Annual Report 2019

Heathcote & District Financial Services Limited

Heathcote & District
Community Bank® Branch

ABN 44 112 376 986

Contents

Chairman's report

A tough trading year, but profitable

Heathcote & District Financial Services Limited (HDFSL) might be a small Community Bank® branch but it is still subject to the overall economic environment that impacts all banks.

The 2018/19 financial year saw significant headwinds. The Banking Royal Commission, the property downturn, stricter lending requirements imposed by the regulator and the low interest rate environment all meant we faced difficult trading conditions.

Never the less, a strong concentration on controllable costs and a focus on the opportunities we identified, in particular our Nagambie branch, saw us remain profitable. This allowed us to again deliver on our promise of supporting our communities through grants and sponsorships and rewarding our shareholders with a solid franked dividend.

Growth and the future

Growing our customer base is essential. With tightening margins and largely fixed operating costs the path to higher profitability is increased deposit taking and lending.

Heathcote is showing green shoots, as the town is seeing positive population growth, a steady stream of new businesses and an observable level of building activity. We are still to see a solid stream of new business arising from Heathcote but the branch team have a task to concentrate on the opportunities.

Nagambie continues to be our main growth strategy. Growth over the year was pleasing and above trend. This means our investment in the branch is yielding results and remains on track to be profitable within the next few years.

Over the longer term Directors believe our book of business in Nagambie can begin to match Heathcote and thus increase our overall size and profitability.

Our team

Our front line team is our branch staff in both Heathcote and Nagambie. Our overall numbers have remained steady but individual members have increased their skill and authority levels over the year. This will enable us to continue to provide customer focused service and add to our ability to secure new business.

Our volunteer Directors are also an important part of the team. This year we were joined by Sissy Hoskin, our first Nagambie based Director. All Directors involve themselves in the strategic assessment and management of the business as well as representing HDFSL at events, functions and sponsored activities as well as generally in the community.

As Chair I thank both our branch teams and Directors for their efforts and support.

Our community activities

We are proud of what we are able to contribute to our communities, arising directly from the support of our customers and shareholders. This year we made significant contributions to a wide range of community groups including Bunbunarik Children's Hub in Heathcote, The Bridge Connection in Redesdale and Mia Mia, the Avenel Cemetery Trust and the Nagambie Bowls Club.

Our community events are becoming an important and visible part of our overall support. Through these we aim to bring together community members through interesting, informative and well-organised events that aim to increase the connections between communities and individual members.

We aim to increase this support over the next year.

Financial performance

As stated, it was a difficult year.

We were able to contribute $165,364 to our communities through grants and sponsorships as well as adding $70,000 to our holdings in the Community Enterprise Foundation for present and future major community projects in both Heathcote and Nagambie. This left a slim profit of $15,742 for the year and we are able to declare a fully franked dividend of 6.5 cents to our shareholders.

Stephen Trompp
Chair

Manager's report

For year ending 30 June 2018

The 2019 financial year was one of improvement for our Heathcote and District branch and continued growth for our Nagambie branch.

Our Heathcote operation had a solid improvement in net growth compared to the year prior, which demonstrated to me that our team were becoming more confident and capable in identifying ways to achieve our goals. Our Nagambie branch has progressed at a steady rate showing reasonable footings growth. The Nagambie branch team are becoming more experienced which is evident in the conversations they are holding with our customer base. I anticipate continued growth moving forward with our Nagambie staff, which will help our business grow further into the coming year. The large amount of untapped opportunity within the Nagambie community signifies to me the great potential that our branch has in front of itself.

I would like to take this opportunity to thank all my staff for their fantastic dedication and enthusiasm for our business over the past 12 months. Our Heathcote team in Teri Johnson, Krystal Eickert, Jo Jacobs and Marlene Troy as well as our Nagambie team in Renae Costantini, Natalie Rees and Jacquie Nevill have all demonstrated a willingness to drive our business forward and I think them for all their hard work.

Our board of Directors led by Chairman Stephen Trompp also deserve a huge thank-you for all their efforts throughout the past year. This group of volunteers dedicate countless hours each month in ensuring our company is run smoothly as well as ensuring our investment back into our local communities is well governed and transparent. Thank-you for the guidance you've provided the branch team and I over the past 12 months. A special mention to Company Secretary Hannah Thomson who continues to complete her role in our company at a very high level and is always there to help answer any questions the branch or our community has – thanks Hannah.

Thank-you also to our local connection team in particular our Regional Manager Shaun Leech and our previous Local Connection Manager Bill Den Hartog who provided a great level of assistance whenever required. Shaun & Bill combined with Graham Hartland (People Operations Manager) and Tim Dean (Risk and Compliance Manager) provide a great level of assistance to our branch teams which does not go unnoticed. It would me remiss of me to not mention our branches Business Banker Simon Perry who has continued to provide a great level of service to our branch and our business customer base. Simon's experience and expertise is valued highly by our team and I would like to thank him for his commitment as well over the past year.

Our two branch teams have implemented a significant business plan, which we envisage will drive our business forward to greater things. I look forward to reflecting on this in 12 months' time to look back and see what this plan has enabled us to achieve.

Finally, thank-you to our customers and shareholders who's continued loyalty in our business helps us create such a meaningful impact in the Heathcote and Nagambie communities. Your support cannot be underestimated in how crucial it is in making a difference to so many via our sponsorships, grants and scholarship programs.

Michael Prowse
Heathcote & District and Nagambie
Branch Manager

Heathcote & District Financial Services Limited

ABN: 44 112 376 986

Financial Statements

For the year ended
30 June 2019

Directors' report

Your directors submit the financial statements of the company for the financial year ended 30 June 2019.

Directors

The names and details of the company's directors who held office during or since the end of the financial year:

Stephen Roger Trompp

Chairman

Occupation: Retired

Qualifications, experience and expertise: Over 30 years experience in senior management in the financial services sector. Particular emphasis on financial product design, development and marketing.

Special responsibilities: Chairman

Interest in shares: 1,700

Barry Maxwell Cail

Director

Occupation: Businessman

Qualifications, experience and expertise: Extensive experience in the Community Bank system, businessman with experience in small business operation and journalist with long experience in public relations and marketing. Long commitment as a chairman and board member of HDFSL.

Special responsibilities: Nil

Interest in shares: 2,001

Gregory Ian Speirs

Director

Occupation: Retired

Qualifications, experience and expertise: Local Government, Lions Club Member (past President, Treasurer and Secretary), Bowls Club Member (past President and past Secretary), Licensed Surveyor, Town Planner and Justice of Peace.

Special responsibilities: Sponsorship/ Marketing committee

Interest in shares: 5,000

Bradley Adam Todd

Director

Occupation: Real Estate Agent - Director Todd Property Heathcote

Qualifications, experience and expertise: Licenced Estate Agent, Bachelors of Business (La Trobe) with 12 years Real Estate Industry experience. Real Estate Institute of Victoria (REIV) member.

Special responsibilities: Nil

Interest in shares: Nil

Directors (continued)

Andrew Neil Campbell

Director

Occupation: Farmer

Qualifications, experience and expertise: Registered Wool Classer and Officer Redesdale CFA.

Special responsibilities: Nil

Interest in shares: Nil

Peter Catherwood Young

Director

Occupation: Wine Maker

Qualifications, experience and expertise: Former Managing Director of an IT Services Company with $16m revenue. Former President of Heathcote Winegrowers Association. Former Vice President of the Medical Software Industry Association Australia. Peter has a Bachelor of Science (Honours) and an MBA, Master Wine Technology and Viticulture. Currently CEO and winemaker at Silver Spoon Estate, Heathcote. Currently a board member of Heathcote Tourism and Development.

Special responsibilities: Treasurer

Interest in shares: Nil

Marlene (Sissy) Christina Hoskin

Director *(Appointed 7 November 2018)*

Occupation: Executive Officer - Go Nagambie

Qualifications, experience and expertise: Professional Woolclasser, Registered Nurse, Cert 3 in Education Support, cert 4 hospitality. Currently employed as the Executive Officer for Nagambie Lakes Tourism & Commerce, T/A GoNagambie. Named Nagambie Citizen of the Year in 2014. Awarded the 2013 Strathbogie Shire Event of the Year for the Melbourne Cup Tour, Awarded in 2015 Nagambie Community Organisation of the Year, and Strathbogie Shire Community Organisation of the Year, Nagambie Community Event of the Year 2018 – Daniher Drive, Nagambie Community Event of the Year 2019 - NYE and Australian Government Volunteer Award in 2019 – Go Nagambie. Successful in gaining funding for various projects in Nagambie including current projects - the High Street Nagambie beautification project and the Destination Nagambie project, town entry project. Editor of the fortnightly publication of the Nagambie Community Voice. Currently participating in the 2019 Fairley Leadership program receiving sponsorship from the Strathbogie Shire Council. Member Committee TACAC Strathbogie Shire. Member Parents & Friends Assumption College Parents Friends. Member of the Nagambie Ambulance Service Community Alliance.

Special responsibilities: Nil

Interest in shares: Nil

Directors were in office for this entire year unless otherwise stated.

No directors have material interests in contracts or proposed contracts with the company.

Company Secretary

The company secretary is Hannah Thomson. Hannah was appointed to the position of secretary in October 2012. Hannah has extensive experience in areas of managing accounts and customer service.

Principal Activities

The principal activities of the company during the financial year were facilitating **Community Bank®** services under management rights to operate franchised branches of Bendigo and Adelaide Bank Limited.

There have been no significant changes in the nature of these activities during the year.

Operating results

Operations have continued to perform in line with expectations. The profit of the company for the financial year after provision for income tax was:

Year ended 30 June 2019 $	Year ended 30 June 2018 $
15,742	55,232

Dividends

	Cents	$
Dividends paid in the year	8.00	40,157

Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

Events since the end of the financial year

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company the results of those operations or the state of affairs of the company, in future years.

Likely developments

The company will continue its policy of facilitating banking services to the community.

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 19 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and insurance of directors and officers

The company has indemnified all directors and the manager in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors or manager of the company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

Directors' meetings

The number of directors' meetings attended by each of the directors of the company during the year were:

	Directors' meetings	
	Eligible	Attended
Stephen Roger Trompp	13	10
Barry Maxwell Cail	13	12
Gregory Ian Speirs	13	11
Bradley Adam Todd	13	8
Andrew Neil Campbell	13	11
Peter Catherwood Young	13	13
Marlene (Sissy) Christina Hoskin *(Appointed 7 November 2018)*	7	7

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non audit services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

all non-audit services have been reviewed by the board to ensure they do not impact on the impartiality and objectivity of the auditor

none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the board of directors at Heathcote, Victoria on 20 August 2019.

Stephen Roger Trompp
Chairman

Auditor's independence declaration

Partners in success
Chartered Accountants
61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Heathcote & District Financial Services Limited

As lead auditor for the audit of Heathcote & District Financial Services Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 20 August 2019

Joshua Griffin
Lead Auditor

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

	Notes	2019 $	2018 $
Revenue from ordinary activities	4	975,054	967,059
Employee benefits expense		(501,742)	(429,702)
Charitable donations, sponsorship, advertising and promotion		(149,591)	(161,160)
Occupancy and associated costs		(78,130)	(81,421)
Systems costs		(33,820)	(30,261)
Depreciation and amortisation expense	5	(42,653)	(32,955)
Finance costs	5	(167)	(513)
General administration expenses		(140,410)	(152,132)
Profit before income tax expense		**28,541**	**78,915**
Income tax expense	6	(12,799)	(23,683)
Profit after income tax expense		**15,742**	**55,232**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		15,742	55,232
Earnings per share		¢	¢
Basic earnings per share	22	2.65	9.28

Balance Sheet
as at 30 June 2019

	Notes	2019 $	2018 $
ASSETS			
Current assets			
Cash and cash equivalents	7	382,134	394,610
Trade and other receivables	8	20,697	43,820
Current tax asset	11	14,601	-
Total current assets		**417,432**	**438,430**
Non-current assets			
Property, plant and equipment	9	75,475	86,281
Intangible assets	10	33,058	63,786
Total non-current assets		**108,533**	**150,067**
Total assets		**525,965**	**588,497**
LIABILITIES			
Current liabilities			
Trade and other payables	12	16,483	11,450
Current tax liabilities	11	-	20,346
Borrowings	13	-	7,153
Total current liabilities		**16,483**	**38,949**
Non-current liabilities			
Trade and other payables	12	-	13,213
Deferred tax liabilities	11	13,778	8,780
Total non-current liabilities		**13,778**	**21,993**
Total liabilities		**30,261**	**60,942**
Net assets		**495,704**	**527,555**
EQUITY			
Issued capital	14	558,357	558,357
Accumulated losses	15	(62,653)	(30,802)
Total equity		**495,704**	**527,555**

Statement of Changes in Equity for the year ended 30 June 2019

	Notes	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2017		**558,357**	**(45,877)**	**512,480**
Total comprehensive income for the year		-	55,232	55,232
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(40,157)	(40,157)
Balance at 30 June 2018		**558,357**	**(30,802)**	**527,555**
Balance at 1 July 2018		**558,357**	**(30,082)**	**527,555**
Total comprehensive income for the year		-	15,742	15,742
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(47,593)	(47,593)
Balance at 30 June 2019		**558,357**	**(62,653)**	**495,704**

Statement of Cash Flows
for the year ended 30 June 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		1,092,044	1,064,956
Payments to suppliers and employees		(999,962)	(968,386)
Interest received		6,234	7,277
Interest paid		(167)	(513)
Income taxes refunded		-	13,355
Income taxes paid		(42,747)	(13,047)
Net cash provided by operating activities	**16**	**55,402**	**103,642**
Cash flows from investing activities			
Payments for property, plant and equipment		(1,120)	(51,519)
Payments for intangible assets		(12,012)	(12,012)
Net cash used in investing activities		**(13,132)**	**(63,531)**
Cash flows from financing activities			
Repayment of borrowings		(7,153)	(8,974)
Dividends paid	20	(47,593)	(40,157)
Net cash used in financing activities		**(54,746)**	**(49,131)**
Net decrease in cash held		**(12,476)**	**(9,020)**
Cash and cash equivalents at the beginning of the financial year		394,610	403,630
Cash and cash equivalents at the end of the financial year	**7(a)**	**382,134**	**394,610**

Notes to the financial statements

For the year ended 30 June 2019

Note 1. Summary of significant accounting policies

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

These financial statements and notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates which are significant to the financial statements are disclosed in note 3.

Historical cost convention

The financial statements have been prepared under the historical cost convention on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Comparative figures

Where required by Australian Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Application of new and amended accounting standards

There are two new accounting standards which have been issued by the AASB that became mandatorily effective for accounting periods beginning on or after 1 January 2018, and are therefore relevant for the current financial year.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces *AASB 111 Construction Contracts, AASB 118 Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The existing revenue recognition through the monthly Bendigo and Adelaide Bank Limited profit share provides an accurate reflection of consideration received in exchange for the transfer of services to the customer. Therefore based on our assessment this accounting standard has not materially affected any of the amounts recognised in the current period and is not likely to affect future periods.

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces *AASB 139 Financial Instruments: Recognition and Measurement*.

Based on our assessment this accounting standard has not had any impact on the carrying amounts of financial assets or liabilities at 1 July 2018. For additional information about accounting policies relating to financial instruments, see Note 1 j).

There are also a number of accounting standards and interpretations issued by the AASB that become effective in future accounting periods.

The company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2018. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Application of new and amended accounting standards (continued)

AASB 16 Leases

Only AASB 16, effective for the annual reporting period beginning on or after 1 January 2019 is likely to impact the company. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

AASB 16 replaces existing leases guidance, including *AASB 117 Leases* and related Interpretations. This standard is mandatory for annual reporting periods beginning on or after 1 January 2019.

The company plans to apply AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

The company has assessed the estimated impact that initial application of AASB 16 will have on its financial statements. The actual impacts of adopting the standard on 1 July 2019 may change.

The company will recognise new assets and liabilities for operating leases of its **branch/es, motor vehicles and office equipment**. The nature of expenses related to these leases will now change as the company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the company recognised operating lease expense on a straight-line basis over the term of the lease.

No significant impact is expected for the company's finance leases.

Based on the information currently available, the company estimates that it will recognise additional lease liabilities and new right-of-use assets of $168,918.

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at Heathcote and Nagambie, Victoria.

The branch operates as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank" and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank®** branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank®** branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the company facilitating the provision of those products. All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

The company promotes and sells the products and services, but is not a party to the transaction.

The credit risk (i.e. the risk that a customer will not make repayments) is for the relevant Bendigo and Adelaide Bank Limited entity to bear as long as the company has complied with the appropriate procedures and relevant obligations and has not exercised a discretion in granting or extending credit.

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** branches franchise operations. It also continues to provide ongoing management and operational support and other assistance and guidance in relation to all aspects of the franchise operation, including advice and assistance in relation to:

- design, layout and fit out of the **Community Bank®** branches
- training for the branch manager and other employees in banking, management systems and interface protocol
- methods and procedures for the sale of products and provision of services
- security and cash logistic controls
- calculation of company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Note 1. Summary of significant accounting policies (continued)

b) Revenue

Revenue arises from the rendering of services through its franchise agreement with the Bendigo and Adelaide Bank Limited. The revenue recognised is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

The franchise agreement provides that three forms of revenue may be earned by the company – margin, commission and fee income. Bendigo and Adelaide Bank Limited decides the form of revenue the company earns on different types of products and services.

The revenue earned by the company is dependent on the business that it generates. It may also be affected by other factors, such as economic and local conditions, for example, interest rates.

Core banking products

Bendigo and Adelaide Bank Limited has identified some Bendigo Bank Group products and services as 'core banking products'. It may change the products and services which are identified as core banking products by giving the company at least 30 days notice. Core banking products currently include Bendigo Bank branded home loans, term deposits and at call deposits.

Margin

Margin is arrived at through the following calculation:

- Interest paid by customers on loans less interest paid to customers on deposits
- *plus* any deposit returns i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit,
- *minus* any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan.

Margin is paid on all core banking products. A funds transfer pricing model is used for the method of calculation of the cost of funds, deposit return and margin.

The company is entitled to a share of the margin earned by Bendigo and Adelaide Bank Limited (i.e. income adjusted for Bendigo and Adelaide Bank Limited's interest expense and interest income return). However, if this reflects a loss, the company incurs a share of that loss.

Commission

Commission is a fee paid for products and services sold. It may be paid on the initial sale or on an ongoing basis. Commission is payable on the sale of an insurance product such as home contents. Examples of products and services on which ongoing commissions are paid include leasing and Sandhurst Trustees Limited products.

Fee income

Fee income is a share of what is commonly referred to as 'bank fees and charges' charged to customers by Bendigo Bank Group entities including fees for loan applications and account transactions.

Discretionary financial contributions

In addition to margin, commission and fee income, and separate from the franchise agreement, Bendigo and Adelaide Bank Limited has also made discretionary financial payments to the company. These are referred to by Bendigo and Adelaide Bank Limited as a "Market Development Fund" (MDF).

The amount has been based on the volume of business attributed to a branch. The purpose of the discretionary payments is to assist with local market development activities, including community sponsorships and donations. It is for the board to decide how to use the MDF.

The payments from Bendigo and Adelaide Bank Limited are discretionary and Bendigo and Adelaide Bank Limited may change the amount or stop making them at any time.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Discretionary financial contributions (continued)

Ability to change financial return

Under the franchise agreement, Bendigo and Adelaide Bank Limited may change the form and amount of financial return that the company receives. The reasons it may make a change include changes in industry or economic conditions or changes in the way Bendigo and Adelaide Bank Limited earns revenue.

The change may be to the method of calculation of margin, the amount of margin, commission and fee income or a change of a margin to a commission or vice versa. This may affect the amount of revenue the company receives on a particular product or service. The effect of the change on the revenue earned by the company is entirely dependent on the change.

If Bendigo and Adelaide Bank Limited makes a change to the margin or commission on core banking products and services, it must not reduce the margin and commission the company receives on core banking products and services Bendigo and Adelaide Bank Limited attributes to the company to less than 50% (on an aggregate basis) of Bendigo and Adelaide Bank Limited's margin at that time. For other products and services, there is no restriction on the change Bendigo and Adelaide Bank Limited may make.

Bendigo and Adelaide Bank Limited must give the company 30 days notice before it changes the products and services on which margin, commission or fee income is paid, the method of calculation of margin and the amount of margin, commission or fee income.

Monitoring and changing financial return

Bendigo and Adelaide Bank Limited monitors the distribution of financial return between **Community Bank®** companies and Bendigo and Adelaide Bank Limited on an ongoing basis.

Overall, Bendigo and Adelaide Bank Limited has made it clear that the **Community Bank®** model is based on the principle of shared reward for shared effort. In particular, in relation to core banking products and services, the aim is to achieve an equal share of Bendigo and Adelaide Bank Limited's margin.

c) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or unrefunded).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill or gain from a bargain purchase.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the entity intends to settle its tax assets and liabilities on a net basis.

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

d) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

e) Trade receivables and payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

f) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

leasehold improvements	5 - 15 years
plant and equipment	2.5 - 40 years
motor vehicles	3 - 5 years

g) Intangibles

The franchise fee paid to Bendigo and Adelaide Bank Limited has been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

The renewal processing fee paid to Bendigo and Adelaide Bank Limited when renewing the franchise agreement has also been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

h) Payment terms

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days.

i) Borrowings

All loans are initially measured at the principal amount. Interest is recognised as an expense as it accrues.

Note 1. Summary of significant accounting policies (continued)

j) Financial instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

(i) Financial liabilities

Financial liabilities include borrowings, trade and other payables and non-derivative financial liabilities (excluding financial guarantees). They are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate is the internal rate of return of the financial asset or liability, that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

(ii) Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit and loss (FVTPL).

A financial asset is subsequently measured at amortised cost if it meets the following conditions:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principle amount outstanding on specified dates.

The company's trade and most other receivables are measured at amortised cost as well as deposits that were previously classified as held-to-maturity under AASB 139.

A financial asset is subsequently measured at FVOCI if it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principle amount outstanding on specified dates; and
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the conditions of amortised cost and FVOCI's measurement condition are subsequently measured at FVTPL.

The company's investments in equity instruments are measured at FVTPL unless the company irrevocably elects at inception to measure at FVOCI.

Derecognition

(i) Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Note 1. Summary of significant accounting policies (continued)

j) Financial instruments (continued)

Derecognition (continued)

(ii) Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Impairment

The company recognises a loss allowance for expected credit losses on:

- financial assets that are measured at fair value through other comprehensive income;
- lease receivables;
- loan commitments that are not measured at fair value through profit or loss; and
- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit of loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The company uses the simplified approach to impairment, as applicable under AASB 9. The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables that result from transactions that are within the scope of AASB 15, that contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables is used, taking into consideration various data to get to an expected credit loss, (ie diversity of its customer base, appropriate groupings of its historical loss experience etc.).

Recognition of expected credit losses in financial statements

At each reporting date, the entity recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

Assets measured at fair value through other comprehensive income are recognised at fair value with changes in fair value recognised in other comprehensive income. The amount in relation to change in credit risk is transferred from other comprehensive income to profit or loss at every reporting period.

k) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Note 1. Summary of significant accounting policies (continued)

l) Issued capital

Ordinary shares are recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

m) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Cash flows are included in the Statement of Cash Flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Note 2. Financial risk management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the board of directors.

(i) Market risk

The company has no exposure to any transactions denominated in a currency other than Australian dollars.

(ii) Price risk

The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

(iii) Credit risk

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history.

Expected credit loss assessment for Bendigo and Adelaide Bank Limited

The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited. Due to the reliance on Bendigo and Adelaide Bank Limited the company has reviewed the credit ratings provided by Standard & Poors, Moody's and Fitch Ratings to determine the level of credit risk exposure of the company. The most recent credit rating provided by the ratings agencies is as follows:

Ratings Agency	Long-Term	Short-Term	Outlook
Standand & Poor's	BBB+	A-2	Stable
Fitch Ratings	A-	F2	Stable
Moody's	A3	P-2	Stable

Based on the above risk ratings the company has classified Bendigo and Adelaide Bank Limited as low risk.

The company has performed a historical assessment of receivables from Bendigo and Adelaide Bank Limited and found no instances of default. As a result no impairment loss allowance has been made in relation to the Bendigo & Adelaide Bank Limited receivable as at 30 June 2019

Note 2. Financial risk management (continued)

Expected credit loss assessment for other customers

The company has performed a historical assessment of the revenue collected from other customers and found no instances of default. As a result no impairment loss allowance has been made in relation to other customers as at 30 June 2019.

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the Balance Sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit.

The distribution limit is the greater of:

(a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and

(b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2019 can be seen in the Statement of Profit or Loss and Other Comprehensive Income.

There were no changes in the company's approach to capital management during the year.

Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from carried forward tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Note 3. Critical accounting estimates and judgements (continued)

Taxation (continued)

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty. There is therefore a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the Statement of Profit or Loss and Other Comprehensive Income.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

	2019 $	2018 $

Note 4. Revenue from ordinary activities

Operating activities:		
- gross margin	741,113	747,691
- services commissions	71,401	58,975
- fee income	72,702	74,559
- market development fund	75,000	76,667
Total revenue from operating activities	**960,216**	**957,892**
Non-operating activities:		
- interest received	6,234	7,277
- other revenue	8,604	1,890
Total revenue from non-operating activities	**14,838**	**9,167**
Total revenues from ordinary activities	**975,054**	**967,059**

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	2,542	2,757
- leasehold improvements	6,302	5,958
- motor vehicle	3,082	3,082
Amortisation of non-current assets:		
- franchise fee	5,121	3,526
- franchise renewal fee	11,610	11,625
- establishment fee	13,996	6,007
	42,653	**32,955**
Finance costs:		
- interest paid	**167**	**513**
Bad debts	**1,448**	**7,646**

	2019 $	2018 $

Note 6. Income tax expense

The components of tax expense comprise:		
- Current tax	7,801	28,181
- Movement in deferred tax	4,498	(4,498)
- Under/(Over) provision of tax in the prior period	-	-
	12,799	**23,683**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	28,541	78,915
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	7,849	21,701
Add tax effect of:		
- non-deductible expenses	4,950	1,983
- timing difference expenses	(4,998)	4,497
	7,801	**28,181**
Movement in deferred tax	4,998	(4,498)
Under/(Over) provision of income tax in the prior year	-	-
	12,799	**23,683**

Note 7. Cash and cash equivalents

Cash at bank and on hand	84,590	97,066
Term deposits	297,544	297,544
	382,134	**394,610**
Note 7.(a) Reconciliation to cash flow statement		
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:		
Cash at bank and on hand	84,590	97,066
Term deposits	297,544	297,544
	382,134	**394,610**

	2019 $	2018 $
Note 8. Trade and other receivables		
Trade receivables	14,391	37,158
Prepayments	6,306	6,662
	20,697	**43,820**
Note 9. Property, plant and equipment		
Leasehold improvements		
At cost	123,560	123,560
Less accumulated depreciation	(78,953)	(72,651)
	44,607	**50,909**
Plant and equipment		
At cost	62,039	60,919
Less accumulated depreciation	(46,229)	(43,687)
	15,810	**17,232**
Motor vehicles		
At cost	24,659	24,659
Less accumulated depreciation	(9,601)	(6,519)
	15,058	**18,140**
Total written down amount	**75,475**	**86,281**
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	50,909	56,507
Additions	-	1,906
Disposals	-	(1,546)
Less: depreciation expense	(6,302)	(5,958)
Carrying amount at end	**44,607**	**50,909**
Plant and equipment		
Carrying amount at beginning	17,232	27,870
Additions	1,120	1,392
Disposals	-	(9,273)
Less: depreciation expense	(2,542)	(2,757)
Carrying amount at end	**15,810**	**17,232**

	2019 $	2018 $
Note 9. Property, plant and equipment (continued)		
Motor vehicles		
Carrying amount at beginning	18,140	21,222
Additions	-	-
Disposals	-	-
Less: depreciation expense	(3,082)	(3,082)
Carrying amount at end	**15,058**	**18,140**
Total written down amount	**75,475**	**86,281**

Note 10. Intangible assets

Franchise fee		
At cost	88,974	88,974
Less: accumulated amortisation	(84,864)	(79,743)
	4,110	**9,231**
Establishment fee		
At cost	30,030	30,031
Less: accumulated amortisation	(20,112)	(6,116)
	9,918	**23,915**
Renewal processing fee		
At cost	114,839	114,839
Less: accumulated amortisation	(104,211)	(92,601)
	10,628	**22,238**
Goodwill on purchase of agency		
At cost	**8,402**	**8,402**
Total written down amount	**33,058**	**63,786**

	Notes	2019 $	2018 $

Note 11. Tax

Current:		
Income tax payable/(refundable)	**(14,601)**	**20,346**
Non-Current:		
Deferred tax assets		
- accruals	798	770
	798	**770**
Deferred tax liability		
- property, plant and equipment	-	9,550
- other	14,576	-
	14,576	**9,550**
Net deferred tax liability	**(13,778)**	**(8,780)**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	**4,998**	**(4,498)**

Note 12. Trade and other payables

Current:		
Trade creditors	185	185
Other creditors and accruals	16,298	11,265
	16,483	**11,450**
Non-Current:		
Other creditors and accruals		
	-	**13,213**

Note 13. Borrowings

Current:			
Chattel mortgage		-	7,298
Less: unexpired interest		-	145
	Note. 17	**-**	**7,153**

Finance Lease was repayable at $729.74 per month with the final payment made in April 2019. Interest was recognised at an average rate of 4.40%. The loan was secured by a fixed and floating charge over the company's assets.

	2019 $	2018 $
Note 14. Issued capital		
594,910 ordinary shares fully paid (2018: 594,910)	594,910	594,910
Less: equity raising expenses	(36,553)	(36,553)
	558,357	**558,357**

Rights attached to shares

(a) Voting rights

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the Community Bank® branch have the same ability to influence the operation of the company.

(b) Dividends

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The franchise agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) Transfer

Generally, ordinary shares are freely transferable. However, the directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the company's constitution and the Corporations Act 2001.

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the company.

In summary, a person has a prohibited shareholding interest if they control or own 10% or more of the shares in the company (the "10% limit").

As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the company.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited shareholding interest, are suspended.

The board has the power to request information from a person who has (or is suspected by the board of having) a legal or beneficial interest in any shares in the company or any voting power in the company, for the purpose of determining whether a person has a prohibited shareholding interest. If the board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of shares the board considers necessary to remedy the breach. If a person fails to comply with such a notice within a specified period (that must be between three and six months), the board is authorised to sell the specified shares on behalf of that person. The holder will be entitled to the consideration from the sale of the shares, less any expenses incurred by the board in selling or otherwise dealing with those shares.

In the constitution, members acknowledge and recognise that the exercise of the powers given to the board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

	2019 $	2018 $

Note 15. Accumulated losses

Balance at the beginning of the financial year	(30,802)	(45,877)
Net profit from ordinary activities after income tax	15,742	55,232
Dividends provided for or paid	(47,593)	(40,157)
Balance at the end of the financial year	**(62,653)**	**(30,802)**

Note 16. Statement of cash flows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	15,742	55,232
Non cash items:		
- depreciation	11,926	11,797
- amortisation	30,727	21,158
Changes in assets and liabilities:		
- (increase)/decrease in receivables	23,123	(6,312)
- (increase)/decrease in other assets	(14,601)	8,143
- increase/(decrease) in payables	3,832	(2,224)
- increase(decrease) in tax liabilities	(15,347)	15,848
Net cash flows provided by operating activities	**55,402**	**103,642**

Note 17. Leases

Finance lease commitments		
Payable - minimum lease payments:		
- not later than 12 months	-	7,297
- between 12 months and 5 years	-	-
Minimum lease payments	**-**	**7,297**
Less future finance charges	-	144
Present value of minimum lease payments	**-**	**7,153**

Finance Lease is repayable at $729.74 per month with the final payment due 23 April 2019. Interest is recognised at an average rate of 4.40%. The loan is secured by a fixed and floating charge over the company's assets.

Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	49,400	48,041
- between 12 months and 5 years	44,173	70,058
	93,573	**118,099**

The Heathcote lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The extension option was taken up in August 2015 for an additional five years.

The Nagambie lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease commenced in April 2015.

	2019 $	2018 $

Note 18. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,600	4,400
- share registry services	3,410	4,427
- non audit services	6,715	7,420
	14,725	**16,247**

Note 19. Director and related party disclosures

The names of directors who have held office during the financial year are:

Stephen Roger Trompp
Barry Maxwell Cail
Gregory Ian Speirs
Bradley Adam Todd
Andrew Neil Campbell
Peter Catherwood Young
Marlene (Sissy) Christina Hoskin (Appointed 7 November 2018)

No director's fees have been paid as the positions are held on a voluntary basis.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	2019 $	2018 $
Transactions with related parties:		
Barry Cail, in the capacity of part-owner of Bendigo Copy Centre, supplied printing services to the value of	283	555

	2019	2018
Directors Shareholdings		
Stephen Roger Trompp	1,700	1,700
Barry Maxwell Cail	2,001	2,001
Gregory Ian Speirs	5,000	5,000
Bradley Adam Todd	-	-
Andrew Neil Campbell	-	-
Peter Catherwood Young	-	-
Marlene (Sissy) Christina Hoskin (Appointed 7 November 2018)	-	-
There was a movement in directors shareholdings during the year.		

	2019 $	2018 $

Note 20. Dividends provided for or paid

a. Dividends paid during the year		
Current year dividend		
100% (2018: 100%) franked dividend - 8 cents (2018: 6.75 cents) per share	**47,593**	**40,157**
b. Dividends proposed and not recognised as a liability		
Current year final dividend		
100% franked dividend - 6.5 cents per share	**38,669**	**47,593**
The tax rate at which dividends have been franked is 27.5% (2018: 27.5%).		
c. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	54,469	29,773
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(17,904)	20,346
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	**36,565**	**50,119**
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	**36,565**	**50,119**

Note 21. Key management personnel disclosures

No director of the company receives remuneration for services as a company director or committee member.

There are no executives within the company whose remuneration is required to be disclosed.

Note 22. Earnings per share

	2019 $	2018 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	15,742	55,232
	Number	**Number**
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**594,910**	**594,910**

Note 23. Events occurring after the reporting date

There have been no events after the end of the financial year that would materially affect the financial statements.

Note 24. Contingent liabilities and contingent assets

There were no contingent liabilities or contingent assets at the date of this report to affect the financial statements.

Note 25. Segment reporting

The economic entity operates in the service sector where it facilitates Community Bank® services in Heathcote and Nagambie and their surrounding districts, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 26. Registered office/Principal place of business

The entity is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Registered Office	Principal Place of Business	
Shop 2, 119 High Street Heathcote VIC 3523	Shop 2, 119 High Street Heathcote VIC 3523	1/263 High Street Nagambie VIC 3608

Note 27. Financial instruments

Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for all financial instruments, as well as the settlement period for instruments with a fixed period of maturity and interest rate.

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $	2019 %	2018 %
Financial assets												
Cash and cash equivalents	84,590	95,616	297,544	297,544	0	0	0	0	0	1,450	1.53	1.73
Receivables	0	0	0	0	0	0	0	0	14,391	37,158	N/A	N/A
Financial liabilities												
Interest bearing liabilities	0	0	0	7,153	0	0	0	0	0	0	4.55	4.40
Payables	0	0	0	0	0	0	0	0	185	185	N/A	N/A

Net Fair Values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the balance sheet. The company does not have any unrecognised financial instruments at the year end.

Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the balance sheet and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the interest bearing financial assets and liabilities in place subject to variable interest rates, as outlined above.

Note 27. Financial instruments (continued)

Sensitivity Analysis

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates.

As at 30 June 2019, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2019 $	2018 $
Change in profit/(loss)		
Increase in interest rate by 1%	3,821	3,860
Decrease in interest rate by 1%	(3,821)	(3,860)
Change in equity		
Increase in interest rate by 1%	3,821	3,860
Decrease in interest rate by 1%	(3,821)	(3,860)

Directors' declaration

In accordance with a resolution of the directors of Heathcote & District Financial Services Limited, 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 2019 and of its performance for the financial year ended on that date; and

  (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; 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.

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the board of directors.

Stephen Roger Trompp, Chair

Signed on the 20th of August 2019.

Independent audit report

Partners in success
Chartered Accountants
61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

Independent auditor's report to the members of Heathcote & District Financial Services Limited

Report on the audit of the financial report

Our opinion
In our opinion, the accompanying financial report of Heathcote & District Financial Services Limited, is 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 2019 and of its financial performance for the year ended; and
ii. complying with Australian Accounting Standards.

What we have audited
Heathcote & District Financial Services Limited's (the company) financial report comprises the:

- ✓ Statement of profit or loss and other comprehensive income
- ✓ Balance sheet
- ✓ Statement of changes in equity
- ✓ Statement of cash flows
- ✓ Notes comprising a summary of significant accounting policies and other explanatory notes
- ✓ The directors' declaration of the company.

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

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We are independent of the company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other information
The company usually prepares an annual report that will include the financial statements, directors' report and declaration and our independence declaration and audit report (the financial report). The annual report may also include "other information" on the entity's operations and financial results and financial position as set out in the financial report, typically in a Chairman's report and Manager's report, and reports covering governance and shareholder matters.

The directors are responsible for the other information. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If we identify that a material inconsistency appears to exist when we read the annual report (or become aware that the other information appears to be materially misstated), we will discuss the matter with the directors and where we believe that a material misstatement of the other information exists, we will request management to correct the other information.

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/home.aspx. This description forms part of our auditor's report.

Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 20 August 2019

Joshua Grififn
Lead Auditor

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119 High Street, Heathcote VIC 3523
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Phone: 5794 2565

Franchisee: Heathcote & District Financial Services Limited
119 High Street, Heathcote VIC 3523
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Share Registry:
AFS & Associates Bendigo

www.heathcotenagambie.community
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Heathcote & District
Community Bank® Branch
and Nagambie branch

Bendigo Bank

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