	9	36,813	26,322
Sequencing consumables	10	3,724	2,895
Biological assets		443	337
Total current assets		104,734	91,851
Non-current assets			
Investments accounted for using the equity method	11	397	673
Property, plant and equipment	12	92,904	98,962
Intangibles	13	427	521
Total non-current assets		93,728	100,156
Total assets		198,462	192,007
Liabilities			
Current liabilities			
Trade and other payables	14	5,603	5,054
Borrowings	15	15,357	3,359
Derivative financial instruments - interest rate swap		245	-
Employee benefits		5,742	4,822
Other	16	7,102	6,470
Total current liabilities		34,049	19,705
Non-current liabilities			
Borrowings	17	2,254	19,611
Derivative financial instruments - interest rate swap		-	447
Employee benefits		944	1,155
Other	18	1,257	1,195
Total non-current liabilities		4,455	22,408
Total liabilities		38,504	42,113
Net assets		159,958	149,894
Equity			
Reserves	19	104,046	71,042
Retained surpluses	20	55,912	78,852
Total equity		159,958	149,894

The above statement of financial position should be read in conjunction with the accompanying notes

Consolidated	Reserves $'000	Retained surpluses $'000	Total equity $'000
Balance at 1 January 2015	61,910	68,511	130,421
Surplus after income tax expense for the year	-	19,473	19,473
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	19,473	19,473
Net transfer to reserves from net funds (note 19)	9,132	(9,132)	-
Balance at 31 December 2015	71,042	78,852	149,894

Consolidated	Reserves $'000	Retained surpluses $'000	Total equity $'000
Balance at 1 January 2016	71,042	78,852	149,894
Surplus after income tax expense for the year	-	10,064	10,064
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	10,064	10,064
Net transfer to reserves from net funds (note 19)	33,004	(33,004)	-
Balance at 31 December 2016	104,046	55,912	159,958

The above statement of changes in equity should be read in conjunction with the accompanying notes

Garvan Institute of Medical Research
Statement of cash flows
For the year ended 31 December 2016

	Note	Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Grants, donations and other receipts (inclusive of GST)		137,979	111,608
Payments to suppliers and employees (inclusive of GST)		(118,932)	(79,359)
Net cash from operating activities		19,047	32,249
Cash flows from investing activities			
Payments for financial assets at fair value through profit or loss		(8,015)	(8,560)
Payment for property, plant and equipment		(4,956)	(2,595)
Payments for intangibles		(248)	(425)
Proceeds from disposal of financial assets at fair value through profit or loss		-	3,030
Proceeds from disposal of property, plant and equipment		38	-
Interest received		1,758	721
(Investment in)/proceeds from term deposits	7	(24,948)	2,179
Net cash used in investing activities		(36,371)	(5,650)
Cash flows from financing activities			
Payments for leases		(3,359)	(3,366)
Repayment of borrowings		(2,000)	(2,000)
Interest paid		(883)	(1,083)
Net cash used in financing activities		(6,242)	(6,449)
Net increase/(decrease) in cash and cash equivalents		(23,566)	20,150
Cash and cash equivalents at the beginning of the financial year		39,879	19,729
Cash and cash equivalents at the end of the financial year	6	16,313	39,879

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all other new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and Interpretations issued by the Australian Accounting Standards Board ('AASB'), the Australian Charities and Not-for-profits Commission Act 2012, the Charitable Fundraising Act 1991, the Garvan Institute of Medical Research Act 1984, and associated regulations, as appropriate for not-for-profit oriented entities.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Garvan Institute of Medical Research ('Institute' or 'parent entity') as at 31 December 2016 and the results of all subsidiaries for the year then ended. Garvan Institute of Medical Research and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Garvan Institute of Medical Research's functional and presentation currency.

Note 1. Significant accounting policies (continued)

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Grant revenue
Grant revenue is recognised where the relevant acceptance agreement is executed and the consolidated entity intends to comply with all grant conditions.

Government grants
Grants from government are recognised where there is a reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions.

Donation revenue
Revenue is derived from donations in the form of cash or in kind. Amounts donated are recognised as revenue only when the Institute gains control of probable economic benefits that can be reliably measured. The Institute maintains controls to ensure that donations are recorded in the financial records, however at times it is impractical to maintain effective controls over the collection of such revenue prior to its initial entry into the financial records. Therefore, donations are recognised as revenue when they are recorded in the books and records of the Institute. Donations received for specific purposes are transferred to a separate fund within equity after being first recorded in profit or loss.

Sequencing services
Revenue earned from DNA sequencing services is recognised when it is probable that economic benefits will flow to the entity and the stage of completion of DNA sequencing services at the end of the reporting period can be measured reliably.

Investment income
Investment income being dividends, distributions and interest is recognised when there is a legal obligation on the part of the investee to pay earnings to the consolidated entity. For dividends and distribution, this is on declaration of dividends or distributions, whilst interest is recognised over the term of the investment.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
As the consolidated entity is a charitable institution pursuant to subsection 50-5 of the Income Tax Assessment Act 1997, as amended, it is exempt from paying income tax. As a Deductible Gift Recipient, the Institute and its controlled entity the Garvan Research Foundation, are entitled to a refund of franking credits associated with investment earnings.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Note 1. Significant accounting policies (continued)

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

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 120 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives held by the consolidated entity are not designated as a hedge instrument and as such, all movements in fair value are taken to profit or loss.

Associates
Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Joint operations
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated entity has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications.

Investments and other financial assets
Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Note 1. Significant accounting policies (continued)

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or (ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of financial assets
The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	40 years
Leasehold improvements	20-40 years
Plant and equipment	3-10 years
Leased plant and equipment	3-10 years

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Note 1. Significant accounting policies (continued)

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Sale and lease back transactions involve the sale of an asset and the leasing back of the same asset. Such arrangements are assessed as either finance lease or operating leases based on the criteria set out above, and appropriately accounted for consistent with other leases of the same nature.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life between two and three years.

Sequencing consumables

Sequencing consumables are measured at the lower of cost and net realisable value.

Biological assets

Biological assets are measured at their fair value less estimated point of sale costs.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

When the future economic benefit of the asset is not primarily dependent on the asset’s ability to generate net cash inflows and when the entity would, if deprived of the asset, replace its remaining future economic benefits, value-in-use is the depreciated replacement cost of the asset. All non-financial assets are determined with reference to depreciated replacement cost.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 45 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Note 1. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date 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 using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Note 1. Significant accounting policies (continued)

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation.

Rounding of amounts

Amounts in this report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

In particular, the land on which the Kinghorn Cancer Centre building is built is leased by the Institute and St. Vincent's Hospital jointly from the Trustees of St. Vincent's Hospital under an operating lease. The initial term of the capital lease expires on 20 May 2035, which has been used to determine the amortisation rate and useful life of the building (40 years), notwithstanding that there is also an option for a further 40 years extension followed by another 19 years. The term of the final option expires on 20 May 2094. The land on which the Garvan building is built is leased by the Institute from the Trustees of St Vincent's Hospital.

Control of entities where less than half of voting rights held
The consolidated entity is required to determine whether it has control over another entity, based on whether it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The consolidated entity previously, and continues to, determine that it has control over the Garvan Research Foundation ('the Foundation'). This determination is based on the fact that there are several directors in common, the Foundation was set up for the benefit of the Institute, the Institute obtains benefits from the Foundation, both financial and non-financial, they have aligned business objectives, and the Foundation takes direction from the Institutes' management.

Note 3. Revenue

	Consolidated	
	2016 $'000	2015 $'000
Grant revenue		
NHMRC fellowships, scholarships and other grants	18,690	21,460
Peer-reviewed research grants	10,734	10,485
NSW government grants	18,295	5,844
Other grants	2,583	2,476
Commercial partnerships grants	603	595
	50,905	40,860
Other revenue		
Donations received	33,985	49,359
Sequencing	10,949	4,290
Research cost recovery	3,132	832
Auditorium fees, telephone and internet cost recoveries, etc.	2,262	2,816
BTF Services	2,933	2,535
University of NSW Contribution	668	551
	53,929	60,383
Revenue	104,834	101,243

Note 4. Investment income

	Consolidated 2016 $'000	Consolidated 2015 $'000
Gain/(loss) on investments measured at fair value through profit or loss	1,067	(437)
Distribution from managed funds	1,012	803
Dividend income	397	614
Interest income	1,758	920
	4,234	1,900

Note 5. Expenses

	Consolidated 2016 $'000	Consolidated 2015 $'000
Surplus before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable	988	1,083
Rental expense relating to operating leases		
Total rental expense relating to operating leases	598	592
Superannuation expense		
Defined contribution superannuation expense	4,087	3,951

Note 6. Current assets - cash and cash equivalents

	Consolidated 2016 $'000	Consolidated 2015 $'000
Cash at bank	5,159	16,064
Term deposits - maturity within 3 months from inception	11,154	23,815
	16,313	39,879

The term deposits earn floating interest between 2.65% and 3.03% (2015: 2.93% and 2.96%). Term deposits for the strategic reserve of $Nil (2015: $4,795,000) are not used as working capital.

Note 7. Current assets - term deposits

	Consolidated 2016 $'000	Consolidated 2015 $'000
Term deposits	41,504	16,556

The term deposits earn floating interest between 2.65% and 3.03% (2015: 2.93% and 2.96%). Term deposits for the strategic reserve of $2,698,000 (2015: $nil) are not used as working capital.

Term deposits have a maturity greater than 3 months from inception but less than 12 months.

Note 8. Current assets - trade and other receivables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Trade receivables	3,629	3,212
Less: Provision for impairment of receivables	(5)	(5)
	3,624	3,207
Other receivables and prepayments	2,313	2,655
	5,937	5,862

Other debtors include grants receivable of $185,000 (2015: $321,000).

Note 9. Current assets - financial assets at fair value through profit or loss

	Consolidated 2016 $'000	Consolidated 2015 $'000
Managed funds - endowment fund	36,813	26,322

Together with the amount in note 7 of $2,698,000 (2015: note 6, $4,795,000), these assets represent the amounts recorded in the strategic reserve.

Note 10. Current assets - sequencing consumables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Sequencing consumables	3,724	2,895

Sequencing consumables are reagents and library kits for genome sequencing.

Note 11. Non-current assets - investments accounted for using the equity method

	Consolidated 2016 $'000	Consolidated 2015 $'000
Investments in associates	397	673

Refer to note 28 for further information on interests in associates.

Note 12. Non-current assets - property, plant and equipment

	Consolidated 2016 $'000	Consolidated 2015 $'000
Freehold land	1,850	1,850
Building - Moss Vale	16,702	16,702
Less: Accumulated depreciation	(3,508)	(3,090)
	13,194	13,612
Leasehold improvements - at cost	98,536	98,106
Less: Accumulated depreciation	(33,555)	(30,148)
	64,981	67,958
Plant and equipment - at cost	41,064	36,594
Less: Accumulated depreciation	(33,373)	(29,510)
	7,691	7,084
Leased plant and equipment	13,448	13,448
Less: Accumulated depreciation	(8,260)	(4,990)
	5,188	8,458
	92,904	98,962

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

Consolidated	Freehold Land $'000	Building Moss Vale $'000	Leasehold improvement $'000	Plant and equipment $'000	Leased plant and equipment $'000	Total $'000
Balance at 1 January 2016	1,850	13,612	67,958	7,084	8,458	98,962
Additions	-	-	430	4,526	-	4,956
Depreciation expense	-	(418)	(3,407)	(3,919)	(3,270)	(11,014)
Balance at 31 December 2016	1,850	13,194	64,981	7,691	5,188	92,904

Property, plant and equipment secured under finance leases
The depreciated cost of the Kinghorn Cancer Centre building of $38,663,000 (2015: $40,310,000) is included in leasehold improvement.

Note 13. Non-current assets - intangibles

	Consolidated 2016 $'000	Consolidated 2015 $'000
Software - at cost	1,691	1,443
Less: Accumulated amortisation	(1,264)	(922)
	427	521

Note 13. Non-current assets - intangibles (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

Consolidated	Software $'000	Total $'000
Balance at 1 January 2016	521	521
Additions	248	248
Amortisation expense	(342)	(342)
Balance at 31 December 2016	427	427

Note 14. Current liabilities - trade and other payables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Trade payables	5,395	4,373
Other payables	208	681
	5,603	5,054

Note 15. Current liabilities - borrowings

	Consolidated 2016 $'000	Consolidated 2015 $'000
Bank loans	12,000	-
Lease liabilities	3,357	3,359
	15,357	3,359

Refer to note 17 for further information on assets pledged as security and financing arrangements.

Refer to note 29 for information on renewal of this loan.

Note 16. Current liabilities - other

	Consolidated 2016 $'000	Consolidated 2015 $'000
Accrued expenses	3,421	3,383
Deferred revenue	69	69
Grant income received in advance	3,612	3,018
	7,102	6,470

Note 17. Non-current liabilities - borrowings

	Consolidated 2016 $'000	Consolidated 2015 $'000
Bank loans	-	14,000
Lease liabilities	2,254	5,611
	2,254	19,611

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated 2016 $'000	Consolidated 2015 $'000
Bank loans	12,000	14,000
Lease liabilities	5,611	8,970
	17,611	22,970

Assets pledged as security
The bank loans are secured by first mortgage over the consolidated entity's freehold land situated at Moss Vale.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Financing arrangements
The facility at the reporting date is as follows:

	Consolidated 2016 $'000	Consolidated 2015 $'000
Used at the reporting date		
Bank loans	12,000	14,000

The development of the Australian BioResources facility at Moss Vale was substantially funded through the bank loan facility with National Australia Bank ('NAB'). During the financial year $2,000,000 of the loan was repaid (2015: $2,000,000). The consolidated entity entered into interest rate swap agreements with the NAB for part of the loan facility ($8,000,000, paying fixed interest of 4.30% and receiving the current floating rate interest). The facility and interest rate swap agreement expire on 29 September 2017. Refer to the subsequent events note 29 for further details on the renewal of the facility.

Note 18. Non-current liabilities - other

	Consolidated 2016 $'000	Consolidated 2015 $'000
Rent accrued	1,213	1,082
Deferred revenue	44	113
	1,257	1,195

Note 19. Equity - reserves

	Consolidated 2016 $'000	Consolidated 2015 $'000
Building reserve	22,289	23,336
Strategic reserve	39,508	27,596
Research program reserve	35,183	16,428
Equipment reserve	7,066	3,682
	104,046	71,042

Building reserve
The reserve is used to recognise State and Commonwealth Government grants received to finance construction of the consolidated entity's current facility at 384 Victoria St, Darlinghurst, NSW including payment of a capital lease for the land and refurbishment of the building. This reserve is amortised over the period of 40 years since the date of inception to recognise an offset of the corresponding depreciation of the asset, as described in note 19 and note 20.

Strategic reserve
The reserve is used to recognise funds held and invested by the consolidated entity. Funds held in the strategic reserve are held in managed funds, listed securities and term deposit accounts, and are intended for eventual use in research and operating activities.

Research program reserve
The reserve consists of the total of the net accumulation of surplus and deficits in each of the consolidated entity's research programs, as adjusted by Board decisions, which are carried forward specifically in relation to each program for use by that program.

Equipment reserve
The reserve is used to recognise grants and donations received that have been allocated specially for the purchase of equipment.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Building reserve $'000	Strategic reserve $'000	Research program reserve $'000	Equipment reserve $'000	Total $'000
Balance at 1 January 2015	24,384	22,619	11,225	3,682	61,910
Transfer from/(to) accumulated surplus	(1,048)	4,977	5,203	-	9,132
Balance at 31 December 2015	23,336	27,596	16,428	3,682	71,042
Transfer from/(to) accumulated surplus	(1,047)	11,912	18,755	3,384	33,004
Balance at 31 December 2016	22,289	39,508	35,183	7,066	104,046

Note 20. Equity - retained surpluses

	Consolidated 2016 $'000	Consolidated 2015 $'000
Retained surpluses at the beginning of the financial year	78,852	68,511
Surplus after income tax expense for the year	10,064	19,473
Transfers from building reserve	1,047	1,048
Transfer to strategic reserve	(11,912)	(4,977)
Transfer to research program reserve	(18,755)	(5,203)
Transfer to equipment reserve	(3,384)	-
Retained surpluses at the end of the financial year	55,912	78,852

Note 21. Fair value measurement

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the consolidated entity is the current bid price. These instruments are included in level 1.

Note 22. Key management personnel disclosures

Compensation
The aggregate compensation made to key management personnel of the consolidated entity is set out below:

	Consolidated 2016 $	Consolidated 2015 $
Aggregate compensation	3,777,090	3,070,664

Non-executive directors did not receive any remuneration from the consolidated entity during the financial year (2015: $nil).

Note 23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company, its network firms and unrelated firms:

	Consolidated 2016 $	Consolidated 2015 $
Services - PricewaterhouseCoopers		
Audit and review of the financial statements	155,000	165,000
Other services *	42,598	10,000
Total remuneration for audit and other services	197,598	175,000

* Other services include tax advice and risk management review. These services are in accordance with the Charter of Audit Independence.

Note 24. Commitments

	Consolidated 2016 $'000	Consolidated 2015 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	965	948
One to five years	2,332	2,665
More than five years	7,582	7,910
	10,879	11,523
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	3,357	3,359
One to five years	2,254	3,357
More than five years	-	2,254
	5,611	8,970
Underwriting commitments		
The consolidated entity enters into underwriting agreements with researchers for specific programs and initiatives within the continuing operations of the consolidated entity. The commitments made under these underwriting agreements are as follows:		
Within one year	2,960	3,506
One to five years	4,864	5,648
	7,824	9,154

Operating lease commitments includes contracted amounts for the land at the Kinghorn Cancer Centre building, which expires in May 2035 and also other property, plant and equipment under lease.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of $5,188,000 (2015: $8,458,000) under finance leases expiring within five years.

Note 25. Related party transactions

Subsidiaries
Interests in subsidiaries are set out in note 27.

Associates
Interests in associates are set out in note 28.

Key management personnel
Disclosures relating to key management personnel are set out in note 22.

Note 25. Related party transactions (continued)

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated 2016 $	Consolidated 2015 $
Other income:		
Infrastructure funding received from the University of New South Wales ('UNSW') *	667,815	550,703
Rent received from Sisters of Charities	131,670	123,750
Payment for other expenses:		
Interest paid to National Australia Bank	988,298	981,355
Rent paid to Sisters of Charities	555,500	550,000

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated 2016 $	Consolidated 2015 $
Non-current borrowings:		
Bank loans from NAB **	12,000,000	14,000,000

* Jillian Segal is Deputy Chancellor and Rodney Phillips is Dean of Medicine of UNSW.
** Jillian Segal was a Director at NAB during the year. Jillian resigned as Director of the NAB on 16 December 2016.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 26. The Kinghorn Cancer Centre building operation

The Institute has a 50% interest in the Kinghorn Cancer Centre building ('TKCC building') and is classified as a joint operation. The operating costs associated with the TKCC building are equally shared by the Institute and St. Vincent's Hospital.

Note 27. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
Australian BioResources Pty Limited	Australia	100.00%	100.00%
DVDC Limited **	Australia	100.00%	100.00%
Garvan Research Foundation *	Australia	-	-
Psygene Pty Ltd **	Australia	100.00%	100.00%
Genome.One Pty Ltd	Australia	100.00%	100.00%

* Company limited by guarantee and consolidated.
** These companies are dormant.

Note 28. Interests in associates

Interests in associates are as follows:

Name	Principal place of business / Country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
G2 Therapies Pty Limited	Australia	23.86%	23.85%

Note 29. Events after the reporting period

On 1 May 2017, the consolidated entity renewed the $12,000,000 National Australia Bank ('NAB') loan facility for a period of three years.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Australian Accounting Standards - Reduced Disclosure Requirements, the Australian Charities and Not-for-profits Commission Act 2012, the Charitable Fundraising Act 1991, the Garvan Institute of Medical Research Act 1984, and associated regulations;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Institute will be able to pay its debts as and when they become due and payable.

On behalf of the directors

John Schubert AO
Chairman

Stephen Johns
Director

2nd May 2017
Sydney

Independent auditor's report

To the members of Garvan Institute of Medical Research

Our opinion

In our opinion:

The accompanying financial report of Garvan Institute of Medical Research (the Institute) and its controlled entities (together the Group) is in accordance with the *Garvan Institute of Medical Research Act 1984* and *Australian Charities and Not-for-profits Commission (ACNC) Act 2012*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards - Reduced Disclosure Requirements.

What we have audited

The financial report comprises:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012* and 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 our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
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Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' report included in the financial statements, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Institute are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements, the *Garvan Institute of Medical Research Act 1984* and the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the financial report.

PricewaterhouseCoopers

PricewaterhouseCoopers

P.J. Carney

Paddy Carney
Partner

Sydney
2 May 2017