



Heathcote & District  
Financial Services Limited

ABN 46 086 749 886

**ANNUAL  
REPORT  
2013**

# Contents

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# Chairman's report

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For year ending 30 June 2013

The past year has been one of growth and improvement for the Heathcote & District **Community Bank**<sup>®</sup> Branch.

It is with pleasure and a great deal of satisfaction that the Board of Directors of Heathcote & District Financial Services Ltd, the operators of the Heathcote & District **Community Bank**<sup>®</sup> Branch, have again declared a dividend for our shareholders, to be paid out of the profit made in the eighth year of operation.

To the end of the financial year 2012/2013, the Heathcote & District **Community Bank**<sup>®</sup> Branch was able to report an after-income-tax profit of \$72,425 after depositing \$220,000 into the Community Enterprise Foundation™ for use at a future date, from revenue of \$877,006. As a result, the Directors have been able to declare a dividend of 10 cents per share.

The Directors and the staff are delighted that the **Community Bank**<sup>®</sup> branch has again been able to produce this very satisfying outcome.

This Chairman's report covers the eighth year of trading by the Heathcote & District **Community Bank**<sup>®</sup> Branch which opened for business on 1 July 2005.

As mentioned earlier, it has been a year of growth and improvement. The Directors have worked hard in a number of areas to not only consolidate the strength of your locally owned **Community Bank**<sup>®</sup> branch, but the Board has made significant moves towards building the business into the future.

A not insignificant staffing restructure has allowed the Heathcote & District **Community Bank**<sup>®</sup> Branch to put considerable effort into building the business further through our agency in the township of Nagambie.

During the year we welcomed experienced banker Geoff Milward to the staff in the role of Customer Relationship Officer, with a view to giving him added responsibility for assisting a concerted push into the Nagambie market. The Board is confident that its investment in Nagambie will pay dividends – both for the Heathcote & District **Community Bank**<sup>®</sup> Branch and the Nagambie community.

The introduction of Geoff Milward onto the staff followed the departure of long serving customer service officer Jodie Rowe, who accepted a senior role within the bank in Bendigo. The company also welcomed the addition of well-known Heathcote resident Chelsea Wearne, who joins Teri Johnson, Krystal Eickert, and Jo Jacobs under the watchful eye of our very experienced and capable Manager Les Owens.

The Board has been extremely pleased that Mr Owens has been able to record another outstanding result in difficult banking circumstances. Our Company Secretary, Hannah Thompson, also worked diligently throughout the year. Hannah's determination to ensure the smooth running of the Board and attain a mastery of the myriad of tasks demanded of company secretaries these days has been an inspiration to those who work with her.

Hannah, with the support of the Board, is working with our staff on innovative ways to expand our reach and penetration into the marketplace using modern technology and techniques including social media. The Board is keen to explore all avenues and we are pleased that we have the right people who are able to help the company stay at the forefront of technology.

In another technological event during the year, the Heathcote & District **Community Bank**<sup>®</sup> Branch agreed to a request from the Bendigo and Adelaide Bank and Bendigo Community Telco to host a pilot project to test a radical new payment system using smart phones. Five local businesses agreed to be "test merchants" as well as several dozen customers who were also smart phone users. The trial of the new technology was extremely successful and it was a point of pride that Heathcote was one of just two **Community Bank**<sup>®</sup> branches in Australia to take part. We look forward to watching the new technology rolled out in the future.

## Chairman's report (continued)

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The Board itself has been stable throughout the year with all members contributing to the strength of the company by bringing their experience, skills and professional attributes to the boardroom table. Heathcote & District Financial Services Ltd. is fortunate to have such a group of dedicated people prepared to put in hours of work for their community in an honorary capacity.

Once again during the year, a number of significant grants were delivered as part of our annual program. These included the very popular breakfast program at district schools and a much needed grant to renovate part of the Heathcote Showgrounds for the AP&H Society. On top of that, Heathcote & District **Community Bank**<sup>®</sup> Branch has been able to give sponsorship support to local organisations with community focussed programs. These include paying for driving lessons for district learners, and assistance for a number of local festivals including the highly successful Heathcote Wine and Food Festival.

There were donations and sponsorships for a variety of sporting and cultural groups, assistance with transport for the Heathcote Hydrotherapy Group, and support for, among others, the film festival and Heathcote on Show.

After eight years, your **Community Bank**<sup>®</sup> branch is a long way down the track from the fledgling business which began in temporary premises on 1 July 2005. We've been through turbulent economic times, we've had changes in staff and changes in Directors, but we have never changed our goals – to provide excellent, stable banking services in the township of Heathcote, to build a locally owned business, and to return the profits from that business to the community.

The operation of the Heathcote & District **Community Bank**<sup>®</sup> Branch would not be possible without our partners, Bendigo and Adelaide Bank and I take this opportunity to personally thank the branch staff, in particular, Regional Manager Wayne Tobin, for an outstanding level of guidance and assistance.

The Board this year adopted a mission statement which sums up our reason for being:

Heathcote & District **Community Bank**<sup>®</sup> Branch is owned by the community. We provide excellent banking services and return the profits to the community by way of grants, sponsorships, donations and dividends.

Your community company is working hard but to remain successful, it needs all of our shareholders to be customers, and all of our customers to be ambassadors.



**Barry Gail**  
**Chairman.**

# Manager's report

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For year ending 30 June 2013

Again this year we are faced with a competitive and challenging financial environment. Decreasing interest rates, which are being used to revive the economy, are benefiting our new and existing lending customers, but our deposit holders or potential deposit customers continue to look for competitive interest rates. Despite all this, to the branch's credit, we have grown our total business by 4.1% to \$86.7 million.

Customer numbers are at 2,100 and over the counter transactions are 2,000 per month, which is similar to last financial year. More pleasing though is the fact that our products per customer continue to increase with the average product per customer now at 2.010 which reflects on the range of accounts and products available.

Open 24 hours per day, seven days per week, our ATM continues to average 5,000 transactions per month.

The branch has been well represented by our qualified Financial Planner Tim Tremain Dip FS (FP). We encourage district residents, including our shareholders, to come in to the branch or phone the branch who are more than happy to make an appointment for you.

Since last year's report we have had two staff changes, Jodie and Heidi have both taken on positions in the Bendigo Centre. Both have been valuable assets to the branch and we wish them well for their future.

We have welcomed Geoffrey Milward from the Bellarine Peninsula, where he serviced both Portarlington and Drysdale **Community Bank**<sup>®</sup> branches as their mobile Customer Relationship Manager. Geoff's vast experience in banking has enabled him to make a smooth transition in his new role as the Customer Relationship Manager in Heathcote.

We have also welcomed our new part time customer service officer Chelsea Wearne, a local resident who is well known in the community.

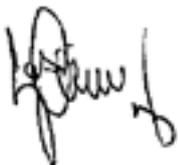
Our agency in Nagambie operated by husband and wife team, Mick and Joanne Mitchell, continues to gather momentum with total balances now exceeding \$3.6 million. Well done Mick and Joanne on their efforts.

The **Community Bank**<sup>®</sup> branch wouldn't be where it is without the support of our Board members and our Bendigo and Adelaide Bank State Support Team. Both have played a crucial role in the further development of the branch, especially succession planning, so that the same quality and level of service and advice will continue into the future. Thank you from all the staff on your ongoing support.

Speaking of staff, I would also like to thank my staff for their professional approach to their duties and their day to day dealings with our customers. Well done to all.

As our Chairman has mentioned in his report, continuing support from the community will further grow the branch balances, in turn returning more to the community in the way of grants, donations and sponsorships.

Thank you to the people of Heathcote and district for their continuing support which has made your **Community Bank**<sup>®</sup> branch a success.



**Les Owens**  
**Branch Manager.**

# Directors' report

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For the financial year ended 30 June 2013

Your directors submit the financial statements of the company for the financial year ended 30 June 2013.

## Directors

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

### Barry Maxwell Cail

Chairman

Occupation: Journalist/Business Owner

Experience & expertise: Career in journalism

Interests in shares: 2,001

### Simon Osicka

Director

Occupation: Wine maker

Experience & expertise: Many years experience in the field of business management including extensive winemaking and associate business processes.

Involved in the marketing sub-committee.

Interest in shares: 1,001

### Rachel Alice Paterson

Director

Occupation: Manager Heathcote Wine Hub and

Principal of Paterson PR

Experience & expertise: Grad Diploma PR, community engagement

Interests in shares: Nil

### Ian Rohde

Director

Occupation: Company Director

Experience & expertise: Managing Director of Warakirri Asset Management for 15 years. Worked for 25 years in investment industry following a period of 11 years with former State Electricity Commission of Victoria in a variety of treasury, accounting and middle management roles.

Previously been on Boards of Jigsaw Foundation, Old Colonists Association of Victoria and Advisory Council for Children With Impaired Hearing (Vic).

Interest in shares: Nil

### Joseph Zurek

Deputy Chairman

Occupation: Retired

Experience & expertise: Corporate accountant, Supermarket proprietor

Interests in shares: 10,001

### Gregory Ian Speirs

Director

Occupation: Retired

Experience & expertise: Local Government

Lions Club Treasurer, Bowls Club president, Lions Club member

Licensed surveyor, Town planner, Justice of the peace

Interests in shares: 5,000

### Velvet Emma-Louise Kay

Director

Occupation:

Experience & expertise: Bachelor of Science, Secretary of the Heathcote Tennis Club and Journalist.

Interest in shares: Nil

### Hannah Faith Thomson

Director

Occupation: Company Secretary

Experience & expertise: Previously director for Heathcote &

District Financial Services

Interest in shares: Nil

# Directors' report (continued)

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## Directors (continued)

### David John Smith

Director

Occupation: Managing Director "Risk Matters"

Experience & expertise: Certified practicing risk manager with experience in governance, risk management, business continuity and emergency management, B.A. (Hon), La Trobe, Dip Th, Sydney, Dip Compensation Management, ACM, Certificate 3 in Australian Business Enterprise Frameworks (ABEF), 2003, MBTI Accreditation Course, ACER, 1996 and Youth Training Leadership Training, Cumberland, 1974

Memberships: Risk Management Institute of Australasia (RMIA), Member NZ Society for Risk Management (NZRM), Professional Risk Managers International Association (PRIMA), International Association of Emergency Managers (IAEM), Global Association of Risk Professionals (GARP), International Society for Risk Analysis (SRA), Business Continuity Institute (BCI)

Interest in shares: Nil

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

## Company Secretary

Hannah Thomson is the current company secretary. Hannah was appointed to the role on 7 October 2012. Hannah has extensive experience in the areas of managing accounts and customer service.

## Principal Activities

The principal activities of the company during the course of the financial year were in facilitating **Community Bank**<sup>®</sup> 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 2013 \$	Year ended 30 June 2012 \$
	72,425	82,994

# Directors' report (continued)

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## **Remuneration Report**

No director of the Company receives remuneration for services as a Company Director or Committee Member.

The Board's policy in respect of the Branch Manager is to maintain remuneration at parity within the **Community Bank**<sup>®</sup> network and local market rates for comparable roles.

There are no Company executives who are directly accountable and responsible for the strategic direction of the entity. This is wholly a Board role (who act in a voluntary capacity).

## **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.

## **Matters Subsequent to 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' report (continued)

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## Directors' Meetings

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

Director	Number of Board Meetings	
	Eligible to attend	Number attended
Barry Maxwell Cail	12	12
Joseph Zurek	12	11
Simon Osicka	12	10
Gregory Ian Speirs	12	9
Rachel Alice Paterson	12	7
Ian Rohde	12	9
Hannah Faith McCarthy	10	9
David John Smith	8	8
Velvet Emma-Louise Kay	12	9

The Board has sub-committees for Audit & Governance, Marketing & Human Resources and Risk & Strategy. Sub-committees met on an adhoc basis and do not maintain official records and report to Board meetings as required.

## 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 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.

## Directors' report (continued)

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### **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 10.

Signed in accordance with a resolution of the board of directors at Heathcote, Victoria on 12 September 2013.

A handwritten signature in black ink, appearing to read 'Barry Maxwell Cail', written in a cursive style.

**Barry Maxwell Cail,  
Chairman**

# Auditor's independence declaration



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

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

A handwritten signature in dark ink, appearing to read 'Graeme Stewart', is written over a light blue horizontal line.

Graeme Stewart  
Andrew Frewin Stewart  
61 Bull Street, Bendigo Vic 3550

Dated: 12 September 2013

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 61 061 795 037.

P: (03) 5443 0344 | F: (03) 5443 5304 | 61-65 Bull St./PO Box 454 Bendigo Vic. 3552 | [afs@afsbendigo.com.au](mailto:afs@afsbendigo.com.au) | [www.afsbendigo.com.au](http://www.afsbendigo.com.au)

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# Financial statements

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## Statement of Comprehensive Income for the Year Ended 30 June 2013

	Note	2013 \$	2012 \$
Revenues from ordinary activities	4	877,006	825,620
Employee benefits expense		(339,544)	(298,772)
Charitable donations, sponsorship, advertising and promotion		(245,771)	(216,186)
Occupancy and associated costs		(42,455)	(47,272)
Systems costs		(19,639)	(19,832)
Depreciation and amortisation expense	5	(25,006)	(26,550)
General administration expenses		(101,127)	(104,394)
<b>Profit before income tax expense</b>		<b>103,464</b>	<b>112,614</b>
Income tax expense	6	(31,039)	(29,620)
<b>Profit after income tax expense</b>		<b>72,425</b>	<b>82,994</b>
<b>Total comprehensive income for the year</b>		<b>72,425</b>	<b>82,994</b>
<b>Earnings per share (cents per share)</b>		<b>c</b>	<b>c</b>
- basic profit for the year	22	12.17	13.95

The accompanying notes form part of these financial statements.

# Financial statements (continued)

## Balance Sheet as at 30 June 2013

	Note	2013 \$	2012 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	361,143	328,566
Trade and other receivables	8	52,478	63,030
<b>Total Current Assets</b>		<b>413,621</b>	<b>391,596</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	59,682	70,737
Intangible assets	10	36,302	50,253
<b>Total Non-Current Assets</b>		<b>95,984</b>	<b>120,990</b>
<b>Total Assets</b>		<b>509,605</b>	<b>512,586</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	6,374	8,455
Current tax liabilities	11	3,708	13,669
Provisions	13	-	3,962
<b>Total Current Liabilities</b>		<b>10,082</b>	<b>26,086</b>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities	11	509	420
<b>Total Non-Current Liabilities</b>		<b>509</b>	<b>420</b>
<b>Total Liabilities</b>		<b>10,591</b>	<b>26,506</b>
<b>Net Assets</b>		<b>499,014</b>	<b>486,080</b>
<b>Equity</b>			
Issued capital	14	558,357	558,357
Accumulated losses	15	(59,343)	(72,277)
<b>Total Equity</b>		<b>499,014</b>	<b>486,080</b>

The accompanying notes form part of these financial statements.

## Financial statements (continued)

### Statement of Changes in Equity for the Year Ended 30 June 2013

	Issued Capital \$	Retained Earnings \$	Total Equity \$
<b>Balance at 1 July 2011</b>	<b>558,357</b>	<b>(107,678)</b>	<b>450,679</b>
<b>Total comprehensive income for the year</b>	-	<b>82,994</b>	<b>82,994</b>
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(47,593)	(47,593)
<b>Balance at 30 June 2012</b>	<b>558,357</b>	<b>(72,277)</b>	<b>486,080</b>
<b>Balance at 1 July 2012</b>	<b>558,357</b>	<b>(72,277)</b>	<b>486,080</b>
<b>Total comprehensive income for the year</b>	-	<b>72,425</b>	<b>72,425</b>
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(59,491)	(59,491)
<b>Balance at 30 June 2013</b>	<b>558,357</b>	<b>(59,343)</b>	<b>499,014</b>

The accompanying notes form part of these financial statements.

# Financial statements (continued)

## Statement of Cashflows for the Year Ended 30 June 2013

	Note	2013 \$	2012 \$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		957,979	861,898
Payments to suppliers and employees		(845,024)	(770,805)
Interest received		20,024	20,390
Income taxes paid		(40,911)	(16,051)
<b>Net cash provided by operating activities</b>	<b>16</b>	<b>92,068</b>	<b>95,432</b>
<b>Cash Flows From Investing Activities</b>			
Payments for property, plant and equipment		-	(406)
<b>Net cash used in investing activities</b>		<b>-</b>	<b>(406)</b>
<b>Cash Flows From Financing Activities</b>			
Dividends paid		(59,491)	(47,593)
<b>Net cash used in financing activities</b>		<b>(59,491)</b>	<b>(47,593)</b>
<b>Net increase/ in cash held</b>		<b>32,577</b>	<b>47,433</b>
Cash and cash equivalents at the beginning of the financial year		328,566	281,133
<b>Cash and cash equivalents at the end of the financial year</b>	<b>7(a)</b>	<b>361,143</b>	<b>328,566</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

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For year ended 30 June 2013

## 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 Boards 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 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.

#### Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. Amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met. This amendment has not affected the presentation of the statement of comprehensive income of the company in the current period and is not likely to affect future periods.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2012.

# Notes to the financial statements (continued)

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## Note 1. Summary of Significant Accounting Policies (continued)

### a) Basis of Preparation (continued)

#### 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**<sup>®</sup> branch at Heathcote, 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**<sup>®</sup> branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**<sup>®</sup> 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.

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank**<sup>®</sup> 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 in relation to:

- advice and assistance in relation to the design, layout and fit out of the **Community Bank**<sup>®</sup> 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; and
- 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 benefit 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 with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the company. First, the company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the company that are regarded as “day to day” banking business (ie ‘margin business’). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the company effectively incurs, and must bear, 50% of that loss.

# Notes to the financial statements (continued)

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## Note 1. Summary of Significant Accounting Policies (continued)

### **b) Revenue (continued)**

#### Revenue calculation (continued)

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (i.e. 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 and February 2013 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank**<sup>®</sup> partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank**<sup>®</sup> companies remain balanced.

The third source of revenue is a proportion of the fees and charges (ie, what are commonly referred to as 'bank fees and charges') charged to customers. This proportion, determined by Bendigo and Adelaide Bank Limited, may vary between products and services and may be amended by Bendigo and Adelaide Bank Limited from time to time.

### **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 refundable).

#### 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 consolidated 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)

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## 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 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) 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 is reviewed at the end of each annual reporting period.

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

- leasehold improvements	40 years
- plant and equipment	2.5 - 40 years
- furniture and fittings	4 - 40 years

# Notes to the financial statements (continued)

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## Note 1. Summary of Significant Accounting Policies (continued)

### **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.

#### 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

Non-derivative financial liabilities (excluding financial guarantees) 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 comprehensive income.

# Notes to the financial statements (continued)

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## Note 1. Summary of Significant Accounting Policies (continued)

### **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) Contributed Equity**

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.

# Notes to the financial statements (continued)

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## 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. 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.

(i) 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; and

(ii) 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%.

# Notes to the financial statements (continued)

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## Note 2. Financial Risk Management (continued)

### **(vi) Capital management (continued)**

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 2013 can be seen in the statement of 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 un-recouped 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, hence there is 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 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.

# Notes to the financial statements (continued)

## Note 3. Critical Accounting Estimates and Judgements (continued)

### 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 consolidated 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.

	2013 \$	2012 \$
Note 4. Revenue from Ordinary Activities		
Operating activities:		
- services commissions	858,340	805,230
<b>Total revenue from operating activities</b>	<b>858,340</b>	<b>805,230</b>
Non-operating activities:		
- interest received	18,666	20,390
<b>Total revenue from non-operating activities</b>	<b>18,666</b>	<b>20,390</b>
<b>Total revenues from ordinary activities</b>	<b>877,006</b>	<b>825,620</b>

## Notes to the financial statements (continued)

	2013 \$	2012 \$
<b>Note 5. Expenses</b>		
Depreciation of non-current assets:		
- plant and equipment	5,669	6,818
- leasehold improvements	5,387	5,782
Amortisation of non-current assets:		
- franchise agreement	2,325	2,325
- franchise renewal fee	11,625	11,625
	<b>25,006</b>	<b>26,550</b>
<b>Bad debts</b>	<b>5,482</b>	<b>203</b>

## Note 6. Income Tax Expense

The components of tax expense comprise:

- Current tax	30,950	29,720
- Movement in deferred tax	89	(464)
- Recoupment of prior year tax loss	-	4,549
- Adjustments to tax expense of prior periods	-	(4,185)
	<b>31,039</b>	<b>29,620</b>

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Operating profit	103,464	112,615
Prima facie tax on profit from ordinary activities at 30%	31,039	33,784
Add tax effect of:		
- non-deductible expenses	-	21
- timing difference expenses	(89)	464
- other deductible expenses	-	-
	<b>30,950</b>	<b>34,269</b>
Movement in deferred tax	89	(464)
Adjustments to tax expense of prior periods	-	(4,185)
	<b>31,039</b>	<b>29,620</b>

## Notes to the financial statements (continued)

	2013 \$	2012 \$
<b>Note 7. Cash and Cash Equivalents</b>		
Cash at bank and on hand	17,465	156,998
Term deposits	343,678	171,568
	<b>361,143</b>	<b>328,566</b>

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

### **Note 7.(a) Reconciliation of cash**

Cash at bank and on hand	17,465	156,998
Term deposits	343,678	171,568
	<b>361,143</b>	<b>328,566</b>

## Note 8. Trade and Other Receivables

Trade receivables	37,054	50,756
Other receivables and accruals	14,250	8,794
Prepayments	1,174	3,480
	<b>52,478</b>	<b>63,030</b>

## Note 9. Property, Plant and Equipment

### **Plant and equipment**

At cost	46,967	46,967
Less accumulated depreciation	(34,194)	(31,531)
	<b>12,773</b>	<b>15,436</b>

### **Leasehold improvements**

At cost	74,553	74,553
Less accumulated depreciation	(43,110)	(37,723)
	<b>31,443</b>	<b>36,830</b>

### **Motor vehicle**

At cost	24,046	24,046
Less accumulated depreciation	(8,580)	(5,575)
	<b>15,466</b>	<b>18,471</b>

<b>Total written down amount</b>	<b>59,682</b>	<b>70,737</b>
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## Notes to the financial statements (continued)

	2013 \$	2012 \$
Note 9. Property, Plant and Equipment (continued)		
<b>Movements in carrying amounts:</b>		
<b>Plant and equipment</b>		
Carrying amount at beginning	15,436	18,834
Additions	-	405
Disposals	-	-
Less: depreciation expense	(2,663)	(3,803)
<b>Carrying amount at end</b>	<b>12,773</b>	<b>15,436</b>
<b>Leasehold improvements</b>		
Carrying amount at beginning	36,830	42,612
Additions	-	-
Disposals	-	-
Less: depreciation expense	(5,387)	(5,782)
<b>Carrying amount at end</b>	<b>31,443</b>	<b>36,830</b>
<b>Motor vehicle</b>		
Carrying amount at beginning	18,471	21,485
Additions	-	-
Disposals	-	-
Less: depreciation expense	(3,005)	(3,014)
<b>Carrying amount at end</b>	<b>15,466</b>	<b>18,471</b>
<b>Total written down amount</b>	<b>59,682</b>	<b>70,737</b>

## Note 10. Intangible Assets

### Franchise fee

At cost	71,625	71,625
Less: accumulated amortisation	(66,975)	(64,650)
	<b>4,650</b>	<b>6,975</b>

### Renewal processing fee

At cost	58,126	58,126
Less: accumulated amortisation	(34,876)	(23,250)
	<b>23,250</b>	<b>34,876</b>

## Notes to the financial statements (continued)

	2013 \$	2012 \$
Note 10. Intangible Assets (continued)		
<b>Goodwill</b>		
At cost	8,402	8,402
	<b>8,402</b>	<b>8,402</b>
<b>Total written down amount</b>	<b>36,302</b>	<b>50,253</b>

## Note 11. Tax

### Current:

<b>Income tax payable</b>	<b>3,708</b>	<b>13,669</b>
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### Non Current:

#### Deferred tax assets

- employee provisions	-	1,189
- tax losses carried forward	-	-
	-	<b>1,189</b>

#### Deferred tax liability

- accruals	157	565
- deductible prepayments	352	1,044
	<b>509</b>	<b>1,609</b>
<b>Net deferred tax liability</b>	<b>(509)</b>	<b>(420)</b>

## Note 12. Trade and Other Payables

Trade creditors	2,508	4,122
Other creditors and accruals	3,866	4,333
	<b>6,374</b>	<b>8,455</b>

## Note 13. Provisions

<b>Provision for annual leave</b>	-	<b>3,962</b>
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As at 30 June 2013 all staff working at Heathcote **Community Bank**<sup>®</sup> branch are employed under a secondment agreement with Bendigo and Adelaide Bank. Therefore all employment expenses are paid via our Profit Share statement and no provisions are required.

# Notes to the financial statements (continued)

	2013 \$	2012 \$
<b>Note 14. Contributed Equity</b>		
594,910 Ordinary shares fully paid (2012: 594,910)	594,910	594,910
Less: equity raising expenses	(36,553)	(36,553)
	<b>558,357</b>	<b>558,357</b>

## 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**<sup>®</sup> 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.

## 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 any of the following applies:

- 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.

# Notes to the financial statements (continued)

## Note 14. Contributed Equity (continued)

### Prohibited shareholding interest (continued)

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.

	2013 \$	2012 \$
<b>Note 15. Accumulated Losses</b>		
Balance at the beginning of the financial year	(72,277)	(107,678)
Net profit from ordinary activities after income tax	72,425	82,994
Dividends paid or provided for	(59,491)	(47,593)
<b>Balance at the end of the financial year</b>	<b>(59,343)</b>	<b>(72,277)</b>

## Note 16. Statement of Cashflows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities

Profit from ordinary activities after income tax	72,425	82,994
Non cash items:		
- depreciation	11,056	12,600
- amortisation	13,950	13,950
Changes in assets and liabilities:		
- (increase)/decrease in receivables	10,551	(20,346)
- (decrease) in payables	(2,080)	(7,084)
- increase in tax provisions	(3,962)	13,569
- (increase)/decrease in provisions	(9,872)	(251)
<b>Net cashflows provided by operating activities</b>	<b>92,068</b>	<b>95,432</b>

# Notes to the financial statements (continued)

	2013 \$	2012 \$
<b>Note 17. Leases</b>		
<b>Operating lease commitments</b>		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	23,312	23,199
- between 12 months and 5 years	69,936	69,611
- greater than 5 years	-	-
	<b>93,248</b>	<b>92,810</b>

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The extension option has been taken up in June 2010, there is one more 5 year option available.

## Note 18. Auditor's Remuneration

Amounts received or due and receivable by the auditor of the company for:

- audit and review services	4,950	4,500
- share registry services	2,957	3,659
- non audit services	2,494	1,970
	<b>10,401</b>	<b>10,129</b>

## Note 19. Director and Related Party Disclosures

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

Barry Maxwell Cail  
Joseph Zurek  
Simon Osicka  
Gregory Ian Speirs  
Rachel Alice Paterson  
Ian Rohde  
Velvet Emma-Louise Kay  
Hannah Faith Thomson  
David John Smith

The Company has entered into an agreement with Mitbro Trust to lease the property at 2/119 High St. Heathcote for a five year period terminating on 25 August 2010. Director Joseph Zurek is a trustee of the Mitbro Trust. The contract was approved by the Board with Mr Zurek declaring a pecuniary interest and excluding himself from board discussions and approval processes undertaken by the Board. Total payments made under this contract were \$23,530 (2012: \$22,523).

## Notes to the financial statements (continued)

	2013 \$	2012 \$
Note 19. Director and Related Party Disclosures (continued)		
<b>Barry Cail, in the capacity of Part-owner of Bendigo Copy Centre, supplied printing services to the value of</b>	<b>4,100</b>	<b>875</b>
<b>Hannah Thomson received remuneration for administration and bookkeeping services provided during the period under review</b>	<b>7,000</b>	-

No other 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	2013	2012
Barry Maxwell Cail	2,001	2,001
Joseph Zurek	10,001	10,001
Simon Osicka	1,001	1,001
Gregory Ian Speirs	5,000	5,000
Rachel Alice Patterson	-	-
Ian Rohde	-	-
Velvet Emma-Louise Kay	-	-
Hannah Faith Thomson	200	200
David John Smith	-	-

There was no movement in directors' shareholdings during the year.

	2013 \$	2012 \$
Note 20. Dividends Paid or Provided		
<b>a. Dividends paid during the year</b>		
<b>Fully franked - 10 cents (2012: 8 cents unfranked) per share</b>	<b>59,491</b>	<b>47,593</b>
<b>b. Franking account balance</b>		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	43,079	16,051
- franking credits that will arise from payment of income tax payable as at the end of the financial year	3,708	13,669
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
<b>Franking credits available for future financial reporting periods:</b>	<b>46,787</b>	<b>29,720</b>

## Notes to the financial statements (continued)

	2013 \$	2012 \$
Note 20. Dividends Paid or Provided (continued)		
<b>b. Franking account balance (continued)</b>		
- 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	-	-
<b>Net franking credits available</b>	<b>46,787</b>	<b>29,720</b>

### 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

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	72,425	82,994
	<b>Number</b>	<b>Number</b>
(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 Balance Sheet Date

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

### Note 24. Contingent Liabilities

There were no contingent liabilities 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**<sup>®</sup> services in Heathcote and Nagambie and their surrounding districts, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

# Notes to the financial statements (continued)

## 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	Shop 2, 119 High Street
Heathcote VIC 3523	Heathcote VIC 3523

## Note 27. Financial Instruments

### 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

Financial instrument	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		Over 5 years				2013	2012
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	2013 %	2012 %
<b>Financial Assets</b>												
Cash and cash equivalents	16,567	52,099	343,678	-	-	-	-	-	898	-	3.94	5.89
Receivables	-	-	-	-	-	-	-	-	50,780	50,756	N/A	N/A
<b>Financial Liabilities</b>												
Payables	-	-	-	-	-	-	-	-	2,508	4,122	N/A	N/A

# Directors' declaration

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In accordance with a resolution of the directors of Heathcote & District Financial Service 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 2013 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.



**Barry Maxwell Cail,**  
**Chairman**

Signed on 12 September 2013.

# Independent audit report



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

### Report on the financial report

We have audited the accompanying financial report of Heathcote & District Financial Services Limited, which comprises the balance sheet as at 30 June 2013, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

### Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the company's financial position and of its performance.

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

Liability limited by a scheme approved under Professional Standards Legislation. AFR 11/641 795 101.

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TAXATION - AUDIT - BUSINESS SERVICES - FINANCIAL PLANNING

# Independent audit report (continued)

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## Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report.

## Auditor's opinion on the financial report

In our opinion:

- 1) The financial report of Heathcote & District Financial Services Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2013 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
- 2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

## Auditor's opinion

In our opinion, the remuneration report of Heathcote & District Financial Services Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.



**Graeme Stewart**  
**Andrew Frewin Stewart**  
61 Bull Street Bendigo Vic 3550

Dated: 12 September 2013



Heathcote & District **Community Bank**<sup>®</sup> Branch  
Shop 2/119 High Street, Heathcote VIC 3523  
Phone: (03) 5433 3115

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(BMPAR13112) (09/13)

