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30 November 2009

Mr Kevin Stevenson
Chair - Australian Accounting Standards Board
PO Box 204
Collins St West VIC 8007

Dear Sir,

AASB ED 180 *Income from Non-Exchange Transactions (Taxes and Transfers)*

The Bionic Ear Institute (the Institute) fully supports the Board's attempt to review the applicability of AASB 1004, and address the issue of the recognition of income in not-for-profits, and specifically those that may be considered non-exchange transactions.

The Bionic Ear Institute is a medical research institute which relies extensively on grants from both government and private trusts and foundations. For too long AASB 1004 has been a significant hindrance for not-for-profits (NPF) such as the Institute whose main income is government or philanthropic grants. This will be explained in the attached document as it is our opinion that ED 180 on which you require comment does not overcome the issues facing NFP under AASB 1004.

The Bionic Ear Institute feels very strongly about this point, and has chosen to draw the attention of users of its general purpose financial report to this fact. A copy of which has been attached for the Board's review. (We refer the reader to the comments under the directors' report, revenue accounting policy and note 24 to the financial statements). This step was taken as the board of directors of the Institute found it difficult to sign off its declaration about the fairness of the financial statements and its compliance with accounting standards without drawing the users' attention to this point.

In the attached document we attempt only to address the issues which are applicable to the Institute and similar organisations. The document comments on the deficiencies of the existing Australian Accounting Standard AASB 1004, and whether ED 180 adequately addresses these shortcomings from the point of view of the Institute.
In our opinion the concerns with regard to the current standard AASB 1004 would be better addressed by simply repealing AASB 1004 on Contributions and expanding the scope of AASB 120 Accounting for Government Grants and Disclosure of Government Assistance to the NFP sector and requiring all entities to apply AASB 118 Revenue to all other transactions.

We appreciate the opportunity to contribute to the standard setting process and trust that our comments will receive due consideration from the Board.

Yours Sincerely,

Peter Gover

Chief Financial Officer

The Bionic Ear Institute

Comment on deficiencies of the existing Australian Accounting Standard - AASB 1004 and whether this has been adequately addressed in ED 180.

We believe that the Australian Accounting Standards Board (AASB) is aware that AASB 1004 has significant shortcomings. Nevertheless we believe that before we can comment specifically on ED 180 it is appropriate that we first point out the key problems we as a not-for-profit (NFP) medical research institute (MRI) have with AASB 1004. Unless these are overcome in any amended standard our situation remains the same.

(a) The nature of transfers received and conditions attached

A significant portion of the Institute's income is in the form of grants from both government and private philanthropic sources. These normally arise from applications the Institute submits to these granting bodies for funding for specific research projects. If the Institute is successful, these funds are normally granted with some conditions attached. Examples of these conditions are:

- The money is used specifically for the research for which the application is made. In most cases this is linked to a specific research investigator. (The institute has had cases where an investigator has left the employment of the Institute and the unspent funds have followed him to his new employer).
- The Institute must submit a financial acquittal of how the money has been spent. Any unspent funds are in terms of grant agreements carried over to the following reporting period. This requires an accounting system which can satisfy both the requirements of AASB 1004 which does not advocate the deferral of income in these cases, and the specific needs of the granting bodies.
- Few private granting bodies stipulate that any unspent funds at the end of the term of the research are repaid. The reason why they do not have this condition in their grant agreement is that this may cause certain tax problems for the transferor. This is explained later in this document.

While ED 180 introduces the concept of *conditions* of transferred assets, it links this to the return of future economic benefits to the transferor in the event that the conditions are breached. The Institute is concerned that too much emphasis is placed on this return obligation in ED180 which does not overcome the problem of upfront recognition of income experienced by most NFP entities.

(b) Implications of upfront recognition of Income

The up-front recognition as revenue of contributions received advocated by the current standard poses a number of problems for NFPs like the Institute. As explained above NPF have legal, contractual or in-substance performance obligations attached to certain transferred assets. This is not considered under AASB 1004, and this presents a view of the financial position of the organisation that is misleading and in turn may result in poor or imprudent management decision-making. The issue of matching income to expenses advocated under AASB 118 is fundamental to the financial control of both government and philanthropic grants which have performance conditions and obligations attached to them. This, in our opinion is not given sufficient attention in ED180.

Conditions on grant income always require the outlay of resources by the NFP. Too often the receipt of the grant and this outlay of resources occur in different accounting period creating confusion about the true financial performance of the entity under the existing standard AASB 1004. Some unsophisticated users may even assume that the NFP does not need funding in cases where this treatment gives rise to large surpluses, or worse still is mismanaging its funds when a deficit arises. Even the sophisticated user who assumes that "equity is the residual interest in the assets of the entity after deducting all its liabilities"[1] may be surprised to know that as much as a third of the Bionic Ear Institute's "equity" represents funds for which its management have little discretion as these have conditions imposed upon them.

The Institute does not agree that the principle contained in ED 180 that only a *condition* as characterised in paragraph 18 should lead to deferral of revenue. We reject the concept that a condition needs to have a return obligation[2] in order for it to merit the deferment of revenue.

As explained above the obligation to return the asset to the transferor in the event that the conditions are not met, does not necessarily appear in all grant agreements. This is often because of tax consequences to the transferor, which is explained in the next section. The lack of a repayment obligation does not make the condition any less enforceable. In practice the return of an asset rarely occurs. The non-performance of a condition is more likely to result in the transfer of the asset to another NFP entity which can meet the relevant condition. The non-performance of a condition without a repayment obligation may still give rise to one of the following consequences:

- Enforcement of the condition through the courts under legislation such as *the Charitable Fundraising Act (NSW).*
- In some cases the entity may be forced to comply with the conditions of the transfer (grant or donation) by public pressure or government intervention. A famous example of would have been the Red Cross Bali Appeal in 2002 which received a great deal of publicity and prompted a investigation by the NSW State Government.
- Non performance may harm the entities' chances to receive any further grants from the transferor which will have a greater impact on the entity than any repayment condition.

The creation of a liability arising from a condition without a return obligation falls into the definition of a liability under the "Framework for the Preparation and Presentation of Financial Statements" and paragraph 51 of ED 180 itself. The return obligation does not itself represent a present obligation nor can it in our opinion create a present obligation of a *condition.*

In our view, assets with any restrictions should be recognised over the period during which the performance obligation will be satisfied. This accounting treatment is consistent with the principles in AASB 120 and AASB 118. From a business perspective, this results in a more appropriate recognition of revenue in the periods in which the entity performs under the transaction.

[1] Quote from "Framework for the Preparation and Presentation of Financial Statements"
[2] A return obligation is an obligation to return the funds to the transferor should the conditions of the non-exchange transfer not be met.

(c) The tax position of transferors is ignored

Recognition of revenue under ED 180 is dependent on the *conditions* of transferred assets which require the entity either consume the future economic benefits of the assets or return future economic benefits to the transferor in the event that the conditions are breached. A concern that has been expressed in this document is that the insertion of any return obligation creates a problem for certain granting bodies. Private philanthropic granting bodies are faced with a number of tax issues which effect the treatment of non-exchange transactions under ED 180:

- A repayment condition may give rise to a GST liability in the hands of the recipient which may not be claimable in the hands of the grantor.
- Other granting bodies may also treat the grant as a donation, and a repayment clause will certain jeopardise the tax treatment of this grant[3].

These granting bodies do not want the funds to be returned, and would enforce the relevant conditions in other ways which are explained in the previous section.

(d) The inconsistent application of AASB 1004

We are of the opinion that there is a lot of confusion regarding the interpretation of certain key aspects of the current standard AASB 1004. This has led to a divergence of practice which has made the comparison of the performance of different MRIs impossible. This divergence in practice in accounting for contributions in the NPF sector is due in part to interpretations of two points

- What constitutes an exchange or non-exchange transaction, or
- when does a NFP obtain control of the contribution.

The Institute's management has done a quick poll of other MRIs in Victoria and found that the arguments put forward, and the lengths to which some of these MRIs go to avoid complying strictly with the current accounting standard, emphasise the current uncertainty around the accounting standard. Some of these are:

- Certain MRIs (and in also some other NFPs) consider grants which have performance obligations as not being non-exchange transfers and therefore do not falling within the ambit of AASB 1004.
- Some MRIs feel that as long as the MRI has an obligation to spend the grant in a specific way and have to financially acquit to the granting body for how the money is spent, they do not have control of the funds. This is in spite of the fact that they may have already received such funds. Under this assumption they must defer the income in terms of AASB 1004.
- One MRI solicits the support of the respective granting body by inserting clauses in grant contracts the effect of which does not give the MRI control of the funds until the funds are paid.

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[3] It is important to note that the specification of how the money will be applied and the requirement to account for the expenditure of the money back to the transferor does not alter the tax treatment of a donation.

It is clear that the respective MRIs have the support of their auditors as not one of them has a qualified audit report. Furthermore our survey also showed that the treatment of grant income by the respective MRI's followed along the lines of the different interpretations of the standard between the major auditing firms.

If the AASB does proceed with the ED (which, as explained in our covering letter, is not our recommended position) then further guidance is required on these two points.

Evaluating whether a transaction is an exchange or non-exchange transaction is an important first step in determining which standard (AASB 118 or AASB 1004) should apply. In its current form, the ED does not provide adequate guidance to assist in this determination. In our view, guidance should be provided on the circumstances in which a transaction should be considered an exchange transaction and therefore be accounted for under AASB 118 *Revenue*.

The Institute's main source of income is in the form of grants, the legal form of which may be considered non-exchange transactions. However, in many cases these contributions have strict restrictions attached indicating that, in substance, an exchange transaction exists.

In our view, the following factors would indicate an exchange transaction:

- there is a contract which specifies performance obligations;
- the contribution was granted after a competitive tender process;
- there is a risk of legal proceedings and/or penalties if restrictions are not satisfied; and / or
- there are control processes (such as periodic acquittal requirements) to ensure restrictions are being complied with.

In our view control is not an absolute concept i.e. Where a transferred asset has conditions attached an entity in most cases only has limited control over the application of the asset. It is better that a liability is raised as long as unfulfilled conditions remain rather than have restricted funds in equity over which management have little control. As explained before ED 180 places too much emphasis on the return obligation, and ignores the matching principle. This would be better addressed by expanding the scope of AASB 120 Accounting for Government Grants and Disclosure of Government Assistance to the NFP sector and requiring all entities to apply AASB 118 Revenue to all other transactions.

(e) What do users of financial statements want

We understand the Board tries to take into consideration the needs of users as well. Certainly from the point of view of MRIs one of the biggest user groups apart from its own members are the granting bodies that fund these institutes. These granting bodies are well represented by Philanthropy Australia[4].

In a submission to the AASB in September 2007 on ITC 12, a copy of which was provided to the Bionic Ear Institute, Philanthropy Australia makes a number of points which support the current submission:

- It claims that its members are the primary users of NFP entities' financial reports, which are used to assess the viability of these entities.
- It recommends a review of AASB 1004 to provide clarity around the recognition of grants.

[4] Philanthropy Australia is the national peak body for philanthropy. Its members are trusts and foundations, organisations families and individuals which in the majority provide philanthropic funding to NFPs in Australia.

- It calls for a greater emphasis to be placed on management's stewardship in NFP financial reporting.

In our opinion management's stewardship and financial viability cannot be evaluated under either AASB 1004 or ED180 in its present form.

These statements when read in the light of the additional reporting requirements these granting bodies impose upon NFP when acquitting for grants, demonstrates what we believe is a dissatisfaction of user bodies with the current accounting standard. It is worth mentioning that Philanthropy Australia is acutely aware of the financial burdens placed upon NFP because of inadequate accounting standards.

"As accounting systems are designed to record financial information in one format, unnecessary time and financial outlay must be spent on manually recalculating expenses (our comment: and income) *according to the requirements of each funder."*
Article in **Charter** February 2008 by Gina Anderson CEO of Philanthropy Australia

In many cases NFPs are forced to have duplicate accounting systems, one to ensure they comply with the accounting standard and another for financial management and reporting to granting bodies that, as explained under point a require unspent funds to be carried forward to the next reporting period. The cost of these duplicate accounting systems is onerous on NFPs.

(f) An international perspective

To our knowledge Australia is one of the few accounting jurisdictions which have a specific revenue recognition accounting statement for NFP which is different to for-profit entities. It is our opinion that the principles relating to normal commercial revenue are the same as for non-exchange transactions. Both AASB 1004 and ED180 while acknowledging the main principles of revenue recognition such as control, the flow of economic benefit, and the measurement concepts, seem to ignore or understate the importance if one of the fundamental issues of revenue recognition, namely the matching concept. AASB 118 (Para 19.) states that revenue and expenses that relate to the same transaction or other event should be recognised simultaneously. While this relates to another type of revenue it is our opinion that this is even more applicable to non-exchange transactions which have some obligations attached. ED180 does address this to a certain extent by recognising a need for the outlay of resources. However as this is linked to a return of future economic benefits to the transferor, a condition which would alter the nature of the transaction for the transferor because of the tax treatment, this is not effective.

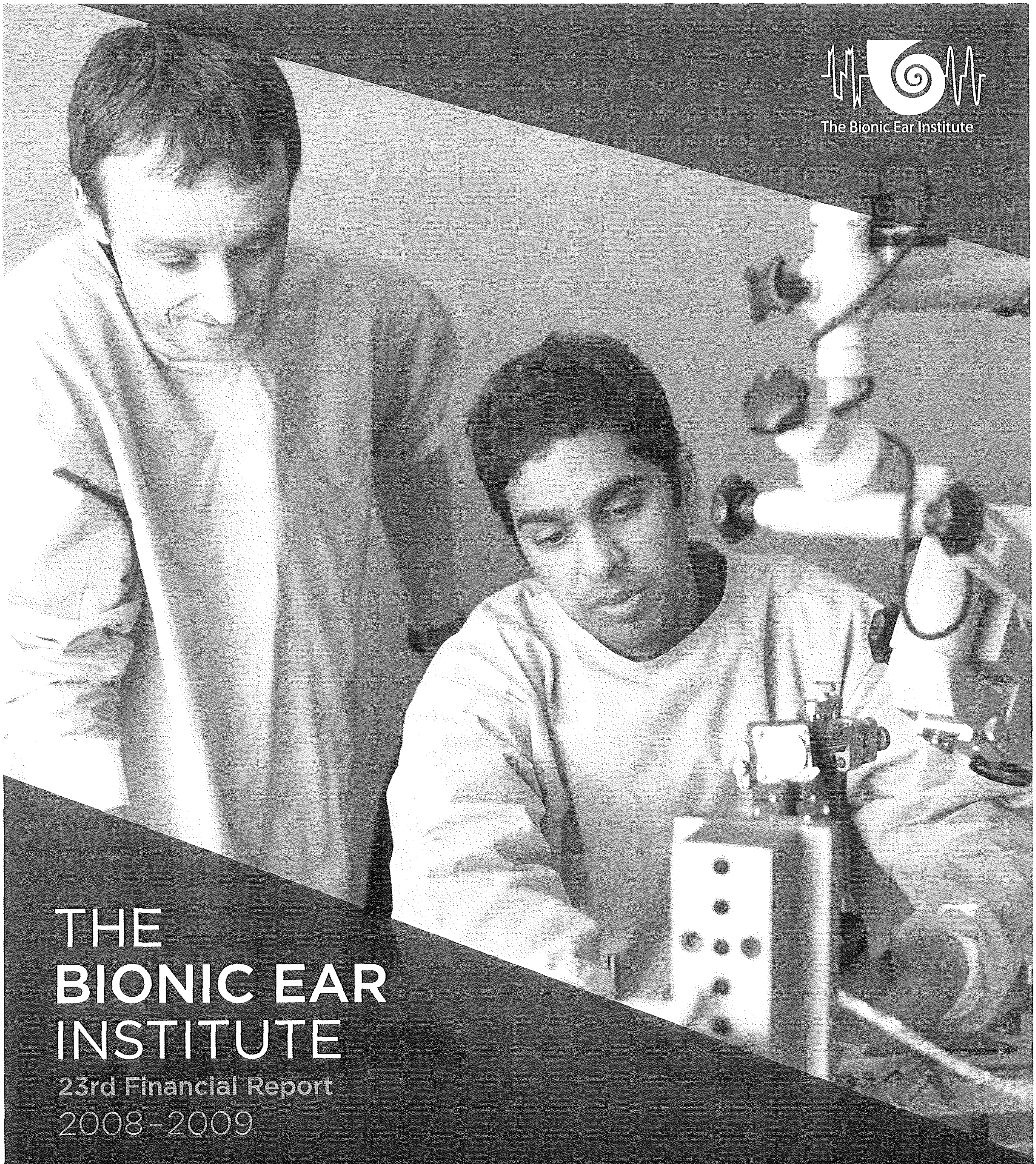
It is interesting to note that one international MRI the Ludwig Institute for Cancer Research Ltd, which has a branch in Melbourne, states in its revenue accounting policy note: "External funding received (in terms of restricted funds) is taken to income when the corresponding expenditure is incurred. Any unspent restricted funds are deferred to future accounting periods…" Australian MRIs receive a large portion of their funding from international sources, and therefore we can assume that these important users would like to assume that the financial reports of these Australian MRIs comply with international revenue recognition norms.

It is interesting to note that even the International Public Sector Accounting Standards Board recognise that there is not an IAS equivalent for IPSAS 23.

(g) The Board's approach of developing the proposals based on IPSAS 23.

IPSAS 23 was developed for public sector organisations. While there are many things in common between NFP and the public sector, which generally is interpreted to include national, regional, and local governments, and related governmental agencies, there are situations which are unique to NFPs which have no applicability to government entities. One example of this is the tax treatment of some grants from the transferor's perspective which in many cases forces them to treat their grants in certain ways, therefore having a significant effect on how the relevant non-exchange contribution is treated in the financial statements of the grant receiving entity under IPSAS 23. This point has been dealt with above. In addition it is the Institute's view that accounting standards should be sector neutral and the general principles for revenue recognition principles under AASB118 are adequate.

The Bionic Ear Institute



THE BIONIC EAR INSTITUTE

23rd Financial Report

2008–2009

ABN 56 006 580 883

The Bionic Ear Institute

CONTENTS

The Bionic Ear Institute

DIRECTORS REPORT

The Directors present their report, together with the financial statements of the Company for the year ended 30 June 2009 and the Auditors' Report thereon.

PRINCIPAL ACTIVITIES

The principal activities during the year of the company were to undertake and support research into:

- hearing loss and its causes and enhance the hearing capability of hearing impaired people through the improvement of hearing devices or treatment
- the relief of nerve and spinal cord injury
- the detection and control of epileptic seizures
- the prevention of infection for implantable devices
- and developing the bionic eye

DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

NAME AND QUALIFICATIONS	EXPERIENCE AND SPECIAL RESPONSIBILITIES
Gerald Edward Moriarty AM **BE (Hons), CPEng, FIEAust, FTSE, FAICD**	Chairman Appointed Chairman October 2003 Board member since August 1999 Senior Communications Industry Adviser, Macquarie Capital Advisers (Macquarie Group Ltd); Chairman, Broadcast Australia; Chairman, Airwave Australia; Director, Global Tower Partners LLC US. Previous appointments; Group Managing Director, Infrastructure Services, Telstra, Director and Chairman of a range of Telstra subsidiary and joint venture companies, Chairman of the industry body IT Skills Hub and Member of the Advisory Board of TeleTech Australia.
Jack Smorgon AO **Advanced Management Diploma University of Hawaii**	Vice-Chairman Board member since 1996 Director, Escor Pty Ltd; National Chairman, Defence Reserves Support Council; Board member, Committee for Melbourne; President, United Israel Appeal of Australia. Previous appointments: Chairman, Australian National Railways Commission; Chairman, Committee for Melbourne; Board member, Australian Meat and Livestock Corporation.
Brian Jamieson **FCA**	Director & Honorary Treasurer Board member since July 2002 Chairman, Mesoblast Limited; Non-Executive Director, Tattersalls Limited; Non-Executive Director, Sigma Pharmaceuticals Limited; Non-Executive Director, Oz Minerals Limited; Non-Executive Director, Bank of Western Australia Limited. Director, Sir Robert Menzies Foundation; Chairman, George Adams Tattersalls Foundation. Fellow; Institute of Chartered Accountants Australia. Previous appointments: Chief Executive, Minter Ellison, Melbourne; Chief Executive Officer, KPMG Australia; Managing Partner, KPMG Melbourne and Southern Regions; Chairman, KPMG Melbourne. Board Member, KPMG Australia; Member, KPMG Management Committee USA.

DIRECTORS REPORT (CONT)

James Alexander Angus **BSc, PhD, FAA**	Director Board member since September 2002 James Angus was appointed Dean of the Faculty of Medicine, Dentistry and Health Sciences at the University of Melbourne in July 2003. Before becoming Dean, he was Professor and Head of the Department of Pharmacology and Deputy Dean of the Faculty of Medicine, Dentistry and Health Sciences. At the University of Melbourne, Professor Angus has been President of the Academic Board (2000-2001) and Pro Vice-Chancellor (1999-2001). His current roles include directorships of the Walter & Eliza Hall Institute, Mental Health Research Institute, Melbourne Health, Centre for Eye Research Australia, National Ageing Research Institute, and Victor Smorgon Institute at Epworth Pty Ltd. He is the Honorary Secretary, Victorian Rhodes Scholarship.
The Hon Steve Bracks	Director Board member since October 2008 Adviser to the Prime Minister of Timor-Leste, Xanana Gusmao; Honorary Professorial Fellow, University of Melbourne; Chair, Deakin Foundation, Deakin University; Chairman, Cbus, Director, Jardine Lloyd Thomson Australia; Senior Adviser to the National Australia Bank; Senior Advisor to KPMG; Independent Chair, Australian Subscription Television and Radio Association (ASTRA); Honorary Chair, Organising Committee, World Road Cycling Championships (Victoria 2010); Automotive Envoy, Australian Government Previous appointments: Premier of Victoria
John Alexander Bryson **BMech Eng, MBA (Melb)**	Director Board member until August 2006; Reappointed April 2008 Board member since October 1998 Director, First Samuel Limited, Praemium Limited and Choiseul Investments Limited. Previous appointments: Chief Executive Officer, Helen MacPherson Smith Trust; Equity owner, Group General Manager, Group Retail Manager, Director Corporate J.B. Were.
Li Cunxin	Director Board member since February 2006 Manager-Asian Desk, Bell Potter Securities; Board Member, Australian Ballet. Previous appointments: Private Investment Advisor, ANZ Securities; Principal Dancer, Australian Ballet; Soloist and Principal Dancer, Houston Ballet; Councillor, Australia Council for the Arts.
Christina Hardy **BBus-Comm, LLB**	Director Board member since October 2008 Director, Business Development & Legal Affairs, Garvan Institute of Medical Research; Director, Diabetes Vaccine Development Centre Limited; Director, CRC for Biomedical Imaging Development Limited; Director, Hospital of Hope Timor Leste.

DIRECTORS REPORT (CONT)

Kathleen Dorothy Jordan **B.A (Psych) FAICD**	Director Board member since October 1998 Director, KJ Enterprising Solutions Pty Ltd; Executive Coach and Principal Consultant, iNTUITIVE iNSIGHTS.
Iven Mareels **ir(Ghent), PhD (ANU), FTSE, FIEEE, FIEAust, CPEng, MSIAM**	Director Board member since October 1998 Dean, School of Engineering, The University of Melbourne; Professor of Electrical and Electronic Engineering, The University of Melbourne
Moya Mills **BA**	Director Board member since August 2009.
Field Winston Rickards **BSc, MEd(Manc), PhD**	Director Board member since March 1988 Dean, School of Education, The University of Melbourne; Professor of Education for the Hearing Impaired, The University of Melbourne; Director, Royal Children's Hospital Education Institute; Chairman, Asia Education Foundation Board. Previous appointments: Chairman, The Advisory Council for Children with Impaired Hearing; Director, Australian Hearing; President, Wesley College; Pro Vice-Chancellor, The University of Melbourne; President of the Academic Board, The University of Melbourne.

COMPANY SECRETARY

The Company Secretary of the Company during or since the end of the financial year was Timothy Patrick Griffiths, who is also the General Manager of the Bionic Ear Institute.

DIRECTORS' MEETINGS

Board Member	**Board of Directors**		**Finance and Risk Committee**		**Investment Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Gerry Moriarty	7	7	-	-	-	-
James Angus	7	3	-	-	-	-
The Hon Steve Bracks	5	5	-	-	-	-
John Bryson	7	6	6	5	11	8
Li Cunxin	7	4	-	-	11	10
Christina Hardy	5	4	-	-	-	-
Brian Jamieson	7	1	6	6	-	-
Kathleen Jordan	7	6	-	-	-	-
Iven Mareels	7	4	-	-	-	-
Field Rickards	7	5	-	-	-	-
Jack Smorgon	7	4	6	3	11	10

The Bionic Ear Institute

DIRECTORS REPORT (CONT)

REVIEW OF OPERATIONS

A review of operations of the company during the financial year and the results of those operations are as follows:

The Institute continued in its principal activities. The Institute is committed to achieving short and long term advances with the bionic ear and enhancing capabilities of hearing impaired people. The Institute also continued to extend its research focus into other areas of medical bionics, including, nerve and spinal cord injury, the detection and control of epileptic seizures, development of the bionic eye and the prevention of infection with implants.

The Institute is a founding partner of Bionic Vision Australia, which was launched in late 2008. Bionic Vision Australia is a partnership of world-leading Australian research institutions collaborating to develop an advanced retinal prosthesis, or bionic eye, to restore the sense of vision to people with degenerative or inherited retinal disease.

The Institute, together with St Vincent's Hospital (Melbourne), CSIRO, and the University of Wollongong continued with a collaborative research through Bionic Technologies Australia, which is mainly funded by the Department of Innovation Industry and Regional Development for the Victorian State Government. The Institute is the managing agent. The funding for this collaboration came to an end on 30 June 2009, but the research started in this initiative will continue on, both within the Institute and with its collaborators.

The Institute is also a support party to the Hearing CRC Limited.

RESULTS OF OPERATIONS

In the year ended 30 June 2009 the Institute incurred a deficit of $ 2,467,826 (2008: surplus $ 225,495). The result includes a loss on disposal of investments totalling $1,871,557 (2008: Profit $ 151,367) and investment impairment write downs of $300,358 (2008: Nil). An increase in the unrealised value of investments of $ 131,121 (2008: Decrease of $ 3,398,953) were recognised directly to reserves.

These results are prepared in accordance with Australian Accounting Standards. The accounting standard on contributions (AASB 1004 Contributions) requires that the Company recognise contributions when the entity obtains control of the contribution. The current interpretation of this standard requires that grants be recognised as income when the Company receives the applicable funds. This is irrespective of when the funds are used or applied, or whether the Company has met its obligations in accordance with applicable agreements.

The Directors of the Company do not believe that this accounting standard shows to the users of the financial statements the entity's future research obligations and does not match the relevant revenue streams with the expenditure incurred. This is especially the case for grants of money where the Company is required to expend the money on a specific research project or over a specific period. As a result the Directors do not believe the financial report prepared under this accounting standard shows to the users the financial position and performance of the Company which is used by the Directors to monitor the activities of the Company (as is reflected in the management accounts). To provide further information the Directors have provided a supplementary report in note 24 (pages 30 – 33) which shows the financial results and position of the company in accordance with the internal management accounts which are prepared on the basis of matching grant income against the relevant research expenditure. This report, in the opinion of the Directors, shows for the users the Company's obligations relating to grants and other funding received and matches the performance of the Company's research activities between income and expenditure

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Since the end of the financial year, the Directors are not aware of any matter or circumstance, not otherwise dealt with in this report or the accounts, that has significantly or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in subsequent years.

LIKELY DEVELOPMENTS

The likely developments in the operation of the company and the expected results of those operations in financial years subsequent to the year ended 30 June 2009 are as follows:

- To continue in principle activities.
- Seek important funding from Federal and State Governments, as well as private philanthropic trusts, to expanding operations and build the world's pre-eminent Medical Bionics Institute.
- To participate as a support party in the Hearing CRC Ltd.

SUBSEQUENT EVENTS

Subsequent to the year end, equity markets have improved in Australia due to a general improvement in financial conditions. This has lead to a 16% or $2 million increase in the value of the Company's investment portfolios since 30 June 2009.

GOVERNANCE

No alterations were made to the Company's Constitution during the current financial year.

ENVIRONMENTAL REGULATION

The Institute complies with the Environmental Protection Act in respect of its operations. The Directors are not aware of any breaches of environmental laws by the Institute.

DIVIDENDS

In accordance with the restrictions of the Company's constitution, no dividends are payable by the company.

DIRECTORS AND AUDITORS INDEMNIFICATIONS

The company has not, during or since the financial year, in respect of any person who is or has been a director or officer of the company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in defending legal proceedings; or

- paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings;

with the exception of the following matter:

> During the year the Company has paid a premium for a Directors' and Officers' Liability Insurance contract. The insurance provides cover for the Directors named in this report as well as other officers and former directors and officers of the company. The Directors have not included details of the nature of liabilities covered and the amount of the premium paid in respect of the Directors and Officers Liability Insurance contract as such disclosure is prohibited under the contract.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of these proceedings.

The company was not party to any such proceedings during the year.

Since the end of the previous financial year no director acting in their capacity as a director has received or become entitled to receive any benefits.

The Bionic Ear Institute

DIRECTORS REPORT (CONT)

AUDITOR'S INDEPENDENCE

The Directors received an independence declaration from the auditors, Ernst & Young. A copy of this declaration follows this report.

Dated at Melbourne this 23rd day of November, 2009

Signed in accordance with a resolution of the Board of Directors

Gerald Edward Moriarty **Director**	**Brian Jamieson** **Director**

23 November 2009

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of The Bionic Ear Institute

In relation to our audit of the financial report of The Bionic Ear Institute for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Painter

Stuart Painter
Partner
23 November 2009

The Bionic Ear Institute

INCOME STATEMENT

FOR THE YEAR ENDED 30 June 2009	Notes	2009	2008
		$	$
REVENUES FOR RESEARCH ACTIVITIES			
Total Revenue for Research Activities	3(a)	**6,024,390**	6,629,822
EXPENDITURE ON RESEARCH ACTIVITIES			
Employee benefits expense		**(3,917,171)**	(4,242,063)
Consultant fees		**(206,026)**	(356,492)
Conference events expenses		**(153,390)**	(61,609)
Property and facilities expenses		**(268,262)**	(122,813)
Depreciation and amortisation expense		**(409,945)**	(345,845)
Fundraising activities		**(130,653)**	(168,050)
Research consumables		**(419,965)**	(509,865)
Research contributions to collaborators		**(419,713)**	(265,000)
Intellectual property and legal expenses		**(43,791)**	(85,254)
Interest paid		**(3,280)**	(89)
Other expenses from continuing operations		**(348,105)**	(398,614)
Total Expenditure on Research Activities	4	**(6,320,301)**	(6,555,694)
(DEFICIT)/SURPLUS ON RESEARCH ACTIVITIES		**(295,911)**	74,128
(Loss)/profit on sale of available-for-sale financial assets		**(1,871,557)**	151,367
Impairment write down of available-for-sale financial assets		**(300,358)**	-
NET (DEFICIT)/SURPLUS		**(2,467,826)**	225,495

The Bionic Ear Institute

BALANCE SHEET

At 30 June 2009	Notes	2009	2008
		$	$
CURRENT ASSETS			
Cash and cash equivalents	17(b)	**1,731,806**	2,486,065
Receivables	5	**867,069**	1,837,308
Prepayments		**30,732**	78,168
TOTAL CURRENT ASSETS		**2,629,607**	4,401,541
NON-CURRENT ASSETS			
Other financial assets	6	**12,668,437**	13,762,727
Property, plant and equipment	7	**3,233,161**	2,763,218
TOTAL NON-CURRENT ASSETS		**15,901,598**	16,525,945
TOTAL ASSETS		**18,531,205**	20,927,486
CURRENT LIABILITIES			
Payables	8	**373,418**	695,913
Provisions	9(a)	**590,295**	674,704
TOTAL CURRENT LIABILITIES		**963,713**	1,370,617
NON-CURRENT LIABILITIES			
Provisions	9(b)	**186,531**	139,561
TOTAL NON-CURRENT LIABILITIES		**186,531**	139,561
TOTAL LIABILITIES		**1,150,244**	1,510,178
NET ASSETS		**17,380,961**	19,417,308
INSTITUTE FUNDS			
Reserves	11	**7,266,682**	8,643,530
Accumulated funds	12	**10,114,279**	10,773,778
TOTAL INSTITUTE FUNDS	10	**17,380,961**	19,417,308

The Bionic Ear Institute

CASH FLOWS STATEMENT

FOR THE YEAR ENDED 30 June 2009	Notes	2009	2008
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from supporters and other funding		5,969,157	6,264,695
Payments to suppliers and employees		(6,338,549)	(7,399,490)
Dividends received		1,037,769	1,300,504
Interest received		131,040	182,679
Interest paid		(3,280)	(89)
NET CASH FLOWS FROM OPERATING ACTIVITIES	17(a)	796,137	348,299
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments		8,476,635	6,186,743
Purchase of investments		(9,122,780)	(5,806,503)
Proceeds from sale of property, plant and equipment		13,000	-
Purchase of property, plant and equipment		(917,251)	(272,941)
NET CASH FLOWS (USED IN)/ FROM INVESTING ACTIVITIES		(1,550,396)	107,299
NET INCREASE IN CASH HELD		(754,259)	455,598
Add opening cash brought forward		2,486,065	2,030,467
CLOSING CASH CARRIED FORWARD	17(b)	1,731,806	2,486,065

STATEMENT OF RECOGNISED INCOME & EXPENSES

YEAR ENDED 30 June 2009	2009	2008
	$	$
Net unrealised gain/(loss) on available-for-sale financial assets	131,121	(3,398,953)
Transfer to income statement of loss on Impairment write down of available-for-sale financial assets	300,358	-
NET INCOME RECOGNISED DIRECTLY TO RESERVES	431,479	(3,398,953)
(Deficit)/ surplus for the year recognised in the income statement	(2,467,826)	225,495
TOTAL RECOGNISED INCOME & EXPENSES FOR THE PERIOD	(2,036,347)	(3,173,458)

The Bionic Ear Institute

NOTES TO THE FINANCIAL STATEMENTS

30 June 2009

1. CORPORATE INFORMATION

The Bionic Ear Institute is a company limited by guarantee that is incorporated and domiciled in Australia.

The registered office of The Bionic Ear Institute is located at:
384-388 Albert Street
East Melbourne, Victoria 3002

The principal activities during the year of the Company were to undertake and support research into:

- hearing loss and its causes and enhance the hearing capability of hearing impaired people through the improvement of hearing devices or treatment
- the relief of nerve and spinal cord injury
- the detection and control of epileptic seizures
- the prevention of infection for implantable devices
- developing the bionic eye

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board

The financial report is presented in Australian dollars and has also been prepared in accordance with the historical cost convention, except for available-for-sale investments which have been measured at fair value.

(b) Standards and Interpretations issued not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by The Bionic Ear Institute for the annual reporting period ending 30 June 2009.

Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 101 'Presentation of Financial Statements' (revised September 2007)	1 January 2009	30 June 2010
AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'	1 January 2009 (and that ends on or after 30 April 2009)	30 June 2010

(c) Cash

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the of the Cash Flows Statement, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days. Outstanding bank overdrafts when they arise are categorised as current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Receivables

Receivables are recognised and carried at original invoice amount, less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when the Company ceases to pursue the related debt.

(e) Investments

Investments are classified as available-for-sale investments in terms of AASB 139 Financial Instruments: Recognition and Measurement.

Available-for-sale financial investments are non-derivative financial assets, primarily equity and debt securities. Available-for-sale financial investments are measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using standard valuation techniques.

Unrealised gains and losses are recognised directly in reserves until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is recognised in surplus or deficit in the income statement.

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an available-for-sale financial investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in surplus or deficit, is transferred from reserves to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in the income statement.

(f) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation. It is the policy of the Company to have an independent valuation of freehold land and buildings every three years and record the amount by way of note. The last valuation was as at 31 March 2008.

Depreciation
All property, plant and equipment, other than freehold land is depreciated over its estimated useful life commencing from the time the asset is held ready for use. Depreciation is provided on a straight-line basis.

Major depreciation rates are:	%
Buildings:	2.5
Plant and equipment:	10 – 25
Office equipment:	25
Furniture, fixtures and fittings:	5 – 10
Computer equipment:	25

Leasehold improvements are depreciated over the estimated useful life.

The carrying values of plant and equipment are reviewed for impairment at each balance sheet date and when events or changes in circumstances indicate that these values may be impaired. An impairment exists where the asset is no longer in regular use and the asset would not be replaced if the entity were deprived of it, or when the carrying value of the asset exceeds the depreciated replacement cost of the asset. The asset is then written down to its depreciated replacement cost, or recoverable amount in the case of redundant items. Impairment losses are recognised in the income statement.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Property, plant and equipment (cont'd)

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net proceeds on disposal and the carrying amount of the asset) is included in surplus or deficit in the year the asset is derecognised.

(g) Payables

Payables are carried at cost and due to their short term nature are not discounted. These represent liabilities for goods and services received which remained unpaid at the balance sheet date, or other short term debts.

(h) Provisions

Provision is made for employee benefits accumulated as a result of employees rendering services up to the balance sheet date. These benefits include wages and salaries, annual leave, contract severance pay and long service leave.

Employment benefit liabilities expected to be settled within twelve months of the balance sheet date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the balance sheet date. In determining the present value of future cash outflows, the market yield as at the balance sheet date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

I. Contracted income, interest income and sundry income are brought to account when the Company controls a right relating to the consideration recoverable.

II. Dividend and income from debt securities are recognised on the date of receipt.

III. Charitable income, including donations and bequests are brought to account when the Company receives the contribution or the right to receive the income.

IV. Grant income for specific research projects is brought to account when the Company obtains control of the funds which is normally when the Company receives the contribution or the right to receive the income. This is irrespective of when the funds are used or applied, or whether the Company has met its obligations in accordance with applicable agreements. This is in accordance with Australian Accounting Standard AASB 1004: Contributions.

    As explained in the Directors Report, the Directors of the Company do not believe that this accounting standard shows to the users of the financial statements the entity's future research obligations and does not match the relevant revenue streams with the expenditure incurred. This is especially the case for grants where the Company is required to expend the money on a specific research project or over a specific period. For management accounting purposes the directors apply a policy of deferring grant income for specific research projects, where this income remains unspent at the end of the reporting period.

    The income statement and balance sheet as presented on the basis used for management accounting purposes is provided under note 24. The directors believe that this shows for the users, the Company's obligations relating to grants and other funding received and matches the performance of the Company's research activities between income and expenditure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Taxes

Income Taxes

The Company is exempt from income tax under Division 50 of the Income Tax Assessment Act 1997

GST.

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flows Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

(k) Leases

Leases in which the lessor retains substantially all the risks benefits incidental to ownership of a leased item are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term

(l) Research Costs

Research costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, and are expected, beyond any reasonable doubt, to be recoverable.

30 June 2009	2009	2008
	$	$
3. REVENUE		
(a) Revenue for research activities		
Co-operative Research Centre funding	**235,799**	528,838
National Health & Medical Research Council funding	**85,600**	-
Australian Research Council funding	**345,571**	375,767
Victorian State Government funding	**1,038,296**	1,286,359
National Institutes of Health (USA) funding	**685,966**	654,779
Private trusts & foundations	**1,393,256**	1,764,757
Investment income:		
Dividends from other corporations	**961,341**	1,090,758
Premiums from the sale of options	**51,082**	-
Interest from other persons/corporations	**131,040**	182,679
Bequests	**20,000**	48,030
Donations/fundraising from general public	**233,177**	293,723
Commercialisation Income	**347,083**	-
Conference Income	**160,470**	182,148
Recoverables	**323,355**	194,587
Revenue from sale of goods	**1,281**	7,033
Other revenue	**11,073**	20,364
Total revenues for research activities	**6,024,390**	6,629,822

4. EXPENDITURE ON RESEARCH ACTIVITIES

Included in expenditure on research activities is the following items:

Depreciation of non-current assets:		
Buildings	**67,333**	48,389
Plant and equipment	**342,612**	297,456
Total depreciation of non-current assets	**409,945**	345,845
Operating lease expenses	**118,452**	16,950

5. RECEIVABLES (CURRENT)

Accounts Receivable	**523,838**	1,071,960
GST Recoverable	**13,143**	-
Income Accrued	**330,088**	765,348
	867,069	1,837,308

The carrying value for receivables equals fair value

30 June 2009		2009	2008
		$	$
6. OTHER FINANCIAL ASSETS			
Shares and debt securities – available for sale financial assets			
Listed at market value on the Australian Stock Exchange		12,655,237	13,749,227
Other investments at fair value		13,200	13,500
		12,668,437	13,762,727
7. PROPERTY, PLANT AND EQUIPMENT			
Land & buildings			
Land	At cost	600,000	600,000
Buildings	At cost	1,935,564	1,935,564
	Accumulated depreciation	(515,347)	(466,958)
		1,420,217	1,468,606
Leasehold improvements	At cost	416,774	-
	Accumulated depreciation	(18,944)	-
		397,830	-
Total land & buildings		2,418,047	2,068,606
Plant and equipment			
Research plant and equipment	At cost	1,914,729	1,831,085
	Accumulated depreciation	(1,285,310)	(1,265,676)
		629,419	565,409
Office Equipment	At cost	410,164	620,846
	Accumulated depreciation	(267,648)	(513,105)
		142,516	107,741
Furniture, fixtures and fittings	At cost	80,374	112,031
	Accumulated depreciation	(37,195)	(90,569)
	written down amount	43,179	21,462
Total plant and equipment		815,114	694,612
Total fixed assets	At cost	5,357,605	5,099,526
	Accumulated depreciation	(2,124,444)	(2,336,308)
	Written down amount	3,233,161	2,763,218

30 June 2009

7. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

An independent valuation of the freehold land and buildings was undertaken by CB Richard Ellis Pty Ltd as at 31 March 2008. The valuation was based on an assessment of the properties current market values and amounted to $4,500,000.

The National Australia Bank holds a first mortgage over the Institute's property known as Burlington Terrace as security for any borrowings that the Institute may require. At 30 June 2009 the Institute had no such borrowings (2008: Nil).

The buildings on the property are included on the Historic Building Register No. 797, pursuant Section 16(2) of the Historic Buildings Act 1981.

	2009	2008
	$	$
Reconciliations		
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.		
Land		
Balance at the beginning of the year	**600,000**	600,000
Balance at the end of the year	**600,000**	600,000
Buildings		
Balance at the beginning of the year	**1,468,606**	1,516,995
Depreciation expense	**(48,389)**	(48,389)
Balance at the end of the year	**1,420,217**	1,468,606
Leasehold Improvements		
Balance at the beginning of the year	**-**	-
Additions	**416,774**	-
Depreciation expense	**(18,944)**	-
Balance at the end of the year	**397,830**	-
Research plant and Equipment		
Balance at the beginning of the year	**565,408**	574,142
Additions	**348,810**	232,657
Disposals	**(18,177)**	-
Depreciation expense	**(266,622)**	(241,390)
Balance at the end of the year	**629,419**	565,409

30 June 2009	2009	2008
7. PROPERTY, PLANT AND EQUIPMENT (Cont'd)	$	$
Office Equipment		
Balance at the beginning of the year	**107,741**	118,308
Additions	**123,442**	40,283
Disposals	**(19,185)**	-
Depreciation expense	**(69,482)**	(50,850)
Balance at the end of the year	**142,516**	107,741
Furniture, fixtures and fittings		
Balance at the beginning of the year	**21,462**	26,678
Additions	**28,225**	-
Depreciation expense	**(6,508)**	(5,216)
Balance at the end of the year	**43,179**	21,462

8. PAYABLES (CURRENT)

Accounts Payable	**160,983**	127,625
Other creditors and accrued expenses	**212,435**	277,922
Goods and services tax	**-**	10,738
Deferred Income / Grants in advance	**-**	279,628
	373,418	695,913

The carrying value for payables equals fair value

9. PROVISIONS

(a) Current

Annual leave provision	**243,163**	252,848
Long service leave provision	**207,448**	215,769
Contract discontinuance	**123,216**	186,969
Annual leave loading	**16,468**	19,118
Total current provisions	**590,295**	674,704

(b) Non-Current

Long service leave provision	**147,699**	128,622
Contract discontinuance	**38,832**	10,939
Total non-current provisions	**186,531**	139,561
Total provisions	**776,826**	814,265

NOTES TO THE FINANCIAL STATEMENTS

30 June 2009	2009	2008
	$	$
10. INSTITUTE FUNDS		
Total Institute funds at the beginning of the financial year	**19,417,308**	22,590,766
(Deficit)/Surplus for the year recognised through the Income Statement	**(2,467,826)**	225,495
Transfer of Impairment write down of available-for-sale financial assets transferred to the income statement	**300,358**	-
Net unrealised gain/ (loss) on available for-sale financial assets transferred directly to reserves	**131,121**	(3,398,953)
Total Institute funds at balance sheet date	**17,380,961**	19,417,308

11. RESERVES

(a) Endowment fund for the position of Professor/Executive Director

Movements during the financial year:		
Opening balance	**5,893,882**	6,756,552
Transfers to accumulated funds	**(1,431,695)**	(862,670)
Closing balance	**4,462,187**	5,893,882

(b) Funds designated for specific research projects

Movements during the financial year:		
Opening balance	**1,507,327**	1,038,048
Transfers (to)/from accumulated funds	**(376,632)**	469,279
Closing balance	**1,130,695**	1,507,327

(c) Net gain on available-for-sale financial assets

Movements during the financial year:		
Opening balance	**1,242,321**	4,641,274
Transfer of Impairment write down of available-for-sale financial assets transferred to the income statement	**300,358**	-
Net unrealised gain/ (loss) on available for-sale financial assets transferred directly to reserves	**131,121**	(3,398,953)
Closing balance	**1,673,800**	1,242,321
Total Reserves	**7,266,682**	8,643,530

30 June 2009	2009	2008
	$	$
12. ACCUMULATED FUNDS		
Accumulated funds at the beginning of the financial year	**10,773,778**	10,154,892
Net result attributable to the Institute	**(2,467,826)**	225,495
Transfers from reserves	**1,808,328**	393,391
Accumulated funds at the end of the year	**10,114,279**	10,773,778

13. ECONOMIC DEPENDENCE

A significant portion of funding for the Institute's work is obtained from agencies of the Australian Federal and Victorian Governments.

14. SEGMENT REPORTING

The company operates predominantly in medical research in Australia.

15. RELATED PARTY TRANSACTIONS

(a) Terms and conditions of transactions with related parties

Related parties include collaborative joint ventures such as the Hearing CRC Ltd and Bionic Technologies Australia. Transactions between collaborators are conducted at cost. Outstanding balances at year-end is disclosed in note 18 (a) and are unsecured, interest free and settlement occurs in cash. No guarantees were provided or received for any related party receivables or payables.

For the year ended 30 June 2009, the Company has not made any allowance for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2008: $nil). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Company recognises an allowance for the impairment loss.

(b) Directors Remuneration

No amounts were paid during the financial year or are payable at the balance sheet date to directors, the spouses of such directors, relatives of such directors or spouses, and any other entity under the joint or several control or significant influence of such directors, spouses or relatives

	2009	2008
16. KEY MANAGEMENT COMPENSATION	$	$
Compensation by Category		
Short Term		
Employee Benefit	**607,331**	573,324
Post Employment		
Superannuation	**60,311**	106,039
	667,642	679,363

NOTES TO THE FINANCIAL STATEMENTS

30 June 2009	2009	2008
	$	$
17. NOTES TO THE CASH FLOW STATEMENT		
(a) Reconciliation of the net profit after tax to the net cash flows from operations		
Net (deficit)/surplus from ordinary operations	(2,467,826)	225,495
Non-Cash Items		
Depreciation of fixed assets	409,945	345,845
Loss on disposal of fixed assets	24,363	-
Loss/(profit) on sale of available-for-sale financial assets	1,871,557	(151,367)
Impairment write down of available-for-sale financial assets	300,358	-
Changes in assets and liabilities		
(Increase)/decrease in receivables and other current assets	1,017,675	(419,255)
Increase/ (decrease) in payables	(322,496)	355,192
Increase/ (decrease) in employee entitlements	(37,439)	(7,611)
Net cash flow from operating activities	796,137	348,299
(b) Reconciliation of cash and cash equivalents		
Cash balance comprises:		
Cash on hand	1,400	900
Cash at bank	99,085	202,616
At call deposits with financial institutions	1,631,321	2,282,549
Cash assets	1,731,806	2,486,065

18. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Company has exposure to the following risks from their use of financial instruments:

- interest rate risk
- liquidity risk
- credit risk
- price risk
- foreign currency risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Company's principal financial instruments comprise cash and cash equivalents, receivables, payables and investments in managed funds, listed shares and debt securities.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board manages financial risk through the Finance & Risk and Investment committees, which together are responsible for developing and monitoring risk management policies. These committees report regularly to the Board of Directors on their activities.

Policies have been established to manage financial risks faced by the Company, in which appropriate risk limits and controls have been have been set to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities

30 June 2009

18. FINANCIAL RISK MANAGEMENT OBJECTIVES (Cont'd)

Credit risk:
Credit risk is the risk that a counterparty to a financial transaction will fail to discharge an obligation and cause the other party to incur a financial loss, The Company's credit risk arises principally from its banking arrangements, receivables and investment activities.

In respect to receivables, the Company trades only with recognised, creditworthy third parties. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 96 percent (2008: 89 percent) of the Company's credit exposure is to Government, or research collaborators with which it has a long established relationship. 73% (2008: 78%) of the Company's credit exposure is limited to Australia, with the balance being with the United States of America, or the United Kingdom.

Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Company. Since the Company trades only with recognised third parties, there is no requirement for collateral.

The Company limits its exposure to credit risk with regard to bankers and investment activities by only dealing in liquid or marketable securities and only with counterparties that have a high credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Finance & Risk Committee monitors credit exposure throughout the year.

The Company's exposure to credit risk in minimal, and is reflected in the table in 18 (a) below.

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

The Company is dependent on its ability to raise funding for its operations through appeals to government, private trusts and foundations, and donors. The Company tries as far as possible to secure adequate funding before embarking on research in any particular area. Any research funding received in advance is held in a separate deposit account and only applied as the applicable research is conducted.

The Company has extensive investments which it can draw on if it experiences short term liquidity needs. In addition it maintains a $400,000 line of credit with its bankers.

The Finance & Risk Committee monitor cash flow and future cash projections throughout the year.

The Company's exposure to liquidity risk in minimal, and is reflected in the table in 18 (b) below.

Interest rate risk
Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short-term deposits and overdrafts.

The Company limits its interest rate risk by investing in marketable securities or deposits which have a floating interest rate.

The Company's exposure to interest rate risk in minimal, and is reflected in the table in 18 (c) below.

Price risk:
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Equity price risk arises from available-for-sale equity securities. The primary goal of the Company's investment strategy is to maximise investment returns in order to meet the Company's unfunded obligations as well as growing the capital corpus for the medium to long term. The Company's two investment portfolios are actively managed through the Investment Committee consisting of appointed Board members, which is advised by professional advisors in this regard. Generally the Committee seeks to invest for the medium to long term in established organisations.

The Company's exposure to price risk is reflected in the table in 18 (d) below.

30 June 2009

18. FINANCIAL RISK MANAGEMENT OBJECTIVES (Cont'd)

Foreign currency risk

The Company receives funding from overseas governments agencies and funding bodies, the limit of which is denominated in a currency other than the Australian dollar. These foreign currencies are the UK Pound or US Dollar. The Company is able to manage this funding using forward exchange contract or by ensuring the related Australian dollar denominated expenditure remains within the limits of this funding.

As at the balance sheet date the company had no foreign currency balance exposures or forward exchange contracts in place.

18 (a). FINANCIAL INSTRUMENTS – CREDIT RISK

The Company's maximum exposure to credit risk at the balance sheet date was:

	2009	2008
	$	$
Cash and call deposits at bank	**1,730,406**	2,485,165
Managed funds	**13,200**	13,500
Receivables	**867,069**	1,837,308
Shares and debt securities listed on the Australian Stock Exchange	**12,655,237**	13,749,227
Total financial assets	**15,265,912**	18,085,200

The Company's maximum exposure to credit risk for receivables at the balance sheet date by geographic region was:

	AUS $	AUS $
Australia	**632,398**	1,342,260
United States of America	**234,671**	495,048
Total receivables	**867,069**	1,837,308

The Company's maximum exposure to credit risk for receivables at the balance sheet date by type of debtor was:

	Notes	$	$
Australian tax office (refund of imputation credits)		**276,335**	288,538
National Institute of Health (USA)		**234,671**	495,048
Australian universities		**21,025**	491,145
Australian public hospitals		**1,946**	20,307
Related entities - Hearing CRC Ltd	15	**111,264**	210,057
- Bionic Technologies Australia	15	**191,128**	122,373
Financial institutions		-	84,632
Listed companies		**12,691**	17,912
Charitable trusts & foundations		-	90,656
Other		**18,009**	16,640
Total receivables		**867,069**	1,837,308

30 June 2009

18 (a). FINANCIAL INSTRUMENTS – CREDIT RISK (Cont'd)

The ageing of the Company's receivables at the balance sheet date was:

	2009	2008
	$	$
1-30 days due	**852,140**	1,368,936
31-60 days due	-	120,497
61-90 days due	**8,800**	46,886
90-120 days due	**6,129**	56,262
121 days to one year	-	244,727
Total receivables	**867,069**	1,837,308

The Company does not have a fixed settlement terms for its receivable balances. Based on historic default rates, and Management's knowledge of the circumstances surrounding these debts, the Company believes that no impairment allowance is necessary.

18 (b). FINANCIAL INSTRUMENTS – LIQUIDITY RISKS

Maturity analysis of financial liabilities:

	Carrying Amount	Contractual Cash Flows	0-3 Months	More than 3 Months
2009	$	$	$	$
Financial liabilities				
Payables	373,418	373,418	373,418	-
Total financial liabilities	**373,418**	**373,418**	**373,418**	-
2008				
Financial liabilities				
Payables	695,913	695,913	695,913	-
Total financial liabilities	**695,913**	**695,913**	**695,913**	-

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18 (c). FINANCIAL INSTRUMENTS – INTEREST RATE RISK

The Company's exposure to interest rate risk at the balance sheet date is as follows:

	Floating interest rate		Non-interest bearing		Total carrying amount per balance sheet		Weighted average effective interest rate	
	2009	2008	2009	2008	2009	2008	2009	2008
	$	$	$	$	$	$	%	%
Financial assets								
Cash at bank	**99,085**	202,616	**-**	-	**99,085**	202,616	**0.08**	3.41
Call deposits	**1,631,321**	2,282,549	**-**	-	**1,631,321**	2,282,549	**3.00**	7.08
Managed funds	**-**	-	**13,200**	13,500	**13,200**	13,500	**-**	-
Receivables	**-**	-	**867,069**	1,837,308	**867,069**	1,837,308	**-**	-
Listed shares and debt securities	**-**	-	**12,655,237**	13,749,227	**12,655,237**	13,749,227	**-**	-
Total financial assets	**1,730,406**	2,485,165	**13,535,506**	15,600,035	**15,265,912**	18,085,200		
Financial liabilities								
Payables	**-**	-	**373,418**	695,913	**373,418**	695,913	**-**	-
Total financial liabilities	**-**	-	**373,418**	695,913	**373,418**	695,913		

30 June 2009

18 (c). FINANCIAL INSTRUMENTS – INTEREST RATE RISK (Cont'd)

The table below details the mix of financial assets and liabilities of the Company that are exposed to Australian variable rate risk at the balance sheet date. The table is also the sensitivity to a reasonably possible change in interest rates, with all other variables being consistent.

A change of 1% in interest rates at the balance sheet date would have increased/ (decreased) income, and accumulated funds by the amounts shown below

2009	Floating interest rate items	Interest rate movement	
		Effect on Income & Accumulated funds	
	Principal	Increase of 1%	Decrease of 1%
	$	$	$
Financial assets			
Cash at bank	99,085	991	(79)
Call deposits	1,631,321	16,313	(16,313)
Total exposure	**1,730,406**	**17,304**	**(16,392)**

2008	Floating interest rate items	Interest rate movement	
		Effect on Income & Accumulated funds	
	Principal	Increase of 1%	Decrease of 1%
	$	$	$
Financial assets			
Cash at bank	202,616	2,026	(2,206)
Call deposits	2,282,549	22,825	(22,825)
Total exposure	**2,485,165**	**24,851**	**(24,851)**

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18 (e). FINANCIAL INSTRUMENTS – PRICE RISK

At balance sheet date the mix of financial assets exposed to price risk is detailed in the table below. A change of 10% change in listed equity and debt security prices at the balance sheet date would have increased/ (decreased) reserves by the amounts shown below. Unrealised gains and losses are recognized directly in reserves, and as such any short term movement in market values will have no effect on the surplus. This is unless the asset is considered impaired in which case a 10% decrease in market prices would result in a decrease in the surplus / increase to the deficit through the income statement.

2009		Equity price movement effect on reserves		Equity price movement effect on surplus	
	Principal	Increase of 10%	Decrease of 10%	Increase of 10%	Decrease of 10%
	$	$	$	$	$
Financial assets					
Managed funds	13,200	1,320	(1,320)	-	-
Shares and debt securities listed on the Australian Stock Exchange	12,655,237	1,265,524	(1,265,524)	-	(111,987)
Total exposure	**12,668,437**	**1,266,844**	**(1,266,844)**	-	**(111,987)**

2008		Equity price movement effect on reserves		Equity price movement effect on surplus	
	Principal	Increase of 10%	Decrease of 10%	Increase of 10%	Decrease of 10%
	$	$	$	$	$
Financial assets					
Managed funds	13,500	1,350	(1,350)	-	-
Shares and debt securities listed on the Australian Stock Exchange	13,749,227	1,374,923	(1,374,923)	-	-
Total exposure	**13,762,727**	**1,376,273**	**(1,376,273)**	-	-

	2009	2008
	$	$
19. AUDITORS' REMUNERATION		
Amounts received or due and receivable by Ernst & Young Australia for:		
– an audit of the financial statements	**30,663**	26,693

30 June 2009	2009	2008
	$	$
20. FUNDRAISING ACTIVITIES		
Income derived from fundraising activities (includes donations, bequests and funds received from private trusts & foundations)	1,646,433	2,106,511
Amounts expended on fundraising activities		
- Employee benefits expense	103,783	122,903
- Direct fundraising expenses	130,653	168,050
- Other expenses	8,892	44,856
	243,329	335,809

21. SUBSEQUENT EVENTS

Subsequent to the year end, equity markets have improved in Australia due to a general improvement in financial conditions. This has lead to a 16% or $2 million increase in the value of the Company's investment portfolios since 30 June 2009.

22. MEMBERS FUNDS AND GUARANTEE

The Company is a company limited by guarantee. If the Company is wound up the Constitution states that each member is required to contribute a maximum of $100 each towards meeting any outstanding obligation of the Company. There were 18 members of Institute at 30 June 2009 (2008: 16 members).

On winding up any surplus funds remaining after all outstanding obligations of the Company are settled, shall not be paid to members, but shall be transferred to some other institution or institutions approved by members of the Company or the Supreme Court of Australia, whose constitution prohibits the distribution of its/their income to the same extent as the Company

23. COMMITMENTS	Notes	2009	2008
As at the balance sheet date the Company had the following future commitments which have not been recorded as a liability.		$	$
Grants			
Grants received and appearing in accumulated funds where the Company is required to expend the money on a specific research project or over a specific period	11 (b)	1,130,695	1,507,327
Operating lease			
This is in respect of research facilities with a term ending on 29 January 2012, and an option to extend for a further 5 years and 11 months. The lease contract includes a CPI indexation clause. The Company does not have an option to purchase the leased premises at the expiry of the lease period. Future lease commitments are as follows:			
– Within 1 year		61,562	-
– Thereafter to January 2012		97,473	-
		159,035	-

Retirement Benefits

Contributions are made to superannuation funds on behalf of employees. Contributions are based on the relevant industrial awards, the superannuation guarantee charge rate or the level of allowable contributions defined by the Australian Prudential Regulation Authority. Such contributions are charged against income. The Institute have no other commitments with respect to staff retirement benefits.

30 June 2009

24. INCOME STATEMENT AND BALANCE SHEET AS PRESENTED ON THE BASIS USED FOR MANAGEMENT ACCOUNTING PURPOSES

This note presents the income statement, balance sheet and related notes that are based on the management accounts which are used by the Directors to monitor the activities of the Institute (refer Note 2(i) IV). The Directors do not believe the income statement and balance sheet prepared under the current Australian Accounting Standard AASB 1004 ("AASB 1004") on contributions shows the Institute's obligations relating to grants and other funding received, and matches the performance of the research activities between income and expenditure. AASB 1004 requires that the Institute recognise contributions when the entity obtains control of the contribution. The current interpretation of this standard requires that grants be recognised as income when the Institute receives the applicable funds. This is irrespective of when the funds are used or applied, or whether the Institute has met its obligations in accordance with applicable agreements.

The directors believe the income statement, balance sheet and related notes presented in this note on the basis used for management accounting purposes shows for the users, the Company's obligations relating to grants and other funding received and matches the performance of the Company's research activities between income and expenditure

	Notes	2009	2008
24(a). Income Statement prepared on the basis used for management accounting purposes.		**$**	**$**
REVENUE FOR RESEARCH ACTIVITIES			
Total Revenue for Research Activities	24(b)	**6,526,167**	6,064,337
EXPENDITURE ON RESEARCH ACTIVITIES			
Employee benefits expense		**(3,917,171)**	(4,242,063)
Consultant fees		**(206,026)**	(356,492)
Conference events expenses		**(153,390)**	(61,609)
Property and facilities expenses		**(268,262)**	(122,813)
Depreciation and amortisation expense		**(409,945)**	(345,845)
Fundraising activities		**(130,653)**	(168,050)
Research consumables		**(419,965)**	(509,865)
Research contributions to collaborators		**(425,145)**	(265,000)
Intellectual property and legal expenses		**(43,791)**	(85,254)
Interest paid		**(3,280)**	(89)
Other expenses from continuing operations		**(351,104)**	(398,614)
Total Expenditure on Research Activities	4	**(6,328,732)**	(6,555,694)
(DEFICIT)/SURPLUS ON RESEARCH ACTIVITIES		**197,435**	(491,357)
(Loss)/profit on sale of available-for-sale financial assets		**(1,871,557)**	151,367
Impairment write down of available-for-sale financial assets		**(300,358)**	-
NET DEFICIT	24(g)	**(1,974,480)**	(339,990)

30 June 2009	2009	2008
	$	$

24 (b). Revenue for research activities prepared on the basis used for management accounting

	2009 $	2008 $
Co-operative Research Centre funding	235,799	528,838
National Health & Medical Research Council funding	21,657	-
Australian Research Council funding	385,133	425,508
Victorian State Government funding	1,038,296	1,286,359
National Institutes of Health (USA) funding	685,966	654,779
Private trusts & foundations	1,849,054	1,265,253
Investment income		
Dividends from other corporations	961,341	1,090,758
Premiums from the sale of options	51,082	-
Interest from other persons/corporations	131,040	182,679
Bequests	20,000	48,030
Donations/fundraising from general public	303,850	176,131
Commercialisation Income	347,083	-
Conference Income	160,470	60,482
Recoverables	322,499	318,123
Revenue from sale of goods	1,281	7,033
Other revenue	11,616	20,364
Total revenues for research activities	6,526,167	6,064,337

24(c). Reconciliation of net deficit/ surplus prepared under AASB 1004 (page 9) to the income statement presented on the basis used for management accounting purpose

	Notes	2009 $	2008 $
Net (Deficit)/Surplus per income statement prepared under AASB 1004 (page 9)		(2,467,826)	225,495
Income received in the current year recognised as income in the current year under AASB 1004 but deferred for management accounting purposes as the Company.		(758,198)	(1,022,690)
Income received prior to the current year and recognised as income in a previous year under AASB 1004 but recognised as income in the current year for management accounting purposes.		1,259,675	457,205
Costs recognised for management accounting purposes relating to income received in a prior year under AASB 1004.		(8,131)	-
Net deficit per the income statement prepared on the basis used for management accounting purpose	24(a)	(1,974,480)	(339,990)

30 June 2009	Notes	2009	2008
		$	$
24(d). BALANCE SHEET PREPARED ON THE BASIS USED FOR MANAGEMENT ACCOUNTING PURPOSES			
CURRENT ASSETS			
Cash assets	17(b)	**1,731,806**	2,486,065
Receivables	5	**867,069**	1,837,308
Prepayments		**30,732**	78,168
TOTAL CURRENT ASSETS		**2,629,607**	4,401,541
NON-CURRENT ASSETS			
Other financial assets	6	**12,668,437**	13,762,727
Property, plant and equipment	7	**3,233,161**	2,763,218
TOTAL NON-CURRENT ASSETS		**15,901,598**	16,525,945
TOTAL ASSETS		**18,531,205**	20,927,486
CURRENT LIABILITIES			
Payables	24(e)	**1,370,348**	2,186,189
Provisions	9(a)	**590,295**	674,704
TOTAL CURRENT LIABILITIES		**1,960,643**	2,860,893
NON-CURRENT LIABILITIES			
Provisions	9(b)	**186,531**	139,561
TOTAL NON-CURRENT LIABILITIES		**186,531**	139,561
TOTAL LIABILITIES		**2,147,174**	3,000,454
NET ASSETS		**16,384,031**	17,927,032
INSTITUTE FUNDS			
Reserves	24(f)	**6,269,750**	7,183,893
Accumulated funds	24(g)	**10,114,281**	10,743,139
TOTAL INSTITUTE FUNDS		**16,384,031**	17,927,032

24(e). PAYABLES (CURRENT)	2009	2008
Accounts Payable	**160,983**	127,625
Other creditors and accrued expenses	**212,434**	277,922
Goods and services tax	**-**	10,738
Deferred Income / Grants in advance	**996,931**	1,769,904
	1,370,348	2,186,189

30 June 2009	Notes	2009	2008
		$	$
24(f). RESERVES			
Endowment fund for the position of Professor/Executive Director	12(a)	**4,462,187**	5,893,882
Funds designated for specific research projects		**133,763**	47,690
Net gain on available-for-sale financial assets	12(c)	**1,673,800**	1,242,321
		6,269,750	7,183,893

		2009	2008
24(g). ACCUMULATED FUNDS			
Accumulated funds at the beginning of the financial year		**10,743,139**	10,154,892
Net result attributable to the Institute		**(1,974,480)**	(339,990)
Transfers (to)/from reserves		**1,345,622**	928,237
Accumulated funds at the end of the year		**10,114,281**	10,743,139

The Bionic Ear Institute

DIRECTORS DECLARATION

In accordance with a resolution of the directors of The Bionic Ear Institute, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

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

On behalf of the Board

Gerald Edward Moriarty	**Brian Jamieson**
Director	**Director**

Melbourne, 23rd November 2009

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Independent auditor's report to the members of The Bionic Ear Institute

Report on the Financial Report

We have audited the accompanying financial report of The Bionic Ear Institute, which comprises the balance sheet as at 30 June 2009 and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion the financial report of The Bionic Ear Institute is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of The Bionic Ear Institute at 30 June 2009 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Painter

Stuart Painter
Partner
Melbourne
23 November 2009

The Bionic Ear Institute

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