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**Australian Research Council
Statement by the Chief Executive and Chief Financial Officer**

In our opinion, the attached financial statements for the year ended 30 June 2016 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Research Council (ARC) will be able to pay its debts as and when they fall due.

Signed.....

Aidan Byrne
Accountable Authority

7 September 2016

Signed.....

Julija Deleva
Chief Financial Officer

7 September 2016

Australian Research Council
Statement of Comprehensive Income
for the period ended 30 June 2016

		2016	2015	Original Budget 2016
	Notes	\$'000	\$'000	\$'000
NET COST OF SERVICES				
Expenses				
Employee benefits	1.1A	14,306	13,212	14,019
Suppliers	1.1B	4,111	4,554	5,370
Depreciation and amortisation ¹	3.2A	7,389	3,487	3,989
Finance costs	1.1C	342	283	259
Write-Down and Impairment of Assets		1	-	-
Total expenses		26,149	21,536	23,637
Gains				
Other gains		68	131	88
Total gains		68	131	88
Total own-source income		68	131	88
Net (cost of) services		(26,081)	(21,405)	(23,549)
Revenue from government ²	1.2A	21,017	19,750	19,560
Total comprehensive Income/(loss)		(5,064)	(1,655)	(3,989)

The above statement should be read in conjunction with the accompanying notes.

This statement represents the operating result for outcome 1. The ARC only has one outcome which is 'Growth of knowledge and innovation through managing research funding schemes, measuring research excellence and providing advice.'

Budget Variances Commentary

The following commentary provides a comparison of the original budget as presented in the 2015-16 Portfolio Budget Statements (PBS) to the 2015-16 actuals.

Variances are considered to be material or major based on the following criteria:

- the variance between original budget and actual is greater than 2 million dollars of the line item; or
- the variance between original budget and actual is greater than 2 million dollars of total expenses, total income; assets, liabilities or equity; or
- an item below this threshold is considered important for the reader's understanding or is relevant to an assessment of the ARC's performance.

Statement of Comprehensive Income

1. The depreciation and amortisation expense variance arose mainly due to the completion of the Research Management System (RMS) intangible asset in 2015-16. The ageing and non-compatible IT applications of RMS that were assessed to no longer have a remaining useful life and amortisation was therefore accelerated. This accelerated amortisation was not reflected in the original budget which has led to the higher than budgeted expense in 2015-16.
2. The variance arose mainly due to the ARC receiving additional appropriation during 2015-16 MYEFO budget that was not anticipated in the original budget, for the National Innovation and Science Agenda - measuring research impact (p66 of 2015-16 Portfolio Additional Estimates Statements).

Australian Research Council
Statement of Financial Position
as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000	Original Budget 2016 \$'000
ASSETS				
Financial assets				
Cash and cash equivalents	3.1A	305	295	299
Trade and other receivables ¹	3.1B	14,373	11,003	8,893
Total financial assets		14,678	11,298	9,192
Non-financial assets				
Buildings	3.2A	2,027	2,247	1,892
Plant and equipment ²	3.2A	922	197	234
Computer software ³	3.2A	11,692	16,066	16,348
Prepayments		275	293	318
Total non-financial assets		14,916	18,803	18,792
Total assets		29,594	30,101	27,984
LIABILITIES				
Payables				
Suppliers	3.3A	405	400	516
Other payables		54	440	-
Total payables		459	840	516
Interest bearing liabilities				
Finance leases ²	3.4A	3,026	2,452	2,575
Total interest bearing liabilities		3,026	2,452	2,575
Provisions				
Employee provisions	6.1A	3,996	3,523	3,531
Other provisions	3.5A	333	267	322
Total provisions		4,329	3,790	3,853
Total liabilities		7,814	7,082	6,944
Net assets		21,780	23,019	21,040
EQUITY				
Contributed equity		29,587	25,762	29,587
Asset revaluation reserve		43	43	43
Accumulated deficit		(7,850)	(2,786)	(8,590)
Total equity		21,780	23,019	21,040

The above statement should be read in conjunction with the accompanying notes.

This statement represents the financial position of outcome 1. The ARC only has one outcome which is 'Growth of knowledge and innovation through managing research funding schemes, measuring research excellence and providing advice.'

Budget Variances Commentary

The following commentary provides a comparison of the original budget as presented in the 2015-16 Portfolio Budget Statements (PBS) to the 2015-16 actuals.

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- an item below this threshold is considered important for the reader's understanding or is relevant to an assessment of the ARC's performance.

Statement of Financial Position

1. The variance arose mainly due to the ARC receiving additional appropriation during 2015-16 MYEFO budget that was not anticipated in the original budget, for the National Innovation and Science Agenda - measuring research impact (p66 of 2015-16 Portfolio Additional Estimates Statements).
2. The variance arose due to new finance leases for computer hardware that were not anticipated in the original budget.
3. The variance arose mainly due to the completion of the Research Management System (RMS) intangible asset in 2015-16. The ageing and non-compatible IT applications of RMS that were assessed to no longer have a remaining useful life and amortisation was therefore accelerated. This accelerated amortisation was not reflected in the original budget which has led to the lower than budgeted carrying value.

Australian Research Council
Statement of Changes in Equity
for the period ended 30 June 2016

	2016	2015	Original Budget 2016
	\$'000	\$'000	\$'000
CONTRIBUTED EQUITY			
Opening balance			
Balance carried forward from previous period	25,762	21,893	25,762
Transactions with owners			
Contributions by owners			
Equity injection - appropriations	2,572	1,264	2,572
Departmental capital budget	1,253	2,605	1,253
Total transactions with owners	3,825	3,869	3,825
Closing balance as at 30 June	29,587	25,762	29,587
ACCUMULATED DEFICIT			
Opening balance			
Balance carried forward from previous period	(2,786)	(1,131)	(4,601)
Comprehensive income			
Surplus/(Deficit) for the period	(5,064)	(1,655)	(3,989)
Total comprehensive income	(5,064)	(1,655)	(3,989)
Closing balance as at 30 June	(7,850)	(2,786)	(8,590)
ASSET REVALUATION RESERVE			
Opening balance			
Balance carried forward from previous period	43	43	43
Closing balance as at 30 June	43	43	43
TOTAL EQUITY			
Opening balance			
Balance carried forward from previous period	23,019	20,805	21,204
Adjustment for errors	-	-	-
Adjusted opening balance	23,019	20,805	21,204
Comprehensive income			
Surplus/(Deficit) for the period	(5,064)	(1,655)	(3,989)
Total comprehensive income	(5,064)	(1,655)	(3,989)
Transactions with owners			
Contributions by owners			
Equity injection - appropriations	2,572	1,264	2,572
Departmental capital budget	1,253	2,605	1,253
Total transactions with owners	3,825	3,869	3,825
Closing balance as at 30 June	21,780	23,019	21,040

The above statement should be read in conjunction with the accompanying notes.

Accounting Policy

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Australian Research Council
Cash Flow Statement
for the period ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000	Original Budget 2016 \$'000
OPERATING ACTIVITIES				
Cash received				
Appropriations		17,900	18,142	19,560
Net GST received		714	767	550
Other		321	129	-
Total cash received		18,935	19,038	20,110
Cash used				
Employees		14,490	13,021	14,019
Suppliers		4,892	5,493	5,282
Other		276	274	809
Total cash used		19,658	18,788	20,110
Net cash from/(used by) operating activities		(723)	250	-
INVESTING ACTIVITIES				
Cash used				
Purchase of property, plant and equipment		43	100	250
Purchase of intangibles		2,539	3,456	3,575
Total cash used		2,582	3,556	3,825
Net cash (used by) investing activities		(2,582)	(3,556)	(3,825)
FINANCING ACTIVITIES				
Cash received				
Contributed equity		3,506	3,425	3,825
Total cash received		3,506	3,425	3,825
Cash used				
Repayment of finance leases		191	123	-
Total cash used		191	123	-
Net cash from/(used by) financing activities		3,315	3,302	3,825
Net increase/(decrease) in cash held		10	(4)	-
Cash and cash equivalents at the beginning of the reporting period		295	299	299
Cash and cash equivalents at the end of the reporting period	3.1A	305	295	299

The above statement should be read in conjunction with the accompanying notes.

Australian Research Council
Administered Schedule of Comprehensive Income
for the period ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000	Original Budget 2016 \$'000
NET COST OF SERVICES				
Expenses				
Suppliers ¹	2.1A	14,025	11,916	5,156
Grants ²	2.1B	756,525	835,552	789,659
Total expenses		770,550	847,468	794,815
Income				
Revenue				
Non-taxation revenue				
Other revenue ³	2.2A	6,501	8,106	-
Total non-taxation revenue		6,501	8,106	-
Total revenue		6,501	8,106	-
Net (cost of)/contribution by services		(764,049)	(839,362)	(794,815)
Surplus/(Deficit)		(764,049)	(839,362)	(794,815)
Total comprehensive income/(loss)		(764,049)	(839,362)	(794,815)

The above schedule should be read in conjunction with the accompanying notes.

This statement represents the result for outcome 1. The ARC only has one outcome which is 'Growth of knowledge and innovation through managing research funding schemes, measuring research excellence and providing advice.'

Budget Variances Commentary

The following commentary provides a comparison of the original budget as presented in the 2015 -16 Portfolio Budget Statements (PBS) to the 2015-16 actuals.

Variances are considered to be material or major based on the following criteria:

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Schedule of Comprehensive Income

1. A payment was made from the special appropriation to a non-corporate Commonwealth entity for research activity. This expense was treated as a supplier expense because it is a notional payment under section 76 of the PGPA Act and cannot be treated as a grant expense.
2. In addition to 1, grant expenses are lower than the original budget due to a movement of funds from 2015 -16 to 2016-17.
3. Other revenue arose from the recovery of prior year unspent grant payments returned by the research sector. Under the *Australian Research Council Act 2001*, grant recipients are required to return unspent grant money to the ARC unless otherwise approved. Recovery revenue is not budgeted due to the uncertainty of the activities in the research sector and can vary from year to year.

Australian Research Council
Administered Schedule of Assets and Liabilities
as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000	Original Budget 2016 \$'000
ASSETS				
Financial assets				
Trade and other receivables	4.1A	486	477	1,315
Total financial assets		486	477	1,315
Non-financial assets				
Other non-financial assets	4.2A	12	192	248
Total non-financial assets		12	192	248
Total assets administered on behalf of Government		498	669	1,563
LIABILITIES				
Payables				
Grants ¹	4.3A	296,908	348,764	362,460
Other payables	4.3B	88	1,405	19
Total payables		296,996	350,169	362,479
Total liabilities administered on behalf of Government		296,996	350,169	362,479
Net assets/(liabilities)		(296,498)	(349,500)	(360,916)

The above schedule should be read in conjunction with the accompanying notes.

This statement represents the result for outcome 1. The ARC only has one outcome which is 'Growth of knowledge and innovation through managing research funding schemes, measuring research excellence and providing advice.'

Budget Variances Commentary

The following commentary provides a comparison of the original budget as presented in the 2015 -16 Portfolio Budget Statements (PBS) to the 2015-16 actuals.

Variances are considered to be material or major based on the following criteria:

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- an item below this threshold is considered important for the reader's understanding or is relevant to an assessment of the ARC's performance.

Schedule of Assets and Liabilities

1. This variance arose mainly due to actual grants awarded being lower than the original budget. This aligns to the decrease in funding limit in the *Australian Research Council Act 2001*.

**Australian Research Council
Administered Reconciliation Schedule**

	Notes	2016 \$'000	2015 \$'000
Opening assets less liabilities as at 1 July		(349,500)	(360,917)
Net (cost of)/contribution by services			
Income		6,501	8,106
Expenses		(770,550)	(847,468)
Transfers (to)/from the Australian Government			
Appropriation transfers from Official Public Account (OPA)			
Administered assets and liabilities appropriations			
Annual appropriations		6,261	2,474
Special appropriations (limited)	5.1C	815,304	859,564
Special accounts		2,000	-
Administered GST appropriations		4,311	4,166
Appropriation transfers to OPA			
Appropriations		(6,525)	(8,434)
Special Accounts		-	(2,000)
Return of GST appropriation to OPA		(4,300)	(4,991)
Closing assets less liabilities as at 30 June		(296,498)	(349,500)

The above schedule should be read in conjunction with the accompanying notes.

Australian Research Council
Administered Cash Flow Statement
for the period ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
OPERATING ACTIVITIES			
Cash received			
Net GST received		4,300	4,977
Other		6,501	8,106
Total cash received		10,801	13,083
Cash used			
Grants		812,115	852,792
Suppliers		15,738	11,070
Total cash used		827,853	863,862
Net cash from/(used by) operating activities	5.4B	(817,052)	(850,779)
Cash from Official Public Account (OPA)			
Appropriations		821,565	862,038
Special accounts		2,000	-
Administered GST appropriations		4,311	4,166
Total cash from official public account		827,876	866,204
Cash to Official Public Account (OPA)			
Appropriations		(6,524)	(8,434)
Special Accounts		-	(2,000)
Return of GST appropriation to OPA		(4,300)	(4,991)
Total cash to official public account		(10,824)	(15,425)
Cash and cash equivalents at the end of the reporting period		-	-

This schedule should be read in conjunction with the accompanying notes.

Overview

Objectives of the Australian Research Council

The Australian Research Council (ARC) is an Australian Government controlled entity. It is a not-for-profit entity. The ARC aims to grow knowledge and innovation in Australia by funding excellent research and research training through the National Competitive Grants Program; measuring the quality, engagement and impact of research; and providing advice on research matters.

The ARC is structured to meet one outcome which is 'Growth of knowledge and innovation through managing research funding schemes, measuring research excellence and providing advice.'

The continued existence of the ARC in its present form and with its present programs is dependent on Government policy and on continuing funding by Parliament for the ARC's administration and programs.

The ARC activities contributing toward this outcome are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the ARC in its own right. Administered activities involve the management or oversight by the ARC, on behalf of the Government, of items controlled or incurred by the Government.

The ARC conducts the following administered activities on behalf of the Government:

- advancing Australian research and innovation by providing strategic policy advice to Government;
- managing the National Competitive Grants Program; and
- measuring research excellence at Australia's universities by conducting research evaluations.

The Basis of Preparation

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- a) *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2015; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. The financial statements are presented in Australian dollars.

New Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

No new standards were issued prior to the signing of the statement by the accountable authority and chief financial officer, were applicable to the current reporting period and had a material effect on the ARC's financial statements.

Future Australian Accounting Standard Requirements

The following new standards, interpretations and amending standards were issued by the Australian Accounting Standards Board prior to the signing of the statement by the accountable authority and chief financial officer, which are expected to have a material impact on the ARC's financial statements for future reporting period(s):

Standard/ Interpretation	Application date for the ARC ¹	Nature of impending change/s in accounting policy and likely impact on initial application
<i>AASB 9 Financial Instruments</i>	1-Jan-18	AASB 9 was reissued in December 2014 and now incorporates: - the classification and measurement requirements for financial assets (including limited amendments) and for financial liabilities, and the recognition and derecognition requirements for financial instruments (representing the first phase of the three phase project that replaces AASB 139); - requirements for impairment of financial assets (representing the second phase); and - hedge accounting (representing the third phase). Likely impact: May have an impact on the recognition and measurement of financial instruments. Final outcome will be considered once the project is completed.
<i>AASB 124 Related Party Disclosures</i>	1-Jul-16	The amendments extend the scope of AASB 124 to include application by not-for-profit public sector entities. Implementation guidance is included to assist application of the Standard by not-for-profit public sector entities. This Standard also makes related amendments to AASB 10 Consolidated Financial Statements and AASB 1049 Whole of Government and General Government Sector Financial Reporting, and an editorial correction to AASB 124. Likely impact: This amendment will impact the ARC's reporting requirements for Related Party transactions.
<i>AASB 16 Leases</i>	1-Jul-19	AASB 16 brings more leases onto the balance sheet of lessees, thereby increasing the transparency surrounding such arrangements and making the lessee's balance sheet better reflect the economics of its transactions. Likely impact: May have an impact on the treatment of future lease agreements.

1. The ARC's expected initial application date is when the accounting standard becomes operative at the beginning of the ARC's reporting period.

All other new standards, interpretations and amending standards that were issued prior to the sign-off date and are applicable to future reporting periods are not expected to have a future material impact on the ARC's financial statements.

Taxation

The ARC is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Reporting of Administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Events After the Reporting Period

Departmental

No departmental events have occurred after the reporting period that have the potential to significantly affect the ongoing structure and financial activities of the ARC.

Administered

No administered events have occurred after the reporting period that have the potential to significantly affect the ongoing structure and financial activities of the ARC.

Breach of Section 83 of the Constitution

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund (CRF) except under an appropriation made by law.

The Department of Finance provided information to all agencies in 2013 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts.

During 2015-16 there were no known instances of non-compliance with section 83 of the Constitution.

Financial Performance

1.1 Expenses

	2016	2015
	\$'000	\$'000
1.1A: Employee Benefits		
Wages and salaries	10,030	9,363
Superannuation:		
Defined contribution plans	312	307
Defined benefit plans	1,773	1,644
Leave and other entitlements	1,462	1,147
Separation and redundancies	136	227
Other employee benefits	593	524
Total employee benefits	14,306	13,212

Accounting Policy

Accounting policies for employee related expenses is contained in the People and relationships section.

1.1 Expenses (continued)

	2016	2015
	\$'000	\$'000

1.1B: Suppliers**Goods and services supplied or rendered**

Consultants	800	1,185
Contractors	395	411
Travel	217	441
IT services	341	368
Other ¹	770	734
Total goods and services supplied or rendered	2,523	3,139
Goods Supplied	738	687
Services Supplied	1,785	2,452
Total goods and services supplied or rendered	2,523	3,139

1. Other includes media monitors, subscriptions; printing, photocopier, telephone costs, staff training, staff study assistance costs, recruitment charges, office consumables and stationary, hire of equipment and comcover premium payments.

Other suppliers

Operating lease rentals in connection with Minimum lease payments	1,419	1,210
Workers compensation expenses	169	204
Total other suppliers	1,588	1,414
Total suppliers	4,111	4,554

Leasing commitments

In 2016, Operating leases existed in relation to the lease for office accommodation and arrangement for the provision of motor vehicles to senior executive officers. The office accommodation leases are non-cancellable and for a fixed term of 15 years (since September 2010). Lease payments are subject to annual increase of 4.25%. The last increase was in September 2015.

No contingent rentals exists. There are no renew or purchase options available to the ARC.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within 1 year	1,657	1,605
Between 1 to 5 years	7,241	6,945
More than 5 years	6,830	8,755
Total operating lease commitments	15,728	17,305

Accounting Policy

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property or, if lower, the present value of minimum lease payments at the inception of the contract and a liability is recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

The ARC has a finance lease for the office fitout that is non-cancellable. Additional finance leases were entered into in 2015-16 for computer hardware.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

1.1 Expenses (continued)

	2016	2015
	\$'000	\$'000
1.1C: Finance Costs		
Finance leases	276	274
Unwinding of discount	8	9
Revaluation of make-good	58	-
Total finance costs	342	283

Accounting Policy

All borrowing costs are expensed as incurred.

1.2 Own-Source Revenue and gains

	2016	2015
	\$'000	\$'000
1.2A: Revenue from Government		
Appropriations		
Departmental appropriations	21,017	19,750
Total revenue from Government	21,017	19,750

Accounting Policy***Revenue from Government***

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the entity gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

Income and Expenses Administered on Behalf of Government

2.1 Administered - Expenses

	2016 \$'000	2015 \$'000
2.1A: Suppliers		
Goods and services supplied or rendered		
Consultants	2,462	1,529
Contractors	1,258	1,543
Travel	719	347
IT Services	9	5
Other	9,577	8,492
Total goods and services supplied or rendered	14,025	11,916
Goods supplied	181	281
Services rendered	13,844	11,635
Total goods and services supplied or rendered	14,025	11,916
2.1B: Grants		
Public sector		
Australian Government entities (related entities)	1,584	2,686
State and Territory Governments	659,342	730,936
Commonwealth educational institutions (related entities)	62,454	69,245
Private sector		
Other research organisations	33,145	32,685
Total grants	756,525	835,552

Accounting Policy

Grants

The ARC administers a number of grant schemes on behalf of the Government. Grant liabilities are recognised to the extent that the grant eligibility criteria or reporting requirements have been satisfied, but payments due have not been made (Refer to Note 4.3). When the Minister approves grants within the limits of the *Australian Research Council Act 2001* but services have not been performed or criteria satisfied, this is considered a commitment.

2.2: Administered - Income		
	2016	2015
	\$'000	\$'000
Revenue		
Non-Taxation Revenue		
<u>2.2A: Administered Other Revenue</u>		
Recovery of prior year unspent grant payments	<u>6,501</u>	8,106
Total other revenue	<u>6,501</u>	<u>8,106</u>
<p>Accounting Policy All administered revenues are revenues relating to ordinary activities performed by the ARC on behalf of the Australian Government. As such, administered appropriations are not revenues of the ARC that oversees distribution or expenditure of the funds as directed.</p> <p>Other revenue relate to the prior year unspent grant payments. Under the <i>Australian Research Council Act 2001</i>, grant recipients are required to return unspent grant money to the ARC unless otherwise approved.</p> <p>Other revenue are recognised when unspent grant money is identified during the acquittal process. When these revenues are collected by the ARC they are then returned to the OPA.</p>		

Financial Position

3.1 Financial Assets

	2016 \$'000	2015 \$'000
3.1A: Cash and Cash Equivalents		
Cash on hand or on deposit	305	295
Total cash and cash equivalents	305	295

Accounting Policy

Cash is recognised at its nominal amount. Cash and cash equivalents includes cash on hand or on deposit.

3.1B: Trade and Other Receivables

Goods and services receivables

Goods and services	-	35
Total goods and services receivables	-	35

Appropriations receivables

Appropriations receivable	14,324	10,887
Total appropriations receivables	14,324	10,887

Other receivables

GST receivable from the Australian Taxation Office	49	81
Total other receivables	49	81
Total trade and other receivables (net)	14,373	11,003

Trade and other receivables (net) expected to be recovered

No more than 12 months	14,373	11,003
Total trade and other receivables (net)	14,373	11,003

Trade and other receivables (net) aged as follows

Not overdue	14,373	11,003
Total trade and other receivables (net)	14,373	11,003

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at end of reporting period. Allowances are made when collectability of the debt is no longer probable.

Accounting Policy

Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

3.2: Non-Financial Assets

3.2A: Reconciliation of the Opening and Closing Balances of Buildings, Plant and Equipment and Computer Software

Reconciliation for 2016

	Buildings ¹ \$'000	Plant & equipment \$'000	Computer Software ² \$'000	Total \$'000
As at 1 July 2015				
Gross book value	2,917	607	30,012	33,536
Accumulated depreciation, amortisation and impairment	(670)	(410)	(13,946)	(15,026)
Total as at 1 July 2015	2,247	197	16,066	18,510
Additions				
Purchase	7	35	-	42
Internal developed	-	-	2,715	2,715
Finance lease ³	-	764	-	764
Depreciation and amortisation	(227)	(73)	(7,089)	(7,389)
Disposals				
Other (gross book value)	-	(6)	-	(6)
Other (accumulated depreciation)	-	5	-	5
Total as at 30 June 2016	2,027	922	11,692	14,641
Total as at 30 June 2016 represented by				
Gross book value	2,924	1,400	32,727	37,051
Accumulated depreciation, amortisation and impairment	(897)	(478)	(21,035)	(22,410)
Total as at 30 June 2016	2,027	922	11,692	14,641

- The carrying amount of \$2,026,921 (2014-15: \$2,246,504) of total leasehold improvements refers to the ARC's office premises fitout.
 - The carrying amount of computer software included \$2,427 purchased software and \$11,689,230 internally generated software.
 - Plant and equipment under finance leases were subject to materiality review. The carrying amount of \$747,539 (2014-2015: nil) is included in the valuation figures above.
- No indicators of impairment were found for plant and equipment and intangibles.
No buildings, plant and equipment and computer software are expected to be sold or disposed of within the next 12 months.

Reconciliation for 2015

	Buildings \$'000	Plant & equipment \$'000	Computer Software \$'000	Total \$'000
As at 1 July 2014				
Gross book value	2,904	520	26,354	29,778
Accumulated depreciation, amortisation and impairment	(444)	(306)	(10,789)	(11,539)
Total as at 1 July 2014	2,460	214	15,565	18,239
Additions				
Purchase	13	87	-	100
Internal developed	-	-	3,658	3,658
Depreciation and amortisation	(226)	(104)	(3,157)	(3,487)
Total as at 30 June 2015	2,247	197	16,066	18,510
Total as at 30 June 2015 represented by				
Gross book value	2,917	607	30,012	33,536
Accumulated depreciation, amortisation and impairment	(670)	(410)	(13,946)	(15,027)
Total as at 30 June 2015	2,247	197	16,066	18,510

Accounting policy

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset Recognition Threshold

Purchases of plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by the ARC where there exists an obligation to restore the property to its original condition. These costs are included in the value of ARC's leasehold improvements with a corresponding provision for the 'make good' recognised.

Revaluations

Following initial recognition at cost, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment was credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date was eliminated against the gross carrying amount of the asset and the asset was restated to the revalued amount.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the ARC using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2016	2015
Leasehold improvements	Lease Term	Lease Term
Plant and equipment	2 to 10 years	2 to 10 years

Impairment

All assets were assessed for impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the ARC were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles

The ARC's intangibles comprise internally developed and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

The ARC's internally developed software includes directly attributable overhead costs which meet the recognition criteria in AASB 138.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives for the ARC's software are 2 to 10 years (2015: 2 to 10 years).

All software assets were assessed for indications of impairment as at 30 June 2016.

3.3 Payables

	2016	2015
	\$'000	\$'000
3.3A: Suppliers		
Trade creditors and accruals	405	400
Total suppliers	405	400
Suppliers expected to be settled		
No more than 12 months	405	400
Total suppliers	405	400

Settlement was usually made within 30 days.

3.4 Interest Bearing Liabilities

	2016 \$'000	2015 \$'000
3.4A: Leases		
Finance leases	3,026	2,452
Total leases	3,026	2,452
Minimum leases expected to be settled		
Within 1 year		
Present value of minimum lease payment	594	397
Future finance charge	(282)	(259)
Between 1 to 5 years		
Present value of minimum lease payment	2,201	1,590
Future finance charge	(835)	(861)
More than 5 years		
Present value of minimum lease payment	1,689	2,087
Future finance charge	(341)	(502)
Total leases	3,026	2,452

In 2016, Finance leases existed in relation to the ARC's office premises fitout (since September 2010) and computer hardware.

The office premises fitout leases are non-cancellable and for a fixed term of 15 years. The interest rate implicit in the leases is 11% (2014-15: 11%). The lease assets secure the lease liabilities. The ARC guarantees the residual values of all assets leased.

Remaining repayments for computer hardware leases are \$712,002 in total and will be paid by instalments until April 2021.

Accounting Policy

Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets.

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property or, if lower, the present value of minimum lease payments at the inception of the contract and a liability is recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

3.5 Other Provisions

3.5A: Other Provisions	2016	2015
	\$'000	\$'000
	Provision for	Total
	restoration	Total
	\$'000	\$'000
As at 1 July 2015	267	322
Unwinding of discount	8	9
Change in discount rate	58	(64)
Total as at 30 June 2016	333	267
Other provisions expected to be settled		
More than 12 months	333	267
Total other provisions	333	267

As at 30 June 2016 the ARC had one agreement for the leasing of premises which has a provision requiring the ARC to restore the premises to their original condition at the conclusion of the lease. The ARC has made a provision to reflect the present value of this obligation.

Assets and Liabilities Administered on Behalf of the Government

4.1 Administered - Financial Assets

	2016 \$'000	2015 \$'000
4.1A: Trade and Other Receivables		
GST receivable from Australian Taxation Office	486	477
Total goods and services receivables	486	477

All receivables are current assets and not overdue. Credit terms are net 30 days (2014-15: 30 days).

4.2: Administered - Non-Financial Assets

	2016 \$'000	2015 \$'000
4.2A: Other Non-Financial Assets		
Prepayments	12	192
Total other non-financial assets	12	192
Other non-financial assets expected to be recovered		
No more than 12 months	12	192
Total other non-financial assets	12	192

No indicators of impairment found for other non-financial assets.

4.3 Administered - Payables

	2016	2015
	\$'000	\$'000
4.3A: Grants		
Public sector		
Australian Government entities (related entities)	716	1,270
State and Territory Governments	267,903	311,777
Commonwealth educational institutions (related entities)	26,333	32,153
Private sector		
Other research organisations	1,956	3,564
Total grants	296,908	348,764
Grants expected to be settled		
No more than 12 months	296,908	348,764
Total grants	296,908	348,764

Settlement is in accordance with the terms and conditions of each grant which is consistent with the payment schedule determined by the Minister under the *Australian Research Council Act 2001*.

Accounting Judgements and Estimates

Grants

The ARC recognises a liability for grant funding which is unpaid as at reporting date. Management has made a significant judgement that there are limited options not to pay out the entire remaining grants or enforce recovery until the recipient acquits the funds.

4.3B: Other Payables

Other	88	1,405
Total other payables	88	1,405
Other payables expected to be settled		
No more than 12 months	88	1,405
Total other payables	88	1,405

Funding

5.1 Appropriations

5.1A: Annual Appropriations ('Recoverable GST exclusive')

Annual Appropriations for 2016

	<i>Appropriation Act</i>		<i>PGPA Act</i>			Appropriation applied in 2016 (current and prior years) \$'000	Variance ² \$'000
	Annual Appropriation ¹ \$'000	Advance to the Finance Minister \$'000	Section 74 Receipts \$'000	Section 75 Transfers \$'000	Total appropriation \$'000		
Departmental							
Ordinary annual services	21,017	-	-	-	21,017	17,900	3,117
Capital Budget ³	1,253	-	-	-	1,253	1,365	(112)
Other services							
Equity Injections	2,572	-	-	-	2,572	2,141	431
Total departmental	24,842	-	-	-	24,842	21,406	3,436
Administered							
Ordinary annual services							
Administered items	5,707	-	-	-	5,707	6,238	(531)
Total administered	5,707	-	-	-	5,707	6,238	(531)

1. During 2015-16, \$0.536 million of Administered 2014-15 annual appropriations was identified to be withheld and quarantined under Section 51 of the PGPA Act.

2. The variance arose mainly due to the ARC receiving additional appropriation during 2015-16 MYEFO budget that was not anticipated in the original budget, for the National Innovation and Science Agenda - measuring research impact (p66 of 2015-16 Portfolio Additional Estimates Statements). Appropriation applied in 2015-16 was less than the appropriation received mainly due to unforeseen delays in implementation of 2015-16 MYEFO budget measure.

3. Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

5.1 Appropriations (continued)

5.1A: Annual Appropriations ('Recoverable GST exclusive')

Annual Appropriations for 2015

	<i>Appropriation Act</i>		<i>PGPA Act</i>		Total appropriation \$'000	Appropriation applied in 2015 (current and prior years) \$'000	Variance \$'000
	Annual Appropriation ¹ \$'000	Advance to the Finance Minister \$'000	Section 74 Receipts \$'000	Section 75 Transfers \$'000			
Departmental							
Ordinary annual services	19,761	-	-	-	19,761	18,128	1,633
Capital Budget ³	1,264	-	-	-	1,264	1,282	(18)
Other services							
Equity Injections	2,605	-	-	-	2,605	1,948	657
Total departmental	23,630	-	-	-	23,630	21,358	2,272
Administered							
Ordinary annual services							
Administered items	5,397	-	-	-	5,397	2,249	3,148
Total administered	5,397	-	-	-	5,397	2,249	3,148

1. During 2014-15, \$0.011 million of Departmental 2014-15 annual appropriations have been quarantined under Section 51 of the PGPA Act.

2. Appropriation applied in 2014-15 was less than the appropriation received mainly due to unforeseen delays in the implementation of the web redevelopment, reviews and committee meetings.

3. Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

5.1 Appropriations (continued)

5.1B: Unspent Annual Appropriations ('Recoverable GST exclusive')

	2016 \$'000	2015 \$'000
Departmental		
<i>Appropriation Act 1 (2013/14)</i>	-	12
<i>Appropriation Act 1 (2014/15)</i>	-	10,135
<i>Appropriation Act 2 (2014/15)</i>	-	740
<i>Appropriation Act 1 (2015/16)</i>	11,734	-
<i>Appropriation Act 2 (2015/16)</i>	1,171	-
<i>Appropriation Act 3 (2015/16)</i>	1,419	-
Total departmental	14,324	10,887
Administered		
<i>Appropriation Act 1 (2014/15) ¹</i>	536	3,025
<i>Appropriation Act 1 (2015/16)</i>	1,419	-
<i>Appropriation Act 3 (2015/16)</i>	539	-
Total administered	2,494	3,025

1. During 2015-16, \$0.536 million of Administered 2014-15 annual appropriations was identified to be withheld and quarantined under Section 51 of the PGPA Act.

5.1C Special Appropriations ('Recoverable GST exclusive')

	Appropriation applied	
	2016 \$'000	2015 \$'000
<i>Australian Research Council Act 2001 s.49, Administered, limit \$815,521,000 for the current reporting period, remaining appropriation lapsed on 30 June 2016.</i>	815,304	852,898
Total special appropriations applied	815,304	852,898

5.2 Special Accounts

ARC Research Endowment Account (Administered) ¹	2,016 \$'000	2,015 \$'000
Balance brought forward from previous period	2,000	6,667
Increases		
Appropriation credited to special account	7,000	10,000
Available for payments	9,000	16,667
Decreases		
Payments made to research institutions	(9,000)	(14,667)
Total balance carried to the next period	-	2,000

1. Appropriation: *Public Governance, Performance and Accountability Act 2013 section 78*; or *Public Governance, Performance and Accountability Act 2013 section 80*.

2. Establishing Instrument: *Australian Research Council Act 2001 section 62*.

3. Purpose: To provide financial assistance to organisations for eligible research programs.

5.3 Net Cash Appropriation Arrangements

	2016	2015
	\$'000	\$'000
Total comprehensive income/(loss) less depreciation/amortisation expenses previously funded through revenue appropriations¹	2,325	1,832
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	<u>(7,389)</u>	<u>(3,487)</u>
Total comprehensive income/(loss) - as per the Statement of Comprehensive Income	<u>(5,064)</u>	<u>(1,655)</u>

1. From 2010-11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.

5.4 Cash Flow Reconciliation

5.4A: Cash Flow Reconciliation

	2016	2015
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per statement of financial position to cash flow statement		
Cash and cash equivalents as per		
Cash flow statement	305	295
Statement of financial position	305	295
Discrepancy	-	-
Reconciliation of net cost of services to net cash from/(used by) operating activities		
Net cost of services	(26,080)	(21,405)
Revenue from Government	21,017	19,750
Adjustments for non-cash items		
Depreciation/amortisation	7,389	3,487
Net write down of non-financial assets	1	-
Return on capital & capital Adjustment	143	242
Movements in assets and liabilities		
Assets		
(Increase)/Decrease in net receivables	(3,370)	(2,110)
(Increase)/Decrease in other non-financial assets	17	26
Liabilities		
Increase/(Decrease) in employee provisions	473	326
Increase/(Decrease) in suppliers	5	(53)
Increase/(Decrease) in other payables	(385)	42
Increase/(Decrease) in other provisions	67	(55)
Net cash from/(used by) operating activities	(723)	250

5.4 Cash Flow Reconciliation (continued)

5.4B: Administered - Cash Flow Reconciliation

	2016	2015
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per statement of financial position and cash flow statement		
Cash and cash equivalents as per		
Administered cash flow statement	-	-
Administered schedule of assets and liabilities	-	-
Discrepancy	-	-
Reconciliation of net cost of services to net cash used by operating activities		
Net cost of services	(764,049)	(839,362)
Movements in assets and liabilities		
Assets		
(Increase)/Decrease in trade and other receivables	(8)	838
(Increase)/Decrease in other non-financial assets	180	56
Liabilities		
Increase/(Decrease) in grants	(51,856)	(13,712)
Increase/(Decrease) in other payables	(1,319)	1,401
Net cash (used by) operating activities	(817,052)	(850,779)

People and relationships

6.1 Employee Provisions

	2016	2015
	\$'000	\$'000
6.1A: Employee Provisions		
Leave	3,996	3,523
Total employee provisions	3,996	3,523
Employee provisions are expected to be settled		
No more than 12 months	3,288	2,786
More than 12 months	708	737
Total employee provisions	3,996	3,523

Accounting policy

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits expected within twelve months of the end of the reporting period are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the ARC's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2016. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and Redundancy

As at 30 June 2016 the ARC did not have any provisions for separation and redundancy benefit payments.

Superannuation

The ARC's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance's administered schedules and notes.

The ARC makes employer contributions to the employees' superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government. The ARC accounts for the contributions as if they were contributions to defined contribution schemes.

The liability for superannuation recognised as at 30 June 2016 represents outstanding contributions for the final fortnight of the year.

Accounting Judgements and Estimates

Employee provisions are dependent on management assumptions for their measurement.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting period.

6.2 Senior Management Personnel Remuneration

	2016	2015
	\$'000	\$'000
Short-term employee benefits		
Salary	1,219	1,250
Motor vehicle and other allowances	163	131
Total short-term employee benefits	1,382	1,382
Post-employment benefits		
Superannuation	242	229
Total post-employment benefits	242	229
Other long-term employee benefits		
Annual leave	102	101
Long-service leave	27	33
Total other long-term employee benefits	129	135
Total senior executive remuneration expenses	1,753	1,745

The total number of senior management personnel that are included in the above table are 7 individuals (2014-15: 7 individuals).

Managing uncertainties

7.1 Contingent Assets and Liabilities

There were no Departmental and Administered contingent assets and liabilities in 2015-16 for the ARC (2014-15: nil).

Accounting Policy

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured.

Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

7.2 Financial Instruments

	2016	2015
	\$'000	\$'000
7.2A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	305	295
Trade and other receivables	-	35
Total loans and receivables	305	330
Total financial assets	305	330
Financial Liabilities		
Financial liabilities measured at amortised cost		
Suppliers	405	400
Other payables	54	17
Finance leases	3,026	2,452
Total financial liabilities measured at amortised cost	3,485	2,869
Total financial liabilities	3,485	2,869

Accounting Policy

Financial assets

The ARC classifies its financial assets in the following categories:

- a) financial assets at fair value through profit or loss;
- b) held-to-maturity investments;
- c) available-for-sale financial assets; and
- d) loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Effective Interest Method

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Financial Assets at Fair Value Through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial assets:

- have been acquired principally for the purpose of selling in the near future; or
- are parts of an identified portfolio of financial instruments that the entity manages together and has a recent actual pattern of short-term profit-taking.

Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset.

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost - if there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

Available for sale financial assets - if there is objective evidence that an impairment loss on an available-for-sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in expenses, is transferred from equity to the Statement of Comprehensive Income.

Financial assets held at cost - if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent fair value adjustments are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Supplier and other payables are expected to be settled within 12 months. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

7.2 Financial Instruments (continued)

	2016	2015
	\$'000	\$'000

7.2B: Net Gains or Losses on Financial Liabilities**Financial liabilities measured at amortised cost**

Interest expense	342	283
Net gains/(losses) on financial liabilities measured at amortised cost	342	283

The total interest expense from financial liabilities not at fair value through profit or loss was \$342,369 (2014-15: \$282,623).

7.2C: Fair Value of Financial Instruments

	Carrying amount 2016 \$'000	Fair value 2016 \$'000	Carrying amount 2015 \$'000	Fair value 2015 \$'000
Financial Assets				
Cash at bank	305	305	295	295
Trade and other receivables	-	-	35	35
Total financial assets	305	305	330	330
Financial Liabilities				
Suppliers	405	405	400	400
Other payables	54	54	17	17
Finance leases	3,026	3,026	2,452	2,452
Total financial liabilities	3,485	3,485	2,869	2,869

7.2D: Credit Risk

The ARC's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The ARC has no significant exposures to any concentrations of credit risk. The ARC manages its credit risk by undertaking background checks as required prior to allowing a debtor relationship. In addition, the ARC has policies and procedures that guide employees' debt recovery techniques that are to be applied.

The figures for credit risk do not take into account the value of any collateral or other security.

Credit quality of financial assets not past due or individually determined as impaired

	Not past due nor impaired 2016 \$'000	Not past due nor impaired 2015 \$'000	Past due or impaired 2016 \$'000	Past due or impaired 2015 \$'000
Cash at bank	305	295	-	-
Trade and other receivables	-	35	-	-
Total	305	330	-	-

7.2 Financial Instruments (continued)

7.2E: Liquidity Risk

The ARC's financial liabilities were payables and finance lease. The exposure to liquidity risk was based on the notion that the ARC will encounter difficulty in meeting its obligations associated with financial liabilities. This was highly unlikely as the ARC is appropriated funding from the Australian Government and the ARC manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the ARC has policies in place to ensure timely payments were made when due and has no past experience of default.

Maturities for non-derivative financial liabilities in 2016

	On demand	within 1	between 1 to	between 2 to	more than	Total
	\$'000	year	2 years	5 years	5 years	\$'000
		\$'000	\$'000	\$'000	\$'000	\$'000
Suppliers	-	405	-	-	-	405
Other payables	-	54	-	-	-	54
Finance leases	-	593	593	1,609	1,689	4,484
Total	-	1,052	593	1,609	1,689	4,943

Maturities for non-derivative financial liabilities in 2015

	On demand	within 1	between 1 to	between 2 to	more than	Total
	\$'000	year	2 years	5 years	5 years	\$'000
		\$'000	\$'000	\$'000	\$'000	\$'000
Suppliers	-	400	-	-	-	400
Other payables	-	17	-	-	-	17
Finance leases	-	397	397	1,193	2,087	4,074
Total	-	814	397	1,193	2,087	4,491

The ARC has no derivative financial liabilities in both the current and prior year.

7.2F: Market Risk

The ARC held basic financial instruments that did not expose the ARC to certain market risks. The ARC was not exposed to 'Currency risk' or 'Other price risk'.

Interest rate risk

The only interest-bearing item on the Statement of Financial Position are the 'Finance leases'. They bear interest at a fixed interest rate and do not fluctuate due to changes in the market interest rate.

7.3 Administered - Financial Instruments

	2016	2015
	\$'000	\$'000
7.3A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	-	-
Total loans and receivables	-	-
Total financial assets	-	-
Financial Liabilities		
Financial liabilities measured at amortised cost		
Grants	296,908	348,764
Other payables	88	1,405
Total financial liabilities measured at amortised cost	296,996	350,169
Total financial liabilities	296,996	350,169

7.3 Administered - Financial Instruments (continued)

7.3B: Fair Value of Financial Instruments

	Carrying amount 2016 \$'000	Fair value 2016 \$'000	Carrying amount 2015 \$'000	Fair value 2015 \$'000
Financial Liabilities				
Grants	296,908	296,908	348,764	348,764
Other payables	88	88	1,405	1,405
Total financial liabilities	296,996	296,996	350,169	350,169

Financial Liabilities

The net fair value for grants and other payables are short-term in nature and are approximated by their carrying amounts.

7.3C: Credit Risk

The ARC's administered activities maximum exposures to credit risk at reporting date in relation to each class of recognised administered financial assets is the carrying amount of those assets as indicated in the Schedule of Administered Items.

The administered activities of the ARC have no significant exposures to any concentration of credit risk. The ARC manages its risks by undertaking background checks as required prior to allowing a debtor relationship. In addition, the ARC has policies and procedures that guide the employees debt recovery techniques that are to be applied.

The figures for credit risk do not take into account the value of any collateral or other security.

7.3D: Liquidity Risk

The ARC's administered financial liabilities are grants and other payables. The ARC has a low liquidity risk due to appropriation funding from Government. In addition, the ARC has internal policies and procedures in place to ensure that there are appropriate resources to meet its financial obligations and timely payments are made when due.

The ARC's administered financial liabilities will mature within 1 year.

7.2E: Market Risk

The ARC holds basic financial instruments that do not expose the ARC to 'Currency risk', 'Interest rate risk' and 'Other price risk'.

7.4 Fair Value Measurement

The following tables provide an analysis of assets and liabilities that are measured at fair value. The remaining assets and liabilities disclosed in the statement of financial position do not apply the fair value hierarchy.

The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the ARC can access at measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Accounting Policy

The ARC tests the procedures of the valuation model as an asset materiality review at least once every 12 months. If a particular asset class experiences significant and volatile changes in fair value (i.e. where indicators suggest that the value of the class has changed materially since the previous reporting period), that class is subject to specific valuation in the reporting period, where practicable, regardless of the timing of the last specific valuation. The ARC engaged a valuer to undertake a materiality review of all plant and equipment assets and confirm that the models developed comply with AASB 13.

7.4A : Fair Value Measurement

	Fair value measurements at the end of the reporting period			Valuation Technique(s) and Inputs Used	
	2016 \$'000	2015 \$'000	Category (Level 1, 2 or 3) ^{2,3}	Valuation Technique(s)	Inputs used
Non-financial assets ¹					
Leasehold improvements (Fitout)	1,818	2,014	Level 3	Depreciated Replacement Cost (DRC)	Replacement Cost New (price per square metre) Consumed economic benefit / Obsolescence of asset
Leasehold improvements (Makegood)	209	233	Level 3	Depreciated Replacement Cost (DRC)	Replacement Cost New
Plant & equipment	175	197	Level 2	Market Approach	Adjusted market transactions

The ARC did not measure any non-financial assets (NFAs) at fair value on a non-recurring basis as at 30 June 2016.

1. The ARC assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of all NFAs is considered their highest and best use.
2. No assets were transferred between level 1 and level 2 during the year ending 30 June 2016.
3. The remaining assets and liabilities reported by the ARC are not measured at fair value in the Statement of Financial Position. Finance leases totaling \$747,539 (2014-15: nil) included in the asset register for Plant and Equipment have been excluded from the above table.