

Sanctuary Point & Districts Community Bank® Branch



annual report 2018



Bay & Basin Community
Financial Services Limited
ABN 62 105 756 063

annual report 2018

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chair's report



INTRODUCTION

It is with pleasure that I present this report on matters related to Bay & Basin Community Financial Services Limited (BBCFSL) and its performance for the year ended 30th June, 2018 – to our shareholders, my fellow Board members and our partners.

CORPORATE AFFAIRS

Once again the Bendigo Bank group have been able to carry out ours and their activities without incurring penalties from the Royal Commission into the banking sector. This review has seen many corporations incur heavy fines and penalties. Whilst there was a reluctance initially to conduct the Commission, we believe that the whole industry is better off for having participated. There are lessons to be learned from all participants.

SHAREHOLDER'S DIVIDENDS

Once again the Board has been able to approve the payment of a fully franked dividend of 4.5 cents per Fully Paid \$1.00 share at the Board meeting held 27th June, 2018.

I would like to acknowledge the work done by Lori Hambridge, our Treasurer over the past 12 months. Lori embraces all change willingly and skillfully. The change over to our new system of Sharepoint is an example of her ability.

THE BRANCH

Our Branch continues to play a vital role in the community, working with Bendigo Bank to ensure a continuation of service to customers, new and current. Our staff are an integral component of our activities – without their exemplary service and attention to detail, we would not be able to attract new customers and therefore maintain our delivery of grants to the community.

The staff attend various community activities, acting as the public face of the Bank, demonstrating a maturity and ethical behaviour sometimes beyond their years.

We have once again taken on trainees, maintaining our commitment to being a training branch. This has helped with us being able to assist other branches as and when they need it. The mentoring program we have introduced courtesy of our Human Resources Manager has shown a strong result with young people being able to step up and take on more senior roles.

As always, I must commend our Branch Manager, Keith Robinson for his ongoing commitment to the Branch, the staff and the Board. His knowledge and assistance to me

has been a godsend. We have had some difficult times with staff illness, but we have been able to work our way through thanks to a concerted effort by Keith and the HR Manager.

We are in the process of organising a drought relief day for our local farmers and the display in the Branch is a great example of everyone working together to create a display which has been a real conversation starter. Each and every one of our staff have pulled together above and beyond their duty statements to ensure this is a successful event.

BOARD MEMBERSHIP

We have been able to once again recruit a new Director in Anne Stonham, who brings a wealth of experience to the Board. We are also fortunate to have our Junior Observer, Lexie McDonald remain with us. She is young and enthusiastic and we look forward to the day when she becomes a full Board member.

The Shoalhaven Cluster has worked extremely well together, allowing us to support and sponsor the SeeChange Festival in Huskisson for a 3 year period.

We continue to meet on a regular basis, alternating between the various locations and looking at the needs of those areas. We hope that in 2019 we will be able to sponsor the Blessing of the Fleet in Ulladulla. We all know that Shoalhaven people will travel long distances for festivals and we saw that with SeeChange.

We have all had the challenge of embracing SharePoint which is a new inhouse system for storing documents which will hopefully allow us to go paperless with our Board meetings. It can be difficult undertaking new systems but we have all become familiar with this.

2019 will see our 15th birthday and also the 15th year of Keith Robinson being our Branch Manager. We are planning a big birthday party to which you will all be invited.

COMMUNITY SUPPORT

We are working with a new and dynamic group to re-establish a business group, meeting monthly at a local café, and working towards a Networking in the PM group which will allow for a less formal activity than was in place with the Business Chamber, but able to attract guest speakers on a range of different topics which are beneficial to small businesses and sole traders.

It is heartening to see that there are young, energetic and committed business people making the move to the Bay & Basin area.

2018 sees a new Principal at Vincentia High School. We were sorry to see the previous Principal, Steve Glenday retire as he has been a very strong supporter of the Branch and has worked with us to ensure that his school and students have been able to participate in grants and programs which benefit not only them, but the whole community.

We were pleased to have been able to provide a grant to Huskisson Public School to undertake a forum to address the issue of children living in poverty in the area. The Board was unanimous in this support, with one of our Directors having been promoted to the role of Deputy Principal at Nowra High School, being prepared to attend the forum if work permits. Our new Director, Anne Stonham has also seen this type of program work effectively in other community groups.

COMMUNITY MAGAZINE

The About magazine, which is really our flagship activity, goes from strength to strength. Community members continually comment on the value of the magazine, the depth of the articles and the very useful tips on a range of activities, including the ever popular gardening advice. We offered a discounted price for those who wish to pay up front and this has worked extremely well.

Michelle Graham and Peter Spencer from Sanctuary Point Printing handle all of the content, the printing, and the efficient and speedy distribution. Contributors will acknowledge that they receive a little reminder of the cut off point.

Lori Hambridge takes care of the finances and we are now running at a cost efficient level.

The magazine is the go to publication for most people who live in the catchment, I know it is for my household.

GOVERNANCE

We have been able to continue to observe all aspects of regulations of ASIC. Geoffrey Ellison, Deputy Chair has the responsibility for this compliance, assisted by David Walsh, Keith Robinson and Lori Hambridge. We take these responsibilities very seriously and are proud of the fact that Bendigo is the most trusted Bank in Australia. The ethics which are displayed are of the utmost importance.

I am hopeful that our Directors will soon become members of the Governance Institute of Australia, a move which was suggested at the recent Community Bank Conference in Bendigo – the 20th Anniversary of these banks.

CONCLUSION

In concluding my report, I thank all Board members for their ongoing contribution to the company's operations, both in the Boardroom, in training sessions, at committee level and in the general community.



Veronica Husted
Chairperson

governance & audit committee report



OPERATING AND FINANCIAL REVIEW (OFR)

Pursuant to a Regulatory Guide 247, Effective Disclosure in an operating and financial review, issued by The Australian Securities & Investments Commission (ASIC).

Further to the 2017 Annual Report an update of the challenges the Directors of **Bay & Basin Community Financial Services Limited (BBCFSL)** are dealing with follows.

COST OF FUNDS.

Bendigo & Adelaide Bank Limited ("BEN") FUNDS TRANSFER PRICING (FTP) will become a reality from April 2019 when **BBCFSL** enters in to a new Franchise agreement. It is estimated by **BEN** that this could cost \$3,000 to \$3,300 per month. This figure fluctuates according to market conditions and is subject to independent review. Margins & cost of funds are a very current issue addressed by the Banks when setting mortgage rates.

FRANCHISE AGREEMENT.

BBCFSL did not embrace a new Franchise agreement including **FTP**, ahead of time and so did not take up a "shading in" incentive offered by **BEN**. Instead **BBCFSL** elected to generate further profits from the then buoyant property market, its excellent staffing skills and capitalise on its high standing in the **Bay & Basin region**.

At 31 July 2018 cash reserves of approximately \$500,000 are held of which some \$223,000 are in excess of the self-imposed and conservative cash reserve buffer of 150% of the last three months operational expenses.

Your board will endeavour to ensure that changes negotiated by **CB Alliance Limited (the ALLIANCE)** are included.

Shareholders are reminded that under the new Franchise agreement the Franchisee will have no option to negotiate with **BEN** on any matters and in particular margins & profit share after April 2019.

STRATEGIC PLANNING.

A new **Strategic Plan** was adopted in this financial year facilitated by an independent consultant. The board reviews strategic direction items at each board meeting. The branch in consultation with **BEN** developed an annual Business Plan.

Your board commenced **merger** discussions with another party. These talks made some positive progress in part enhanced by material contributions by **BEN**. However, these discussions have been suspended in the medium term, as it was difficult for your board to find a formulae that did not see an unacceptable reduction in shareholder value in the short to medium term.

RISK MANAGEMENT.

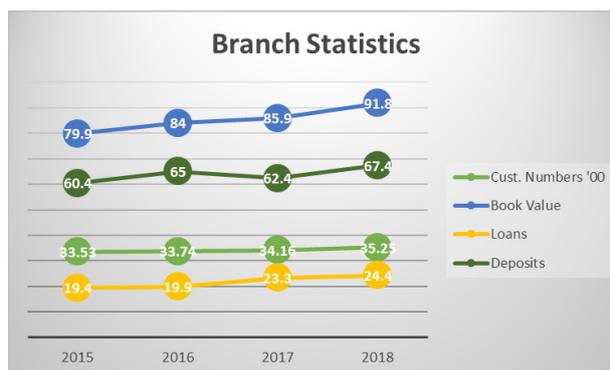
BBCFSL reviewed the Risk Management Plan during the year. No new Policy & Procedures were created this year.

SHAREHOLDERS FLUITY.

Shareholders are unable to sell their shares through the **Low Volume Market (LVM)** internet market for unlisted Public Companies despite its strong asset backing (88.8 cents) and earnings per share (12.4 cents). Your board has researched through other Community Banks this problem. In one case, sales were at a price significantly lower than the asset backing. Another listed its shares on a **Second Market Board** but found this unsatisfactory and is considering de listing.

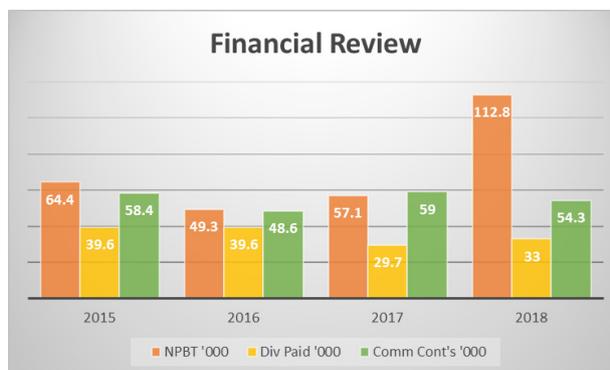
CUSTOMERS

The following graph shows the increase in customer numbers over the last five years.



FINANCIAL REVIEW.

Your Directors continue to steer a conservative course between its Banking Business & Community contribution. This graph shows Profit before Taxation, Dividends Paid & Community Contributions over the past 4 years.



PROFIT & LOSS.

BBCFSL must monitor its core business, Retail Banking Franchise, because this business provides the funds to support our Community Contributions and pay a Dividend to our Shareholders. The following Table sets out those segmental results.

INCOME STATEMENT	2016	2017	2018
	\$	\$	\$
Gross Income	748,860	766,319	823,163
Income From Banking	608,204	647,288	699,835
Cash Earnings From Banking	62,920	118,052	152,038
Community Services **	10,184	- 37,416	-17,458
Branch Profit Before Taxation	49,395	57,109	112,853

** Community Services Includes MDF received from BEN less Donations, Sponsorships & Contributions to the Community Enterprise Foundation (CEF), \$40,000 (2017 \$40,000) held for future Community Projects.

Margin Share has increased by 30.17 % over the last 3 years and Commission by 16.00% over the same period. Branch costs increased by 1.55% through the year.

In the context of the new Franchise Agreement commencing April 2019 including FTP, recent growth may not be sustained however very preliminary three year projections indicate that profitability could be reduced to pre-2018 levels.

BALANCE SHEET

BALANCE SHEET SUMMARY	2016	2017	2018
	\$	\$	\$
Total Current Assets	444,550	492,587	571,297
Total Current Liabilities	79,184	79,547	83,277
Working Capital	365,366	413,040	488,020
Shareholders Equity / Net Worth	516,619	533,964	586,078
Net Profit after Tax	36,361	41,401	81,815
Asset Backing per Share	0.78	0.81	0.88
Earnings per Share	0.05	0.06	0.12

GEOFFREY ELLISON. FCA. MAICD.

Deputy Chair

manager's report

as at 30 June 2018



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Financial Performance

Over the last financial year, the **Sanctuary Point & Districts Community Bank®** (the Branch) has achieved a 6.95% increase in its book of business. A commendable effort given the level of competition that exists in the financial sector. In dollar terms, this represents an increase of \$5.970 million throughout the year, and a year end position of \$91.861 million.

In summary, as at the end of 2018 financial year, the Branch's business is represented by:

- A total of 4,711 accounts, a net increase of 165 during the year
- Total book value of \$91.861 million
- Loan business of \$24.412 million (477 loan accounts, an increase of 18 for the year)
- Deposit business of \$67.449 million (4,234 deposit accounts, an increase of 147 for the year).

Staffing

The results the branch has been consistently achieving over the years can only be attributed to the team behind the branch. The branch team is a dedicated group of employees all working together towards the one goal, successful customers.

Our staff work with the philosophy, *if your customers are successful and your community is successful then the bank will be successful*. This helps the staff have a customer focused way of working and not focusing on profits or products, those will come.

Your Sanctuary Point Team



Keith ROBINSON –
Branch Manager, joined the company 2004

Kerry WELSH –
Customer Relationship Manager, joined the company 2013

Michael TOMSON –
Senior Customer Service Officer, joined the company 2011

Denzie TOWN –
Trainee Customer Service Officer, joined the company 2017

Ashley FAWCETT –
Trainee Customer Service Officer, joined the company 2018

Elodie MILES –
Trainee Customer Service Officer, joined the company 2018

Chloe GRIFFITHS (not in photo) –
School based trainee, joined the company 2018

Our team at the branch is working well together and developing into a solid group that is showing some good results and customer outcomes.

We have had some disruptions over the past 12 months with 2 staff leaving us and some new trainees joining the team. As with all trainees they take some time to gel with the team and start making meaningful contributions. They have now been with us long enough to be valued members of our team.

Moving forward I would think we can look forward to a more stable team over the coming 12 months, this should allow more and deeper development of all members of the branch staff, enhancing their skill levels and improving the customer experience.

Working in the Community

It's been another busy year for your **Community Bank®** in the Bay & Basin area. We have attended and contributed to many sponsorship events and community building projects.

A couple of the more notable are:

2018 Bendigo Bank Scholarships

This year we have three more very worthy recipients of our 2018 university scholarships. This scholarship is offered to local students who have completed the HSC and are enrolled in university.

The three deserving recipients of the Scholarship for 2018 are Charlie Baker, Lana Mercier & Hugh D'Ament (pictured below).



Charlie will be studying Bachelor of Creative Arts – Visual Arts & Design at University of Wollongong.

Lana plans to study Bachelor of International Studies & Bachelor of Media (Communication & Journalism) at University of New South Wales.

Hugh is studying Bachelor of International Security & Bachelor of Science at the Australian National University.

All three recipients were extremely happy to be given the opportunity to study their chosen fields with less of a financial burden than they would have been under without the support of Bendigo Bank Sanctuary Point, and the Branch is very proud to be able to enhance their university experience and helping these young people to achieve their dreams!

Annual Charity Golf Day & Auction

This years Annual Charity Golf and Auction Day raised funds to go towards the Children’s Ward at Shoalhaven District Hospital, to help out with the purchase of some much needed equipment for their Neo Natal Unit.

This day was again well supported by the business community of the Shoalhaven with over 100 items donated for the Charity Auction.



We will be running this Charity Day at the end of 2018, this year we have picked the Kids Wish Charity to be the recipient of the monies raised. The money will be used for children in the Shoalhaven area.

Keep your eye out for further details and get involved in what has fast become a great day.

2018 Wrap

This past year has been one of consolidation for the team at the branch, with some staff changes and new trainees joining us. We faced a few challenges to keep the service level at the standard we like to see, I feel we achieved this and have now set ourselves up with a young vibrant team that should serve us well moving forward over coming years.

We have been blessed with a dedicated team of directors who give freely of their time to keep the company business on track.

What we achieve in the branch would not be possible without this team of directors behind us backing what we do.

I would like to take this opportunity to publicly thank the Company’s Board of Directors and of course the team at the branch, you couldn’t wish for a better group to work with. They are a great group of people who have been achieving some good things for the Bay & Basin area. We are certainly punching above our weight in comparison to other community branches of our size.

I look forward to a bigger and better year in 2018/19 for our local **Community Bank**® and its board.

Keith G Robinson – Branch Manager

sponsorships/ grant allocations 2017-2018 Financial Year

During the year, many local organisations benefited from sponsorship and donations provided by your **Community Bank®**.

These included:-

- Bay & Basin Community Radio
- Sanctuary Point Public School
- Vincentia Primary School
- Jervis Bay Public School
- Cancer Care Support Group
- St Georges Basin Country Club Men's Golf
- St Georges Basin Bowls
- Vincentia Golf Club
- Vietnam Veterans Golf
- Community Enterprise Foundation
- Sanctuary Point Community Pride Group
- Bay & Basin Yacht Club
- St Georges Basin Football Club
- Bay & Basin Amateur Swimming Club
- St Georges Basin Hockey
- Youth Awards (local schools)
- Jervis Bay Fishing Club
- Seechange Arts Festival
- "About" monthly newsletter
- KidsFix Foundation
- NSW Justices Association
- Wildlife Rescue South Coast
- St Georges Basin Fishing Club

directors' report

Your directors submit the financial statements of the company for the financial year ended 30 June 2018.

DIRECTORS

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

Veronica Jean Husted
Chair
Retired Library Assistant

Qualifications, experience and expertise: Library Assistant, NSW Public Schools, Women's Employment Officer, NSW Public Service, Deputy Chair of Southern Cross Community Housing, President of Crossroads Rural Fire Brigade, Secretary of Sanctuary Point Community Pride Inc. and previous involvement in many aspects of the community. Has Certificate IV in Workplace Training and Assessment and a Diploma in Labour Law.
Special Responsibilities: Chair of Bay & Basin CFSL, Community Affairs, Human Resources & Finance Committees.
Interest in shares: 500

Geoffrey McNeil Clark Ellison
Director
Chartered Accountant & Business Advisor

Qualifications, experience and expertise: Chartered Accountant, Retired Insolvency Practitioner. Previous: Partner 2nd tier Chartered Accountancy practice. Current: Director/Treasurer Regional Maritime Museum, Trustee RSL Sub Branch. Mentor & Presenter Business Professional Association.
Special Responsibilities: Chair Governance & Audit Committee, Chair Finance Committee and Leader Strategic Planning sub committee.
Interest in shares: 1,000

Paul Jeffrey Hawkins
Director
Retired/Self Employed Marriage Celebrant

Qualifications, experience and expertise: Customer Service Officer with Centrelink involved in granting payments, raising debts and investigating fraud. Managed welfare centre plus outreach homes with 3 F/T and 4 P/T staff. Duties included OHS, HR, budgeting, submitting monthly/annual audit reports, training general running of centre. Financial counsellor with Creditline. Duties included negotiating with creditors, assisting clients with budgeting, counselling and some preparation and attendance at bankruptcy proceedings. Other employment included probation – parole, youth worker and over 20 years with NSW Police Service. Involved with NSW Justice Association, retired Police Association and complete volunteer work (court duties) with Shorehaven Community Legal Aid. Completed a BA Social Science and current listed Justice of Peace.
Special Responsibilities: Human Resources Committee
Interest in shares: Nil

David Patrick Walsh
Director
Retired

Qualifications, experience and expertise: Retired former senior executive with the Australian Government after a 37 year career. Held various positions including State Director (NSW) and Global Manager (Refugee & Humanitarian Visas) with the Department of Immigration and Border Protection, Area Manager (West NSW) and Area Manager (East Coast NSW) with Centrelink and Regional Manager (NSW & ACT) with the Department of Agriculture. Currently Secretary of Crossroads Rural Fire Service, and a volunteer firefighter. Master of Public Administration (Syd). Skills include human resource management, governance, strategic planning and community relations. A strong record of volunteering in various local communities.
Special Responsibilities: Human Resources, Governance & Audit Committees
Interest in shares: Nil

directors' report continued

Foty Gregory Loupos
Director
Deputy Principal

Qualifications, experience and expertise: Deputy Principal at Nowra High School, Lecturer Tutor and Trainer. Counsellor, Traditional Chinese medicine Therapist and Clinical Hypnotherapist. Business Development, Consultancy and Mercantile Agent. Qualifications include Bachelor of Commerce - Hospitality Management & Marketing at UNSW, Diploma of Project Management - Organisational Management via Projects, Certificate IV Workplace Training & Assessment, Master Teaching USYD, Master Education CSU, PhD candidature - Leadership and Strategy UoW.
Special Responsibilities: Marketing, Community Liaison & Strategy Committees.
Interest in shares: Nil

Ian Spencer Frank Mackelden
Director (*Appointed 1 August 2017*)
Retired

Qualifications, experience and expertise: Involvement as previous Vice President Lady Denman Maritime Museum. Advisor to Board – Australian Skin and Cancer Foundation. Past Board Director of Clemenger BBDO Direct, BBDC Direct New York and Lintas Advertising (Unilever). Accredited MBA – International Management, Tuck School of Business Dartmouth College – New Hampshire USA. Director of Business Development Asia Pacific Wonderman Y&R Advertising.
Special Responsibilities: Marketing Committee
Interest in shares: Nil

Allen Christian Kruse
Director (*Resigned 28 November 2017*)
Retired

Qualifications, experience and expertise: Early banking experience with Bank of New South Wales and Banque Nationale De Paris. Principal career with Department of Social Security and Centrelink IT specialising in business analysis, system design, project management and executive management. President of Sanctuary Point Community Pride Inc. Heavily involved in the development of Clifton Community Food Garden and Chillout Youth Centre.
Special Responsibilities: Community Affairs Committee
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

Keith Gordon Robinson was appointed as company secretary on 25 August 2010. Keith holds a Diploma in Business and has experience in the finance sector, as well as the real estate industry.

PRINCIPAL ACTIVITIES

The principal activities of the company during the financial year were facilitating **Community Bank®** services under management rights to operate a franchised branch 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	
	2018	2017
	\$	\$
	81,814	41,401

DIVIDENDS

	Year Ended 30 June 2018	
Dividends	Cents	\$
Dividends paid in the year	4.5	29,700

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 of 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.

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' report continued

DIRECTORS' MEETINGS

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

	Committee Meetings Attended							
	Board Meetings Attended		Governance & Audit		Human Resources		Marketing	
	A	B	A	B	A	B	A	B
Veronica Jean Husted	11	11	-	-	5	5	-	-
Geoffrey McNiel Clark Ellison	11	11	8	8	-	-	-	-
Paul Jeffrey Hawkins	11	10	-	-	5	5	-	-
David Welsh	11	9	8	8	5	5	-	-
Foty Gregory Loupos	11	8	-	-	-	-	4	3
Ian Spencer Frank Mackelden <i>(Appointed 1 August 2017)</i>	10	6	-	-	-	-	-	-
Allen Christian Kruse <i>(Resigned 28 November 2017)</i>	5	5	-	-	-	-	-	-

A - Eligible to attend, B - Number attended

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, in accordance with the advice received from the governance & audit committee 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 audit committee 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.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

Signed in accordance with a resolution of the board of directors at Sanctuary Point, New South Wales on 28 August 2018.



Veronica Jean Husted, Chair

auditor's independence declaration



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

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As lead auditor for the audit of Bay & Basin Community Financial Services Limited for the year ended 30 June 2018, 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: 28 August 2018

David Hutchings
Lead Auditor

statement of profit or loss and other comprehensive income

for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Revenue from ordinary activities	4	823,162	766,319
Employee benefits expense		(367,477)	(361,256)
Charitable donations, sponsorship, advertising and promotion		(73,261)	(70,603)
Occupancy and associated costs		(53,815)	(50,117)
Systems costs		(19,644)	(19,310)
Depreciation and amortisation expense	5	(21,729)	(23,527)
General administration expenses		(174,385)	(184,398)
Profit before income tax expense		112,851	57,108
Income tax expense	6	(31,037)	(15,707)
Profit after income tax expense		81,814	41,401
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		81,814	41,401
Earnings per share		¢	¢
- Basic earnings per share	22	12.40	6.27

The accompanying notes for part of these financial statements

balance sheet

as at 30 June 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	502,974	418,252
Trade and other receivables	8	68,323	74,436
Total Current Assets		571,297	492,688
Non-Current Assets			
Property, plant and equipment	9	90,610	97,045
Intangible assets	10	10,307	24,051
Deferred tax assets	11	3,702	4,536
Total Non-Current Assets		104,619	125,632
Total Assets		675,916	618,320
LIABILITIES			
Current Liabilities			
Trade and other payables	12	20,229	30,956
Current tax liabilities	11	19,475	3,805
Provisions	13	43,573	44,889
Total Current Liabilities		83,277	79,650
Non-Current Liabilities			
Provisions	13	6,561	4,706
Total Non-Current Liabilities		6,561	4,706
Total Liabilities		89,838	84,356
Net Assets		586,078	533,964
Equity			
Issued capital	14	624,056	624,056
Accumulated losses	15	(37,978)	(90,092)
Total Equity		586,078	533,964

The accompanying notes for part of these financial statements

statement of changes in equity

for the financial year ended 30 June 2018

	Notes	Issued Capital \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2016		624,056	(101,793)	522,263
Total comprehensive income for the year		-	41,401	41,401
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(29,700)	(29,700)
Balance at 30 June 2017		624,056	(90,092)	533,964
Balance at 1 July 2017		624,056	(90,092)	533,964
Total comprehensive income for the year		-	81,814	81,814
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(29,700)	(29,700)
Balance at 30 June 2018		624,056	(37,978)	586,078

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statement of cashflows

for the financial year ended 30 June 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		898,074	828,286
Payments to suppliers and employees		(775,051)	(753,051)
Interest received		7,464	7,584
Income taxes paid		(14,532)	(7,413)
Net cash provided by operating activities	16	115,955	75,406
Cash flows from investing activities			
Payments for property, plant and equipment		(1,533)	(150)
Net cash used in investing activities		(1,533)	(150)
Cash flows from financing activities			
Dividends paid	20	(29,700)	(29,700)
Net cash used in financing activities		(29,700)	(29,700)
Net increase in cash held		84,722	45,556
Cash and cash equivalents at the beginning of the financial year		418,252	372,696
Cash and cash equivalents at the end of the financial year	7(a)	502,974	418,252

The accompanying notes for part of these financial statements

notes to the financial statements

for the financial year ended 30 June 2018

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 Standard 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 a number of amendments to accounting standards issued by the AASB that became mandatorily effective for accounting periods beginning on or after 1 July 2017, and are therefore relevant for the current financial year.

AASB 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This accounting standard is not expected to have a material impact on the financial statements.

AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. This accounting standard is not expected to have a material impact on the financial statements.

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 2016. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

AASB 16 Leases is effective for annual periods beginning on or after 1 January 2019. The standard 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.

The company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the company's borrowing rate at 1 January 2019, the composition of the lease portfolio at that date, the latest assessment of whether the company will exercise any lease renewal options and the extent to which the company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating lease of its branch. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to \$21,943, on an undiscounted basis (see Note 17).

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

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®** branch at Sanctuary Point, New South Wales.

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®** branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank®** branch 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.

notes to the financial statements continued

for the financial year ended 30 June 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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®** branch 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®** branch;
- 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.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and any specific criteria have been met. 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.

Note: In very simplified terms, currently, deposit return means the interest Bendigo and Adelaide Bank Limited gets when it invests the money the customer deposits with it. The cost of funds means the interest Bendigo and Adelaide Bank Limited pays when it borrows the money to give a customer a loan.

For those products and services on which margin is paid, 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.

Products and services on which margin is paid include variable rate deposits and variable rate home loans.

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.

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 unrefundable).

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.

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 company entity intends to settle its tax assets and liabilities on a net basis.

notes to the financial statements continued

for the financial year ended 30 June 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 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 gain from bargain purchase.

d) Employee Entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date.

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The company contributes to a defined contribution plan. Contributions to employee superannuation funds are charged against income as incurred.

e) 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.

f) 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.

g) 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

h) 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.

i) Payment Terms

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

j) Borrowings

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

k) 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 are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

ii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iii. 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.

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

l) 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.

m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly

recommended on or before the reporting date.

n) 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.

o) 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.

p) 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.

notes to the financial statements continued

for the financial year ended 30 June 2018

NOTE 2. FINANCIAL RISK MANAGEMENT CONTINUED

(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. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

(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 2018 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.

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.

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.

notes to the financial statements continued

for the financial year ended 30 June 2018

NOTE 4. REVENUE FROM ORDINARY ACTIVITIES

	2018 \$	2017 \$
Operating activities:		
- gross margin	434,236	385,976
- services commissions	175,262	165,176
- fee income	81,853	90,393
- market development fund	35,000	35,000
- community newsletter	88,328	82,161
Total revenue from operating activities	814,679	758,706
Non-operating activities:		
- interest received	7,464	7,584
- profit on sale of property, plant and equipment	19	-
- other revenue	1,000	29
Total revenue from non-operating activities	8,483	7,613
Total revenues from ordinary activities	823,162	766,319

NOTE 5. EXPENSES

	2018 \$	2017 \$
Depreciation of non-current assets:		
- plant and equipment	6,031	7,830
- leasehold improvements	1,954	1,954
Amortisation of non-current assets:		
- franchise agreement	2,295	2,295
- franchise renewal fee	11,449	11,448
	21,729	23,527
Bads debts	736	264

NOTE 6. INCOME TAX EXPENSE

		2018 \$	2017 \$
The components of tax expense comprise:			
- Current tax		30,202	13,995
- Movement in deferred tax		835	1,712
		31,037	15,707
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		112,851	57,108
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)		31,034	15,705
Add tax effect of:			
- non deductible expenses		75	-
- timing difference expenses		(902)	(1,712)
- other deductible expenses		(5)	-
		30,202	13,995
Movement in deferred tax	11	835	1,712
		31,037	15,707

NOTE 7. CASH AND CASH EQUIVALENTS

		2018 \$	2017 \$
Cash at bank and on hand		215,084	68,594
Term deposits		287,890	349,658
		502,974	418,252

Note 7. (a) Reconciliation to cash flow statement

		2018 \$	2017 \$
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		215,084	68,594
Term deposits		287,890	349,658
		502,974	418,252

NOTE 8. TRADE AND OTHER RECEIVABLES

		2018 \$	2017 \$
Trade receivables		57,981	60,141
Prepayments		7,429	11,732
Other receivables and accruals		2,913	2,563
		68,323	74,436

notes to the financial statements

 continued

for the financial year ended 30 June 2018

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

	2018 \$	2017 \$
Leasehold improvements		
At cost	78,165	78,165
Less accumulated depreciation	(27,818)	(25,864)
	50,347	52,301
Plant and equipment		
At cost	141,203	139,672
Less accumulated depreciation	(100,940)	(94,928)
	40,263	44,744
Total written down amount	90,610	97,045
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	52,302	54,255
Less: depreciation expense	(1,954)	(1,954)
Carrying amount at end	50,348	52,301
Plant and equipment		
Carrying amount at beginning	44,744	52,424
Additions	1,795	150
Disposals	(245)	-
Less: depreciation expense	(6,031)	(7,830)
Carrying amount at end	40,263	44,744
Total written down amount	90,610	97,045

NOTE 10. INTANGIBLE ASSETS

	2018 \$	2017 \$
Franchise fee		
At cost	82,930	82,930
Less: accumulated amortisation	(81,170)	(78,875)
	1,760	4,055
Renewal processing fee		
At cost	114,645	114,645
Less: accumulated amortisation	(106,098)	(94,649)
	8,547	19,996
Total written down amount	10,307	24,051

NOTE 11. TAX

	2018 \$	2017 \$
Current:		
Income tax payable	19,475	3,805
Non-Current:		
Deferred tax assets		
- accruals	770	743
- employee provisions	13,787	13,638
	14,557	14,381
Deferred tax liability		
- accruals	722	722
- property, plant and equipment	10,133	9,123
	10,855	9,845
Net deferred tax asset	3,702	4,536
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	835	1,712

notes to the financial statements continued

for the financial year ended 30 June 2018

NOTE 12. TRADE AND OTHER PAYABLES

	2018 \$	2017 \$
Current:		
Trade creditors	3,160	5,268
Other creditors and accruals	17,069	25,688
	20,229	30,956

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NOTE 13. PROVISIONS

	2018 \$	2017 \$
Current:		
Provision for annual leave	16,667	20,472
Provision for long service leave	26,906	24,417
	43,573	44,889
Non-Current:		
Provision for long service leave	6,561	4,706

NOTE 14. ISSUED CAPITAL

	2018 \$	2017 \$
660,000 Ordinary shares fully paid (2017; 660,000)	660,000	660,000
Less: equity raising expenses	(35,944)	(35,944)
	624,056	624,056

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 share holding 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 share holding interest

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

In summary, a person has a prohibited share holding 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 share holding provision is to reflect the community-based nature of the company.

Where a person has a prohibited share holding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited share holding 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 share holding interest. If the board becomes aware that a member has a prohibited share holding 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.

notes to the financial statements continued

for the financial year ended 30 June 2018

NOTE 15. ACCUMULATED LOSSES

	2018 \$	2017 \$
Balance at the beginning of the financial year	(90,092)	(101,793)
Net profit from ordinary activities after income tax	81,814	41,401
Dividends provided for or paid	(29,700)	(29,700)
Balance at the end of the financial year	(37,978)	(90,092)

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NOTE 16. STATEMENT OF CASH FLOWS

	2018 \$	2017 \$
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	81,814	41,401
Non cash items:		
- depreciation	7,985	9,784
- amortisation	13,744	13,743
- profit on disposal of asset	(19)	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	6,113	(8,791)
- (increase)/decrease in other assets	835	4,489
- increase/(decrease) in payables	(10,725)	13,042
- increase/(decrease) in provisions	538	(2,067)
- increase/(decrease) in current tax liabilities	15,670	3,805
Net cash flows provided by operating activities	115,955	75,406

NOTE 17. LEASES

	2018 \$	2017 \$
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	21,943	28,729
- between 12 months and 5 years	-	21,547
	21,943	50,276

The rental lease agreement on the branch premises is a non-cancellable lease with a five year term, with rent payable monthly in advance. The current lease was renewed on 21 March 2014 and expires on 21 March 2019, with the option of a further 5 year term available to be exercised.

NOTE 18. AUDITORS' REMUNERATION

	2018 \$	2017 \$
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,400	4,990
- share registry services	5,772	5,059
- non-audit services	2,682	1,550
	12,854	11,599

NOTE 19. DIRECTOR AND RELATED PARTY DISCLOSURES

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

Veronica Jean Husted

Geoffrey McNiel Clark Ellison

Paul Jeffrey Hawkins

David Walsh

Foty Gregory Loupos

Ian Spencer Frank Mackelden (Appointed 1 August 2017).

Allen Christian Kruse (Resigned 28 November 2017)

No director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

Directors Shareholdings

	2018 \$	2017 \$
Veronica Jean Husted	500	500
Geoffrey McNiel Clark Ellison	1,000	1,000
Paul Jeffrey Hawkins	-	-
David Walsh	-	-
Foty Gregory Loupos	-	-
Ian Spencer Frank Mackelden (Appointed 1 August 2017)	-	-
Allen Christian Kruse (Resigned 28 November 2017)	-	-

There was no movement in directors share holding during the year.

notes to the financial statements continued

for the financial year ended 30 June 2018

NOTE 20. DIVIDENDS PROVIDED FOR OR PAID

	2018 \$	2017 \$
a. Dividends paid during the year		
Current year dividend		
100% (2017: 100%) franked dividend - 4.5 cents (2017: 6 cents) per share	29,700	29,700
The tax rate at which dividends have been franked is 27.5% (2017: 27.5%)		
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	36,274	33,010
- franking credits that will arise from payment of income tax as at the end of the financial year	19,475	3,805
Franking credits available for future financial reporting periods:	55,749	36,815
Net franking credits available	55,749	36,815

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

	2018 \$	2017 \$
a. Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	81,814	41,401
	Number	Number
b. Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	660,000	660,000

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 Sanctuary Point and Districts, New South Wales 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

1/200 Kerry Street
Sanctuary Point NSW 2540

Principal Place of Business

1/200 Kerry Street
Sanctuary Point NSW 2540

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 rate		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial Assets												
Cash and cash equivalents	214,975	68,519	287,890	349,658	-	-	-	-	109	75	1.57	1.84
Receivables	-	-	-	-	-	-	-	-	57,981	60,141	N/A	N/A
Financial Liabilities												
Payables	-	-	-	-	-	-	-	-	3,160	5,268	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.

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 2018, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2018	2017		2018	2017
	\$	\$		\$	\$
Change in profit/(loss)			Change in equity		
- Increase in interest rate by 1%	5,029	4,182	- Increase in interest rate by 1%	5,029	4,182
- Decrease in interest rate by 1%	-	-	- Decrease in interest rate by 1%	-	-

director's declaration

year ended 30 June 2018

In accordance with a resolution of the directors of Bay & Basin Community 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 2018 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.



Veronica Jean Husted,
Chair
Signed on 28th of August 2018.

independent auditor's 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 Bay & Basin Community Financial Services Limited

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Report on the audit of the financial statements

Our opinion

In our opinion, the financial report of Bay & Basin Community 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 2018 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

What we have audited

Bay & Basin Community 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 entity.

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.

independent auditor's report

continued

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 so 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: 28 August 2018



David Hutchings
Lead Auditor



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www.aboutbayandbasin.org