



**PART 5: FINANCIAL
STATEMENTS**



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INDEPENDENT AUDITOR'S REPORT

To the Minister for Education

Opinion

In my opinion, the financial statements of the Australian Research Council ('the Entity') for the year ended 30 June 2019:

- (a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Entity as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by the Accountable Authority and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Entity, the Chief Executive Officer is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under the Act. The Chief Executive Officer is also responsible for such internal control as the Chief Executive Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the ability of the Entity to continue as a going concern, taking into account whether the Entity's operations will cease as a result

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of an administrative restructure or for any other reason. The Chief Executive Officer is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office 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 statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Australian National Audit Office



Rahul Tejani
Audit Principal
Delegate of the Auditor-General

Canberra
17 September 2019

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STATEMENT BY THE ACCOUNTABLE AUTHORITY AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2019 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.



Sue Thomas
Chief Executive Officer

16 September 2019



Luke Cattle
Chief Financial Officer

16 September 2019

Australian Research Council
Statement of Comprehensive Income
for the period ended 30 June 2019

		2019	2018	Original
			Restated	Budget
	Notes	\$'000	\$'000	\$'000
NET COST OF SERVICES				
Expenses				
Employee benefits ¹	1.1A	15,812	15,882	16,553
Suppliers ²	1.1B	4,376	4,888	5,216
Depreciation and amortisation	3.2A	3,349	3,631	3,107
Finance costs ³	1.1C	284	286	231
Write-down and impairment of assets		10	3	-
Total expenses		23,831	24,690	25,107
Own-Source Income				
Own-source revenue				
Rendering of services ⁴	1.2A	-	2,000	500
Other revenue		61	60	60
Total own-source revenue		61	2,060	560
Total own-source income		61	2,060	560
Net (cost of)/contribution by services		(23,770)	(22,630)	(24,547)
Revenue from government	1.2B	21,440	21,186	21,440
Deficit on continuing operations		(2,330)	(1,444)	(3,107)
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Changes in asset revaluation surplus		-	(16)	-
Total other comprehensive income		-	(16)	-
Total Comprehensive loss		(2,330)	(1,460)	(3,107)

See Note 3.6 for further details regarding restatement of 2018 balances.

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

The footnotes link to the budget variance commentary which follows the primary financial statement.



Australian Research Council
Statement of Financial Position
as at 30 June 2019

		2019	2018	Original
			Restated	Budget
	Notes	\$'000	\$'000	\$'000
ASSETS				
Financial assets				
Cash and cash equivalents	3.1A	362	281	467
Trade and other receivables ⁵	3.1B	<u>21,012</u>	<u>21,486</u>	<u>17,191</u>
Total financial assets		<u>21,374</u>	<u>21,767</u>	<u>17,658</u>
Non-financial assets				
Leasehold Improvement	3.2A	1,390	1,586	1,500
Plant and equipment	3.2A	631	796	565
Computer software ⁶	3.2A	9,711	10,515	10,307
Prepayments	3.2B	<u>414</u>	<u>421</u>	<u>360</u>
Total non-financial assets		<u>12,146</u>	<u>13,318</u>	<u>12,732</u>
Total assets		<u>33,520</u>	<u>35,085</u>	<u>30,390</u>
LIABILITIES				
Payables				
Suppliers ⁷	3.3A	2,344	2,428	457
Other payables ⁸	3.3B	<u>189</u>	<u>123</u>	<u>1,015</u>
Total payables		<u>2,533</u>	<u>2,551</u>	<u>1,472</u>
Interest bearing liabilities				
Finance leases	3.4A	<u>2,009</u>	<u>2,376</u>	<u>2,009</u>
Total interest bearing liabilities		<u>2,009</u>	<u>2,376</u>	<u>2,009</u>
Provisions				
Employee provisions ⁹	6.1A	4,905	4,826	3,979
Other provisions	3.5A	<u>415</u>	<u>362</u>	<u>324</u>
Total provisions		<u>5,320</u>	<u>5,188</u>	<u>4,303</u>
Total liabilities		<u>9,862</u>	<u>10,115</u>	<u>7,784</u>
Net assets		<u>23,658</u>	<u>24,970</u>	<u>22,606</u>
EQUITY				
Contributed equity		37,301	36,283	37,511
Asset revaluation reserves		43	43	58
Accumulated deficit ¹⁰		<u>(13,686)</u>	<u>(11,356)</u>	<u>(14,963)</u>
Total equity		<u>23,658</u>	<u>24,970</u>	<u>22,606</u>

See Note 3.6 for further details regarding restatement of 2018 balances

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

The footnotes link to the budget variance commentary which follows the primary financial statement.

Australian Research Council
Statement of Changes in Equity
for the period ended 30 June 2019

	2019	2018	Original
	\$'000	Restated \$'000	Budget
	\$'000	\$'000	\$'000
CONTRIBUTED EQUITY			
Opening balance			
Balance carried forward from previous period	36,283	34,374	36,283
Transactions with owners			
Distributions to owners			
Returns of capital			
Returns of appropriation (see note 5.1B)	(210)	-	-
Contributions by owners			
Equity injection - Appropriations	-	674	-
Departmental capital budget	1,228	1,235	1,228
Total transactions with owners	1,018	1,909	1,228
Closing balance as at 30 June	37,301	36,283	37,511
RETAINED EARNINGS			
Opening balance			
Balance carried forward from previous period	(11,356)	(9,912)	(11,856)
Comprehensive income			
Surplus/(Deficit) for the period	(2,330)	(1,444)	(3,107)
Total comprehensive income	(2,330)	(1,444)	(3,107)
Closing balance as at 30 June	(13,686)	(11,356)	(14,963)
ASSET REVALUATION RESERVE			
Opening balance			
Balance carried forward from previous period	43	59	58
Asset Revaluation			
Change in the measurement of provision to make good	-	(16)	-
Closing balance as at 30 June	43	43	58
TOTAL EQUITY			
Opening balance			
Balance carried forward from previous period	24,970	24,521	24,485
Comprehensive income			
Surplus/(Deficit) for the period	(2,330)	(1,444)	(3,107)
Total comprehensive income	(2,330)	(1,444)	(3,107)
Asset Revaluation			
Change in the measurement of provision to make good	-	(16)	-
Total asset revaluation	-	(16)	-



Australian Research Council
Statement of Changes in Equity (Continued)
for the period ended 30 June 2019

	2019	2018	Original
		Restated	Budget
	\$'000	\$'000	\$'000
Transactions with owners			
Distributions to owners			
Returns of capital			
Returns of appropriation	(210)	-	-
Contributions by owners			
Equity injection - Appropriations	-	674	-
Departmental capital budget	1,228	1,235	1,228
Total transactions with owners	1,018	1,909	1,228
Closing balance as at 30 June	23,658	24,970	22,606

See Note 3.6 for further details regarding restatement of 2018 balances

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 2019

		2019	2018	Original Budget
	Notes	\$'000	\$'000	\$'000
OPERATING ACTIVITIES				
Cash received				
Appropriations ¹¹		20,757	20,125	23,649
Rendering of services ⁴		-	2,000	-
GST received		816	739	550
Other		75	40	-
Total cash received		21,648	22,904	24,199
Cash used				
Employees ¹		15,818	15,021	16,547
Suppliers ²		4,502	4,657	5,156
Borrowing costs		231	278	231
GST paid		678	757	550
Section 74 receipts transferred to OPA ⁴		-	2,006	-
Other		-	32	-
Total cash used		21,229	22,751	22,484
Net cash from/(used by) operating activities		419	153	1,715
INVESTING ACTIVITIES				
Cash used				
Purchase of property, plant and equipment		184	152	250
Purchase of intangibles ⁶		1,900	2,748	2,326
Total cash used		2,084	2,900	2,576
Net cash from/(used by) investing activities		(2,084)	(2,900)	(2,576)
FINANCING ACTIVITIES				
Cash received				
Contributed equity ¹²		2,114	2,900	1,228
Total cash received		2,114	2,900	1,228
Cash used				
Repayment of finance leases		368	339	367
Total cash used		368	339	367
Net cash from/(used by) financing activities		1,746	2,561	861
Net increase/(decrease) in cash held		81	(186)	-
Cash and cash equivalents at the beginning of the reporting period		281	467	467
Cash and cash equivalents at the end of the reporting period	3.1A	362	281	467

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

The footnotes link to the budget variance commentary which follows the primary financial statement.



Australian Research Council
Administered Schedule of Comprehensive Income
for the period ended 30 June 2019

		2019	2018	Original
	Notes	\$'000	\$'000	Budget
				\$'000
NET COST OF SERVICES				
Expenses				
Suppliers ¹	2.1A	6,997	3,191	7,620
Grants ²	2.1B	<u>700,099</u>	<u>688,073</u>	<u>766,450</u>
Total expenses		<u>707,096</u>	<u>691,264</u>	<u>774,070</u>
Income				
Revenue				
Non-taxation revenue				
Other Revenue ³	2.2A	<u>10,437</u>	<u>9,383</u>	<u>7,000</u>
Total non-taxation revenue		<u>10,437</u>	<u>9,383</u>	<u>7,000</u>
Total revenue		<u>10,437</u>	<u>9,383</u>	<u>7,000</u>
Net (cost of)/contribution by services		<u>(696,659)</u>	<u>(681,881)</u>	<u>(767,070)</u>
Surplus/(Deficit)		<u>(696,659)</u>	<u>(681,881)</u>	<u>(767,070)</u>
Total comprehensive loss		<u>(696,659)</u>	<u>(681,881)</u>	<u>(767,070)</u>

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

The footnotes link to the budget variance commentary which follows the primary financial statement.

Australian Research Council
Administered Schedule of Assets and Liabilities
as at 30 June 2019

	Notes	2019 \$'000	2018 \$'000	Original Budget \$'000
ASSETS				
Financial assets				
Trade and Other Receivables	4.1A	295	288	135
Total financial assets		295	288	135
Non-financial assets				
Prepayments ⁴	4.2A	417	707	12
Total non-financial assets		417	707	12
Total assets administered on behalf of Government		712	995	147
LIABILITIES				
Payables				
Grants ⁵	4.3A	181,401	239,058	308,898
Other Payables	4.3B	388	225	1,144
Total payables		181,789	239,283	310,042
Total liabilities administered on behalf of Government		181,789	239,283	310,042
Net assets/(liabilities)		(181,077)	(238,288)	(309,895)

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

The footnotes link to the budget variance commentary which follows the primary financial statement.



**Australian Research Council
Administered Reconciliation Schedule**

	Notes	2019 \$'000	2018 \$'000
Opening assets less liabilities as at 1 July		(238,288)	(309,895)
Net (cost of)/contribution by services			
Income		10,437	9,383
Expenses		(707,096)	(691,264)
Transfers (to)/from the Australian Government			
Appropriation transfers from OPA			
Annual appropriations	5.1A	13,069	4,967
Special appropriations (limited)	5.1C	753,351	758,030
Special accounts	5.2	4,718	-
Administered GST appropriations		1,020	1,582
Appropriation transfers to OPA			
Appropriations		(10,746)	(9,659)
Special accounts		(6,525)	-
Return of GST appropriations to OPA		(1,016)	(1,432)
Closing assets less liabilities as at 30 June		(181,077)	(238,288)

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

Accounting Policy

Administered Cash Transfers to and from the Official Public Account

Revenue collected by the entity for use by the Government rather than the entity is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of Government. These transfers to and from the OPA are adjustments to the administered cash held by the entity on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.



Australian Research Council
Administered Cash Flow Statement
for the period ended 30 June 2019

Notes	2019 \$'000	2018 \$'000
OPERATING ACTIVITIES		
Cash received		
GST received	1,016	1,432
Other ³	10,746	9,659
Total cash received	11,762	11,091
Cash used		
Grants ²	758,069	758,030
Suppliers ¹	6,544	4,107
GST paid	1,020	1,582
Other	-	860
Total cash used	765,633	764,579
Net cash from/(used by) operating activities	(753,871)	(753,488)
Cash from Official Public Account		
Appropriations	766,420	762,997
Special Accounts	4,718	-
Administered GST appropriations	1,020	1,582
Total cash from official public account	772,158	764,579
Cash to Official Public Account		
Appropriations	10,746	9,659
Special Accounts	6,525	-
Return of GST appropriation to OPA	1,016	1,432
Total cash to official public account	18,287	11,091
Cash and cash equivalents at the end of the reporting period	-	-

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

The footnotes link to the budget variance commentary which follows the primary financial statement.



Budget Variances

The following commentary provides a high-level commentary of major variances between the original budget as published in Education and Training's 2018-19 Portfolio Budget Statements (PBS) to the 2018-19 actuals. Note the Budget is not audited.

Departmental and Administered variances are considered to be major based on the following criteria:

- the variance between original budget and actual is greater than \$0.5 million and 10% of the line item; 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.

Explanation of major variances	Variance to Budget	Variance to Budget	Affected line items
	\$'000s	%	
Departmental			
1. Employee Benefits - Employee benefits were lower than budgeted mainly due to actual ASL coming in at 124 while budgeted ASL was 136. The actual ASL was less than budgeted because of staff movement and the time taken to refill vacancies. This underspend was offset by increases in Employee Provisions resulting from a decrease in the bond rate used to derive the provision.	-741	-4.5	Expenses – Employee Benefits <i>Consequential Impacts</i> <i>Liabilities - Employee provisions</i> <i>Cash Flow Statement - Employees</i>
2. Suppliers – The actual suppliers spend was less than budgeted across a wide variety of expense categories across the ARC and there are a number of factors across the ARC's Departmental expenditure that accumulates to the overall underspend. One such driver relates to Departmental underspends against budget relating to committee expenditure, consultants and travel, because the actual expenditure was less than budgeted or the contingency provision was not required.	-840	-16.1	Expenses – Suppliers <i>Consequential Impacts</i> <i>Cash Flow Statement - Suppliers</i>
3. Finance Costs – The provision for Make Good increased in 2018-19 due to increased estimated costs to restore the building and a reduction in the discount rates to derive the present value of Make Good.	53	22.9	Expenses – Finance Costs <i>Consequential Impacts</i> <i>Liability – Other Provisions</i>
4. Rendering of Services - The variance relates to the \$2 million received from the Department of Defence for the administration of the PFAS (Per- and Poly-Fluoroalkyl Substances) Remediation Research Program. During the 2018-19 budgeting process it was anticipated that the revenue would have been recognised over a four year period in line with the anticipated duration of the PFAS grants. However, in the 2017-18 financial statements the full \$2 million was recognised as income.	-500	-100	Revenue – Rendering of Services <i>Consequential Impacts</i> <i>Assets – Trade and Other Receivables</i> <i>Liabilities – Other Payables</i> <i>Cash Flow Statement – rendering of services</i> <i>Cash Flow Statement – section 74 receipts transferred to the OPA</i>

<p>5. Trade and other Receivables - The variance arose mainly due to the departmental budgets being prepared on the assumption that all operating and capital expenditure would be expensed within the financial year. As a result of prior year surplus, 2017-18, excluding depreciation, and delays in capital expenditure resulted in the budgeted appropriation receivable being understated by some \$4.3 million which consequently had a flow on impact to the 2018-19 budget because the opening budget balance was understated by that amount.</p>	3,821	22.2	Assets – Trade and Other Receivables
<p>6. Computer Software - Variance of \$0.6 million is caused by both a delay in expected software project expenditure of \$0.3 million and an acceleration in amortisation of the current intangible assets due to useful life re-estimates of \$0.3 million.</p>	-596	-5.8	Assets – Computer software <i>Consequential Impacts</i> <i>Cashflow – Purchase of Intangibles</i>
<p>7. Suppliers Payable - The variance relates to the correction made to the ARC's accounting treatment of operational leases. See note 3.6 for additional detail.</p>	1,887	412.9	Liabilities – Suppliers Payable Consequential Impacts Expenses - Suppliers
<p>8. Other Payables - The variance relates to the \$2 million received from the Department of Defence for the administration of the PFAS (Per- and Poly-Fluoroalkyl Substances) Remediation Research Program. During the 2018-19 budgeting process it was anticipated that the revenue would have been recognised over the same four year period as the PFAS grants required administration, with the excess received recognised as unearned income in the Statement of Financial Position. However, in the 2017-18 financial statements the full \$2 million was recognised as income.</p>	-826	-81.4	Liabilities – Other Payables <i>Consequential Impacts</i> <i>Revenue – Rendering of Services</i> <i>Cash Flow Statement - Rendering of Services</i>
<p>9. Employee Provisions - The employee provisions were higher than budgeted because the original budgeted employee provisions did not account for APS staff transferring into ARC with substantial leave balances. The provision also increased in 2018-19 due to a decrease in the bond rate used to value the provision.</p>	926	23.3	Liabilities – Employee Provisions <i>Consequential Impacts</i> <i>Statement of Comprehensive Income – Expenses – Employee Benefits</i>
<p>10. Retained Earnings/Comprehensive Income - Note the budgeted opening position for retained earnings was overstated, \$0.5 million, as the budget was prepared before the 2017-18 results were known. The remainder of the variance \$0.8 million relates to operating result for 2018-19, please see variance explanations relating to the Statement of Comprehensive Income.</p>	1,277	8.5	Equity – Accumulated Deficit



<p>11. Appropriations – Cash drawdown of Appropriation is \$0.7 million less due to underspend in employees and \$0.7 million less due to underspend in suppliers. The remaining \$1.5 million variance arose due to the departmental budgets being prepared prior to the finalisation of the 2017-18 financial statements. As such the budget was not able to factor the change in recognition that the full amount received from Department of Defence for PFAS was recognised in 2017-18.</p>	-2,892	-12.2	Cash received - Appropriations
<p>12. Contributed equity – Higher due to the use of prior year capital appropriation.</p>	886	72.1	Cash received – Contributed equity



Explanation of major variances	Variance to Budget \$'000s	Variance to Budget %	Affected line items
Administered			
<p>1. Suppliers - supplier expenditure was less than budgeted due to several factors. There were savings against budget relating to committee expenditure for the National Competitive Grants Program (NCGP) peer review processes and committee costs associated with Program 1.3 - Excellence in Research for Australia. There was also funding set aside for consultants and other supplier costs that were not required in 2018-19. Lastly, the review of the Australian and New Zealand Standard Research Classifications was recognised as a prepayment as opposed to an expense.</p>	-623	-8.2	Expenses – Suppliers <i>Consequential Impacts Cash Flow Statement - Suppliers</i>
<p>2. Grants - Grant expenses and the movement of grant liabilities are budgeted to match the appropriations and cash expenditure for the financial year. This has historically been used as the best estimate of expenses to be recognised in each financial year. However, the majority of grant expenses and liabilities are recognised at the beginning of each calendar year and represents the commitment for the year consistent with the reporting periods of the education sector. Therefore the grant expense and initial liability recognised in the 2018-19 financial year is mainly for payments to be made over the 2019 calendar year. This differs from appropriations and cash expenditure which are both reported as they occur. There has also been underspends against budget because the announcement of some schemes were budgeted to commence in 2018-19 but have been held over to 2019-20, the Linkage Projects spending less than budgeted and it is a financial year in which there are only 2 active Centres of Excellence rounds as opposed to 3. This creates a short term availability of funds which could not be allocated as most of the ARC grants are over multiple years.</p>	-66,351	-8.7	Expenses – Grants <i>Consequential Impacts Payables - Grants</i>
<p>3. Other Revenue - Other revenue arose from the recovery of prior year unspent grant payments returned by the research sector. Under the ARC Act, grant recipients are required to return unspent grant money to the ARC unless otherwise approved. The amount of returns is not predictable as it is contingent on activities in the research sector and as a result it is difficult to derive a reliable budget amount but the amount returned is not material in relation to the amount of grants provided.</p>	3,437	49.1	Revenue – Other Revenue <i>Consequential Impacts Cash Flow Statement - Cash to the OPA</i>
<p>4. Prepayments - The variance mainly relates to \$0.6 million prepayment relating to the review of the Australian and New Zealand Standard Research Classification (ANZSRC). Information was not available when 2018-19 budget was derived and therefore was not included in the budget estimate.</p>	405	3,375.0	Assets – Prepayments <i>Consequential Impacts Expenses - Suppliers</i>
<p>5. Grants Payable - Variance due to movements in the grant liability in 2017-18 subsequent to preparation of the 2018-19 budget, which impacted the budgeted opening liability balance by \$70 million. The remainder of the variance is linked to the grant expense variation explanation provided above.</p>	-127,497	-41.3	Liability – Grants Payable

Note negative numbers indicate that the actual is less than budget.

Overview

Objectives of the Entity

The ARC is an Australian Government controlled entity. It is a not-for-profit entity.

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

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* (PGPA).

The financial statements have been prepared in accordance with:

- a) *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR); and
- b) Australian Accounting Standards and Interpretations – Reduced Disclosure Requirements 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

All new and revised standards and/or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect on the entity'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, 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.



Departmental Financial Performance

This section analyses the financial performance of the ARC for the year ended 2019.

1.1 Expenses

	2019	2018
	\$'000	\$'000
<u>1.1A: Employee Benefits</u>		
Wages and salaries	11,516	11,237
Superannuation		
Defined contribution plans ¹	1,414	1,367
Defined benefit plans ²	943	893
Leave and other entitlements	1,494	1,925
Separation and redundancies	83	52
Other employee benefits	362	408
Total employee benefits	15,812	15,882

1. Includes the Public Sector Superannuation Accumulation Plan (PSSap) and other choice of fund.

2. Includes the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme

Accounting Policy

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



1.1 Expenses (continued)

	2019	2018
		Restated
	\$'000	\$'000
1.1B: Suppliers		
Goods and services supplied or rendered		
Consultants	633	1,392
Contractors	622	511
Travel	207	186
IT services	433	488
Other ¹	774	588
Total goods and services supplied or rendered	2,669	3,165
Goods supplied	696	752
Services rendered	1,973	2,413
Total goods and services supplied or rendered	2,669	3,165
1. Other includes media monitors, subscriptions, printing, photocopier, telephone costs, staff training, staff study assistance costs, recruitment charges, office consumables and stationery, hire of equipment and Comcover premium payments.		
Other suppliers		
Operating lease rentals	1,574	1,577
Workers compensation expenses	133	147
Total other suppliers	1,707	1,724
Total suppliers	4,376	4,888

See Note 3.6 for further details regarding restatement of 2018 balances

Leasing commitments

In 2018-19, 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 2018.

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	1,686	1,638
Between 1 to 5 years	7,462	7,166
More than 5 years	2,589	2,483
Total operating lease commitments²	11,736	11,287

2. The amount listed above is the GST exclusive amount. The GST inclusive amount is \$12,909,654 (2017-18: \$12,415,729)



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 laptops and storage 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)

	2019	2018
	\$'000	\$'000
1.1C: Finance Costs		
Finance leases	231	264
Unwinding of discount	9	8
Revaluation of make-good	44	14
Total finance costs	284	286

Accounting Policy

All borrowing costs are expensed as incurred.



1.2 Own-Source Revenue and gains

	2019	2018
	\$'000	\$'000

Own-Source Revenue

1.2A: Sale of Goods and Rendering of Services

Rendering of services ¹	-	2,000
Total sale of goods and rendering of services	-	2,000

1. Retained revenue receipts under section 74 of the PGPA Act for PFAS (Per- And Poly-Fluoroalkyl Substances) Remediation Research Program. The costs to administer PFAS are expected to extend over four years from 2017-18.

1.2B: Revenue from Government

Appropriations

Departmental appropriations	21,440	21,186
Total revenue from Government	21,440	21,186

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

This section analyses the activities that ARC does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

2.1 Administered - Expenses

	2019 \$'000	2018 \$'000
2.1A: Suppliers		
Goods and services supplied or rendered		
Consultants	4,157	1,632
Contractors	945	759
Travel	922	572
IT services	-	11
Other	973	217
Total goods and services supplied or rendered	6,997	3,191
Goods supplied	253	63
Services rendered	6,744	3,128
Total goods and services supplied or rendered	6,997	3,191
2.1B: Grants		
Public sector		
Australian Government entities (related parties)	-	-
State and Territory Governments	636,525	620,190
Commonwealth educational institutions (related parties)	62,908	59,339
Private sector		
Other research organisations	666	8,544
Total grants	700,099	688,073

Accounting Policy

The ARC administers a number of grant schemes on behalf of the Government. Grant liabilities are recognised to the extent that the grant liability 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 ARC Act but services have not been performed or criteria satisfied, this is considered a commitment.



2.2 Administered - Income

	2019	2018
	\$'000	\$'000
Revenue		
Non-Taxation Revenue		
<u>2.2A: Administered Other Revenue</u>		
Recovery of prior year unspent grant payments	10,437	9,383
Total administered other revenue	10,437	9,383

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. The ARC oversees distribution or expenditure of the funds as directed.

Other revenue relate to the prior year unspent grant payments. Under the ARC Act, grant recipients are required to return unspent grant money to the ARC unless otherwise approved.

Other revenue are recognised when unspent grant money is identified during the grant acquittal process.

Departmental Financial Position

This section analyses the ARC's assets used to conduct its operations and the operating liabilities incurred as a result. Employee related information is disclosed in the People and Relationships section.

3.1 Financial Assets

	2019	2018
	\$'000	\$'000

3.1A: Cash and Cash Equivalents

Cash on hand or on deposit	362	281
Total cash and cash equivalents	362	281

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	27
Other	9	9
Total goods and services receivables	44	36

Appropriations receivables

Appropriation receivable	20,968	21,380
Total appropriations receivables	20,968	21,380

Other receivables

GST receivable from the Australian Taxation Office	-	70
Total other receivables	-	70
Total trade and other receivables (net)	21,012	21,486

Receivables for goods and services, which have 30 days terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at the end of the 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.

The Appropriation Receivable balance represents the amount of undrawn appropriation available to the ARC.



3.2 Non-Financial Assets

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

	Leasehold Improvement ¹	Plant and equipment	Computer Software ²	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2018				
Gross book value	2,934	1,649	26,227	30,810
Accumulated depreciation, amortisation and impairment	(1,348)	(853)	(15,712)	(17,913)
Total as at 1 July 2018	1,586	796	10,515	12,897
Additions				
Purchase	34	150	53	237
Internally developed	-	-	1,957	1,957
Depreciation and amortisation	(229)	(313)	(2,807)	(3,349)
Disposals				
Other (gross book value)	(2)	(41)	(412)	(455)
Other (accumulated depreciation)	1	39	405	445
Total as at 30 June 2019	1,390	631	9,711	11,732
Total as at 30 June 2019 represented by				
Gross book value	2,966	1,758	27,825	32,549
Accumulated depreciation, amortisation and impairment	(1,576)	(1,127)	(18,114)	(20,817)
Total as at 30 June 2019 represented by	1,390	631	9,711	11,732

1. The carrying amount of \$1,389,892 (2017-18: \$1,585,613) of total leasehold improvements refers to the ARC's office premises fitout.

2. The carrying amount of computer software included \$60,457 of purchased software and \$9,650,524 of internally generated software.

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.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note 7.4. On 30 June 2019 an independent valuer conducted a revaluation. The result of the valuation was a 1% variance between carrying amount and fair value in fixed assets, due to this being immaterial the asset values have not been revised.

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

Contractual commitments for IT systems under development are predominately for ICT contractors. The GST inclusive amount is \$1,774,868 (2017-18: \$1,928,251). The GST exclusive amount is \$1,613,516 (2017-18: \$1,752,955).



Australian Research Council

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 buildings, 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 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, buildings, 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 depended upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is 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 restated to the revalued amount.

Depreciation

Depreciable leasehold improvements, 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:

	2019	2018
Buildings	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 2019. 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 ARC were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

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

Computer Software

The ARC's computer software 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. ARC has a capitalisation threshold of \$50,000 for the internally developed software.

Computer 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 (2018: 2 to 10 years).

All software assets were assessed for indications of impairment as at 30 June 2019.

3.2 Non-Financial Assets (continued)

	2019	2018
	\$'000	\$'000
3.2B: Other Non-Financial Assets		
Prepayments	414	421
Total other non-financial assets	414	421

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



3.3 Payables

	2019	2018
		Restated
	\$'000	\$'000
<u>3.3A: Suppliers</u>		
Trade creditors and accruals	536	593
Operating lease rentals	1,808	1,835
Total suppliers	2,344	2,428

Settlement was usually made within 30 days

3.3B: Other Payables

Salaries and wages	101	104
Superannuation	17	18
Separations and redundancies	2	1
GST Payable to the Australian Taxation Office	69	-
Total other payables	189	123

See Note 3.6 for further details regarding restatement of 2018 balances



3.4 Interest Bearing Liabilities

	2019	2018
	\$'000	\$'000
3.4A: Leases		
Finance Leases	2,009	2,376
Total leases	2,009	2,376
Minimum lease payments expected to be settled		
Within 1 year	348	368
Between 1 to 5 years	1,198	1,218
More than 5 years	463	790
Total leases	2,009	2,376

In 2019, Finance leases existed in relation to the ARC's office premises fitout (since September 2010), laptops and storage 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% (2017-18: 11%). The lease assets secure the lease liabilities. The ARC guarantees the residual values of all assets leased.

The interest rate implicit in the lease for laptops is 5.20% and the lease will end in December 2020. The interest rate implicit in the lease for storage hardware is 5.94% and the lease will end in April 2021. Remaining repayments for laptops and storage hardware leases are \$210,812 in total and will be paid by instalments.

Accounting Policy

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease.

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

	2019	2018
	\$'000	\$'000
3.5A: Other Provisions		
	Provision for make good	
	\$'000	\$'000
As at 1 July 2018	362	324
Unwinding of discount	9	8
Change in discount rate and estimated costs to restore building	44	30
Total as at 30 June 2019	415	362
Other provisions expected to be settled		
More than 12 months	415	362
Total other provisions	415	362

The ARC currently has one (2018: 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.



3.6 Restatement of Prior Period Disclosure

During 2018-19 it was identified that the ARC's accommodation operation lease had a fixed increase component over the life of the lease (15 years). Since the commencement of the lease, the ARC has reflected all expenses relating to all components of the lease as per the amount paid during the period. This is in contrast to the standard, AASB 117 Leases, which requires the expense to be recognised on a straight line basis. As a result, the ARC has restated a number of prior year disclosures under the requirements of AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors as per the table below.

Financial Statements Line Item	2018 \$'000 (original)	Adjustment \$'000	2018 \$'000 (Restated)
2017-18 Departmental Statement of Financial Position			
Operating Lease Rentals	-	1,835	1,835
Total Suppliers	593	1,835	2,428
Total Payables	716	1,835	2,551
Total Liabilities	8,280	1,835	10,115
Net assets	26,805	(1,835)	24,970
Accumulated deficit	(9,521)	(1,835)	(11,356)
Net assets/Total Equity	26,805	(1,835)	24,970
2017-18 Departmental Statement of Comprehensive Income			
Operating Lease Rentals	1,539	38	1,577
Supplier Expenses	4,850	38	4,888
Total Expenses	24,652	38	24,690
Deficit on Continuing operations	(1,406)	(38)	(1,444)
Total Comprehensive loss	(1,422)	(38)	(1,460)
2017-18 Departmental Statement of Changes to Equity			
Retained Earnings - Opening Accumulated deficit	(8,115)	(1,797)	(9,912)
Surplus/(Deficit) for the period	(1,406)	(38)	(1,444)
Retained Earnings - Closing Accumulated deficit	(9,521)	(1,835)	(11,356)

Assets and Liabilities Administered on Behalf of the Government

This section analyses assets used to conduct operations and the operating liabilities incurred as a result the ARC does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

4.1 Administered - Financial Assets

	2019	2018
	\$'000	\$'000
4.1A: Trade and Other Receivables		
GST receivable from Australian Taxation Office	295	288
Total goods and services receivables	295	288

Credit terms for goods and services were within 30 days (2018: 30 days).
All receivables are current assets and not overdue.

4.2 Administered - Non-Financial Assets

	2019	2018
	\$'000	\$'000
4.2A: Other Non-Financial Assets		
Prepayments	417	707
Total other non-financial assets	417	707

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



4.3 Administered - Payables

	2019	2018
	\$'000	\$'000

4.3A: Grants

Public Sector		
State and Territory Governments	165,289	218,209
Commonwealth educational institutions (related entities)	16,112	20,616
Private Sector		
Other research organisations	-	233
Total grants	181,401	239,058

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 ¹	388	225
Total other payables	388	225

1. Other payables mainly include accruals for the program assessment fees and committee member sitting fees.

Funding

This section identifies the ARC's funding structure.

5.1 Appropriations

5.1A: Annual Appropriations [Recoverable GST exclusive]

Annual Appropriations for 2019

	Annual Appropriation ¹ \$'000	Adjustments to appropriation \$'000	Total appropriation \$'000	Appropriation applied in 2019 (current and prior years) \$'000	Variance ² \$'000
Departmental					
Ordinary annual services	21,440	-	21,440	20,676	764
Capital Budget ³	1,228	-	1,228	350	878
Other services					
Equity Injections	-	-	-	1,764	(1,764)
Total departmental	22,668	-	22,668	22,790	(122)
Administered					
Ordinary annual services Administered items	14,145	-	14,145	13,069	1,076
Total administered	14,145	-	14,145	13,069	1,076

1. In 2018-19, there was \$2.472 million Administered Funding held in Section 51.

2. Equity Injection applied in 2018-19 was greater than the Equity Injection Appropriation. This was because prior year funding was drawn to continue developing capital projects approved in previous financial years.

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 2018					
	Annual Appropriation ¹ \$'000	Adjustments to appropriation ² \$'000	Total appropriation \$'000	Appropriation applied in 2018 \$'000	Variance ³ \$'000
Departmental					
Ordinary annual services	21,186	2,006	23,192	20,310	2,882
Capital Budget ⁴	1,235	-	1,235	566	669
Other services					
Equity Injections	674	-	674	2,334	(1,660)
Total departmental	23,095	2,006	25,101	23,210	1,891
Administered					
Ordinary annual services	6,521	-	6,521	4,967	1,554
Administered items					
Total administered	6,521	-	6,521	4,967	1,554

1. In 2017-18, there is a movement of administered funds of \$2.808 million from 2016-17 to 2017-18 (\$1.01 million) and 2018-19 (\$1.798 million).

2. Retained revenue receipts under Section 74 of the PGPA Act for PFAS (Per-And Poly-Fluoroalkyl Substances) Remediation Research Program. The costs to administer PFAS are expected to extend over four years from 2017-18.

3. Equity injections appropriations applied in 2017-18 was more than the appropriation received mainly due to implementation of budget measure Impact and Engagement in University Research which was appropriated in 2016-17.

4. 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')

	2019 \$'000	2018 \$'000
Departmental		
<i>Appropriation Act 1 (2016-17)</i> ¹	210	370
<i>Supply Act 1 (2016-17)</i>	-	65
<i>Appropriation Act 2 (2016-17)</i>	-	935
<i>Supply Act 2 (2016-17)</i>	-	211
<i>Appropriation Act 1 (2017-18)</i>	3,244	19,126
<i>Appropriation Act 2 (2017-18)</i>	56	674
<i>Appropriation Act 1 (2018-19)</i>	17,668	-
<i>Appropriation Act 2 (2018-19)</i>	-	-
Total departmental ²	21,178	21,380
Administered		
<i>Appropriation Act 1 (2016-17)</i> ³	108	108
<i>Supply Act 1 (2016-17)</i>	9	9
<i>Appropriation Act 1 (2017-18)</i>	-	1,687
<i>Appropriation Act 3 (2017-18)</i>	-	1,010
<i>Appropriation Act 1 (2018-19)</i>	1,302	-
Total administered	1,419	2,814

1. \$0.210 million of Departmental 2016-17 annual appropriations lapsed as at 1 July 2019. The amount was legally available as at 30 June 2019, but has been removed from the Appropriations Receivable balance as at 30 June 2019.

2. In addition to the amounts listed above, the ARC held \$0.362 million cash as at 30 June 2019 (2017-18: \$0.281 million)

3. \$0.117 million of Administered 2016-17 annual appropriations lapsed as at 1 July 2019. The amount was legally available as at 30 June 2019.



5.1 Appropriations (continued)

5.1C: Special Appropriations ('Recoverable GST exclusive')

Authority	Appropriation applied	
	2019 \$'000	2018 \$'000
<i>Australian Research Council Act 2001</i> s.49, Administered, limit \$759,925,000 for the current reporting period, remaining appropriation lapsed on 30 June 2019.	753,351	758,030
Total special appropriations applied	753,351	758,030



5.2 Special Accounts

ARC Research Endowment Account (Administered) ¹	2019 \$'000	2018 \$'000
Balance brought forward from previous period	-	-
Increases		
Appropriation credited to special account	6,525	-
Available for payments	6,525	-
Decreases		
Payments made to research organisations	4,718	-
Total balance carried to the next period	1,807	-
Balance represented by:		
Cash held in the Official Public Account	1,807	-
Total balance carried to the next period	1,807	-

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

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

Purpose: The purpose of this special account is to provide financial assistance to organisation for eligible research programs.



5.3 Net Cash Appropriation Arrangements

	2019	2018
	\$'000	restated \$'000
Total comprehensive income/(loss) less depreciation/amortisation expenses previously funded through revenue appropriations	1,019	2,187
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	<u>(3,349)</u>	<u>(3,631)</u>
Total comprehensive income/(loss) - as per the Statement of Comprehensive Income	<u>(2,330)</u>	<u>(1,444)</u>

See Note 3.6 for further details regarding restatement of 2018 balances.

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.

People and relationships

This section describes a range of employment and post employment benefits provided to our people and our relationships with other key people.

6.1 Employee Provisions

	2019	2018
	\$'000	\$'000
6.1A: Employee Provisions		
Leave	4,905	4,826
Total employee provisions	4,905	4,826



Accounting policy

Liabilities for 'short-term employee benefits and termination benefits expected within twelve months of the end of 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 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 entity'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 2019. 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 2019 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), or other superannuation funds held outside the Australian Government.

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 in the Department of Finance's administered schedules and notes.

The ARC makes employer contributions to the employees' defined benefit superannuation scheme 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 plans.

The liability for superannuation recognised as at 30 June 2019 represents outstanding contributions.

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 Key Management Personnel Remuneration

	2019 \$'000	2018 \$'000
Short-term employee benefits		
Salary	1,177	1,237
Motor vehicle and other allowances	106	115
Annual leave	105	103
Total short-term employee benefits	1,388	1,455
Post-employment benefits		
Superannuation	222	230
Total short-term employee benefits	222	230
Other long-term employee benefits		
Long-service leave	68	49
Total other long-term employee benefits	68	49
Total key management personnel remuneration expenses¹	1,678	1,734

The total number of key management personnel (KMP) that are included in the above table are six individuals (2017-18: six individuals).

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. In 2018-19, there are six individuals are considered KMP in the ARC that include Chief Executive Officer (CEO), Executive General Manager (EGM) and Branch Managers.

The above key management personnel remuneration excludes the remuneration and other benefits of the Portfolio Minister. The Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by the ARC.



6.3 Related Party Disclosures

Related party relationships:

The ARC is an Australian Government controlled entity. Related parties to the ARC are KMP and the Portfolio Minister and Executives, and other Australian Government entities.

Transactions with related parties:

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions have not been separately disclosed in this note.

In 2018-19, no Grants were to KMP or their related parties under AASB 124 Related Party Disclosures.

The following transactions with related parties occurred during the financial year:

The ARC transacts with other Australian Government controlled entities consistent with normal day-to-day business operations provided under normal terms and conditions, including the payment of workers compensation, insurance premiums and the payment of superannuation to the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), and the PSS accumulation plan (PSSap). These are not considered individually significant to warrant separate disclosure as related party transactions.

Grants paid and grants owing to other Australian Government controlled entities are disclosed under Notes 2.1B and 4.3A.



Managing uncertainties

This section analyses how the ARC manages financial risks within its operating environment.

7.1 Contingent Assets and Liabilities

There were no Departmental and Administered contingent assets and liabilities in 2018-19 for the ARC (2017-18: 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

	2019	2018
	\$'000	Restated \$'000
7.2A: Categories of Financial Instruments		
Financial Assets under AASB 139		
Loans and receivables		
Cash and cash equivalents		281
Goods and services receivables		36
Total loans and receivables		317
Financial Assets under AASB 9		
Financial assets at amortised cost		
Cash and cash equivalents	362	
Goods and services receivables	44	
Total financial assets at amortised cost	406	
Total financial assets	406	317
Financial Liabilities		
Financial liabilities measured at amortised cost		
Suppliers	2,344	2,428
Other payables	189	123
Finance leases	2,009	2,376
Total financial liabilities measured at amortised cost	4,542	4,927
Total financial liabilities	4,542	4,927

See Note 3.6 for further details regarding restatement of 2018 balances.



Classification of financial assets on the date of initial application of AASB 9.

Financial assets class	Note	AASB 139 original classification	AASB 9 new classification	AASB 139 carrying amount at 1 July 2018 \$'000	AASB 9 carrying amount at 1 July 2018 \$'000
Cash and cash equivalents	3.1A	Loans and receivables	Amortised Cost	281	281
Goods and services receivables	3.1B	Loans and receivables	Amortised Cost	36	36
Total financial assets				317	317

Reconciliation of carrying amounts of financial assets on the date of initial application of AASB 9.

	AASB 139 carrying amount at 30 June 2018 \$'000	Reclassification \$'000	Remeasurement \$'000	AASB 9 carrying amount at 1 July 2018 \$'000
Financial assets at amortised cost				
Loans and receivables				
Cash and cash equivalents	281			281
Goods and services receivables	36	-	-	36
Total amortised cost	317	-	-	317

1. The change in carrying amount of loans and receivables based on measurement under AASB 139 is \$0. The change in measurement on transition to AASB 9 is \$0.



Accounting Policy

Financial assets

With the implementation of AASB 9 *Financial Instruments* for the first time in 2019, the ARC classifies its financial assets in the following categories:

- a) financial assets at fair value through profit or loss;
- b) financial assets at fair value through other comprehensive income; and
- c) financial assets measured at amortised cost.

The classification depends on both the ARC's business model for managing the financial assets and contractual cash flow characteristics at the time of initial recognition. Financial assets are recognised when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash and derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred upon trade date.

Comparatives have not been restated on initial application.

Financial Assets at Amortised Cost

Financial assets included in this category need to meet two criteria:

1. the financial asset is held in order to collect the contractual cash flows; and
2. the cash flows are solely payments of principal and interest (SPPI) on the principal outstanding amount.

Amortised cost is determined using the effective interest method.

Effective Interest Method

Income is recognised on an effective interest rate basis for financial assets that are recognised at amortised cost.

Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

Financial assets measured at fair value through other comprehensive income are held with the objective of both collecting contractual cash flows and selling the financial assets and the cash flows meet the SPPI test.

Any gains or losses as a result of fair value measurement or the recognition of an impairment loss allowance is recognised in other comprehensive income.

Financial Assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets are classified as financial assets at fair

value through profit or loss where the financial assets either doesn't meet the criteria of financial assets held at amortised cost or at FVOCI (i.e. mandatorily held at FVTPL) or may be designated.

Financial assets at FVTPL 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 based on Expected Credit Losses, using the general approach which measures the loss allowance based on an amount equal to *lifetime expected credit losses* where risk has significantly increased, or an amount equal to *12-month expected credit losses* if risk has not increased.

The simplified approach for trade, contract and lease receivables is used. This approach always measures the loss allowance as the amount equal to the lifetime expected credit losses.

A write-off constitutes a derecognition event where the write-off directly reduces the gross carrying amount of the financial asset.

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.

Financial Liabilities at Amortised Cost

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

Supplier and other payables are recognised at amortised cost. 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)

	2019	2018
	\$'000	\$'000

7.2B: Net Gains or Losses on Financial Liabilities

Financial liabilities measured at amortised cost

Interest expense	284	286
Net gains/(losses) on financial liabilities measured at amortised cost	284	286
Net losses from financial liabilities	284	286

The interest expense from financial liabilities not at fair value through profit or loss is \$284,288 (2018: \$285,743).



7.3 Administered - Financial Instruments

	2019	2018
	\$'000	\$'000
7.3A: Categories of Financial Instruments		
Financial Assets under AASB 139		
Loans and receivables		
Goods and services receivable		288
Total loans and receivables		288
Financial Assets under AASB 9		
Financial assets at amortised cost		
Goods and services receivable	296	
Total financial assets at amortised cost	296	
Total financial assets	296	288
Financial Liabilities		
Financial liabilities measured at amortised cost		
Grants	181,401	239,058
Other payables	388	225
Total financial liabilities measured at amortised cost	181,789	239,283
Total financial liabilities	181,789	239,283

Classification of financial assets on the date of initial application of AASB 9.

Financial assets class	Note	AASB 139 original classification	AASB 9 new classification	AASB 139 carrying amount at 1 July 2018 \$'000	AASB 9 carrying amount at 1 July 2018 \$'000
Goods and services receivable	4.1A	Loans and receivables	Amortised Cost	288	288
Total financial assets				288	288

Reconciliation of carrying amounts of financial assets on the date of initial application of AASB 9.

	AASB 139 carrying amount at 30 June 2018 \$'000	Reclassification \$'000	Remeasurement \$'000	AASB 9 carrying amount at 1 July 2018 \$'000
Financial assets at amortised cost				
Loans and receivables				
Goods and services receivable	288	-	-	288
Total amortised cost	288	-	-	288

1. The change in carrying amount of loans and receivables based on measurement under AASB 139 is \$0. The change in measurement on transition to AASB 9 is \$0.



7.4 Fair Value Measurement

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 is subject to 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 valuation 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	
	2019 \$'000	2018 \$'000
Non-financial assets¹		
Buildings	1,390	1,586
Plant and equipment ²	429	405
Total non-financial assets	1,819	1,991

1. The ARC did not measure any non-financial assets (NFAs) at fair value on a non-recurring basis as at 30 June 2019.

The remaining assets and liabilities reported by the ARC are not measured at fair value in the Statement of Financial Position.

2. Finance leases carrying amount totalling of \$202,500 (2017-18: \$391,384) included in the asset register for Plant and equipment have been excluded from the above table.



Other information

8.1 Aggregate Assets and Liabilities

8.1A: Aggregate Assets and Liabilities

	2019	2018
	\$'000	restated \$'000
Assets expected to be recovered in:		
No more than 12 months	21,788	22,188
More than 12 months	11,732	12,897
Total assets	33,520	35,085
Liabilities expected to be settled in:		
No more than 12 months	5,532	5,301
More than 12 months	4,330	4,814
Total liabilities	9,862	10,115

See Note 3.6 for further details regarding restatement of 2018 balances.

8.1B: Administered - Aggregate Assets and Liabilities

	2019	2018
	\$'000	\$'000
Assets expected to be recovered in:		
No more than 12 months	712	995
More than 12 months	-	-
Total assets	712	995
Liabilities expected to be settled in:		
No more than 12 months	181,789	239,283
More than 12 months	-	-
Total liabilities	181,789	239,283

