Annual Report 2016

Beaufort Community Financial Services Limited

ABN 53 097 961 058

Beaufort **Community Bank**® Branch

Contents

Chairman's report

For year ending 30 June 2016

After reaching our milestone of $1 million of community contributions (sponsorships, grants and dividends) in July 2015, the remainder of the year has been one of consolidation and refocus.

We welcomed a new Branch Manager, Pedita Van Hees, in January. Pedita has been a fabulous addition to our team. She has brought an infectious enthusiasm to the branch, a real willingness to reach out to the community, and lives and breathes our brand. She has ably lead the branch through her first six months and overseen continued growth in funds under management, taking the branch beyond $100 million in footings, another significant milestone achieved.

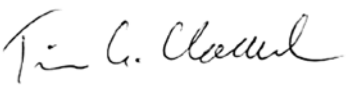
The 2015/16 financial report shows a very healthy profit after tax of $83,564. Revenue growth for the year has been pleasing, and costs well controlled. Our balance sheet continues to remain strong. Each share is now backed by $1.11 of liquid assets.

The Board is pleased to announce a fully franked dividend of 6c per share, consistent with 2015. In the current market this is a very strong yield. This brings to $0.61 the total dividends per share since dividends were first paid in 2006. The dividend will be paid to shareholders in December 2016.

We continue to work actively in our community. Directors held a community Board meeting in Buangor, and there have been two 'Friends of the **Community Bank**® branch' coterie group gatherings. Our Young Directors' program has continued to kick goals. The program was nominated for '**Community Bank**® Project of the Year' in May. Young Directors Rohan Gerrard and Hayley Crowley have been valuable contributors. We continue to sponsor community programs and events across the district.

I would like to thank my fellow Directors, Branch Manager, Pedita Van Hees, and branch staff for their professionalism, friendly service and hard work throughout the year. A very big thank you to Company Secretary, Trish Collins. Trish does a power of work behind the scenes, and has been of extraordinary support to me as Chair over a number of years.

Finally, congratulations to you, our loyal customers and shareholders. By banking with your **Community Bank**® branch you too play an important role in supporting the ongoing prosperity of Beaufort, Skipton and district.



Tim Chandler
Chairman

Manager's report

For year ending 30 June 2016

It is with pleasure that I present the Manager's report for Beaufort **Community Bank**® Branch and Skipton agency for the year ending 30 June 2016.

I will begin by thanking my predecessor Simon Robinson who manned the helm of the Beaufort **Community Bank**® Branch successfully for just over three successful years. Under his watchful eye the business grew from $86 million in funds under management to $96 million. It is with his dedication, the dedication of Managers before him and of course the tireless dedication of our Board of Directors, all volunteers, over the last decade, that has seen the seed of thought that is our **Community Bank**® branch, grow into the strong local business it is today.

I'd also like to shine a spotlight on two individuals who have aided me immeasurably over the last six months. Julie Lofts has been with the branch since the beginning and has proven herself to be a fountain of support in helping me take the reins of our business and our close knit team. Trish Collins is in my opinion our business' unsung hero. It is her dedication for the behind the scenes work that has made my transition that much easier. A big heartfelt thanks to both of these ladies.

In terms of business, over the last financial year, our business grew to a new record high of $104 million of funds under management at the end of the financial year. This is an overall increase to our book of 8.8% from the year previous. As we have retained much of the same customer numbers from the last year it is a clear that the old adage of 'you win some, you lose some' is highly accurate. That said what we are gaining from this is increased products per customer and higher average balances which shows that our customers are seeing us as their preferred bank of choice and want to do more with us.

It is our goal over the next 12 months to ensure that we continue to push our business forward. Bendigo Bank has made a concerted effort to ensure we are relevant in the market place, our product offering is strong and we still have all that and more when it comes to competing with the big dogs. But above all that, the very reason we exist is to continue doing the philanthropic work we do in giving back/putting into our community. In this I hope you all agree with me when I say we have given everyone over 1 million reasons to bank with us first!

So moving forward is going to look much like it has in previous years. We will continue to partner and invest in our community in local projects. We will be the most customer-focused bank in our area. We will be competitive. We will work towards ensuring a prosperous business for years to come. We will work to towards a sustainable future for the next generation of Beaufort and surrounds.

I wish to extend a big thank you to my staff for the work they do in building our business. Jodie Cuthbertson, Wendy Crick and Julie Lofts have been my front line team and permanent fixtures at the branch for a long time. Their unwavering support, professionalism and community knowledge have saved me many a faux pas in the last half year. Naomi Damalas joined the group in April and is already proving herself to be a valuable member with the community at heart. Thank you ladies for everything.

Lastly, and most importantly, I need to extend thanks to our customers, whom without none of this would be possible. They are the reason we can give the dividends we do, the grants and sponsorships we do and the very reason my staff and I get up in the morning. Thank you!

Pedita van Hees
Branch Manager

Directors' report

For the financial year ended 30 June 2016

Your Directors submit the financial statements of the company for the financial year ended 30 June 2016.

Directors

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

Timothy George Chandler

Chairman

Occupation: Small Business Owner

Qualifications, experience and expertise: Qualified Chartered Accountant. Holds Bachelor of Commerce.

Special responsibilities: Current Chairman and member of Strategy & Finance and Human Resources Committees

Interest in shares: Nil

Jayne Louise Briody

Director & Joint Company Secretary

Occupation: Medical Scientist

Qualifications, experience and expertise: Holds Bachelor of Applied Science in Medical Science. Treasurer Lexton Football Netball Club, Junior Manager of Lexton Netball Club, President of Lexton Community BBQ. Past President of Lexton Cemetery Trust.

Special responsibilities: Member of Marketing and Youth Committees

Interest in shares: 700 Ordinary shares

Alexander David Carson

Director

Occupation: Training Assessor

Qualifications, experience and expertise: Governance and strategic planning. Holds Cert IV in Training Assessment and in Business Administration and Cert II in Information Technology.

Special responsibilities: Member of Marketing Committee

Interest in shares: Nil

Nigel Charles Ponder

Director

Occupation: Self employed Business Manager/Owner

Qualifications, experience and expertise: Banking experience. President and Treasurer with Skipton Lions Club. Current member of Beaufort & Skipton Hospital Limited Foundation.

Special responsibilities: urrent Marketing Committee Chairman

Interest in shares: 2,000 Ordinary shares

Sharon Michelle Roxburgh

Director

Occupation: Semi Retired

Qualifications, experience and expertise: Self employed in several businesses. Past Board member and active Guide leader of Guides Australia.

Special responsibilities: Member of Youth Committee

Interest in shares: 600 Ordinary shares

Directors (continued)

Robert John Byrne

Director

Occupation: Senior Victorian Public Servant – Department of Economic Development, Jobs, Transport & Recourses.

Qualifications, experience and expertise: B.Sc (Hons) Melb. M.Comm (Hons) Melbourne. Graduated 1999.

Special responsibilities: Founding Director. Chairman from 2008-2013 and member of Strategy & Finance Committee

Interest in shares: 750 Ordinary shares

Stephen John Crook

Director (Appointed 12 November 2015)

Occupation: Operations Manager of the Department of Environment, Land, Water and Planning (DELWP) Customer Service Centre.

Qualifications, experience and expertise: Graduate Certificate in Public Sector Management, Diploma in Frontline Management, Certificate IV in Workplace Training incuding Workplace Assessor and Certicate IV in Human and Resource Management. Experience of Manager of people and resources.

Special responsibilities: Member of Finance, Strategy & Governance Committee

Interest in shares: Nil

Kate Louise Joss

Director (Appointed 12 November 2015)

Occupation: Events Manager with City of Ballarat

Qualifications, experience and expertise: Kate holds a Bachelor of Business in Tourism Management and has extensvie experience in marekting and events.

Special responsibilities: Member of Marketing Committee.

Interest in shares: Nil

Nicholas Robert Forbes Shady

Director (Appointed 12 November 2015)

Occupation: Farmer, author and business mentor

Qualifications, experience and expertise: Masters in Business and Administration. 25 years experience in farm business. Also holds many Director and Executive position on different local Boards.

Special responsibilities: Member of Finance, Strategy & Governance Committee

Interest in shares: Nil

Megan Read

Director (Resigned 1 September 2015)

Occupation: Myotherapist/Farmer

Qualifications, experience & expertise: Advanced Diploma in Applied Science and Myotherapy. Involved with Skipton Kindergarten, Skipton Primary School, Skipton Football Netball club, PEARLS rural womens group, Stockyard Hill Community Guardians.

Special responsibilities: Member of Youth and HR 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

The Company Secretary is Tricia Collins. Tricia was appointed to the position of secretary on 30 October 2007.

Trish has held roles as secretary for various Solicitors and Accountants for 20 years. Initial legal work for opening **Community Bank®** branches around Australia and also with the sale and purchase of shares. Also, runs own farming business with husband.

Jayne Briody was appointed joint Company Secretary in June, 2015.

Jayne has held roles as secretary for various local community groups for 20 years. She has been employed by St John of God

Pathology in Ballarat for 18 years as a Medical Scientist. Jayne also helps run and manages the books and payroll for her family's farming company.

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 at Beaufort, Victoria.

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 2016 $	Year ended 30 June 2015 $
83,564	15,946

Dividends

	Year ended 30 June 2016	
	Cents	$
Final dividend recommended:	6	25,826
Dividends paid in the year:		
- As recommended in the prior year report	6	25,826

Significant changes in the state of affairs

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

Events since the end of the financial year

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

Likely developments

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

Directors' report (continued)

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' meetings

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

	Board meetings attended		Committee meetings attended							
			Finance		Marketing		Human resources		Youth	
	A	B	A	B	A	B	A	B	A	B
Timothy George Chandler	11	11	2	2	-	-	2	2	-	-
Jayne Louise Briody	11	9	-	-	7	2	-	-	5	1
Alexander David Carson	11	6	-	-	7	2	2	2	-	-
Nigel Charles Ponder	11	8	-	-	7	6	-	-	-	-
Sharon Michelle Roxburgh	11	6	-	-	2	2	-	-	5	5
Robert John Byrne	11	5	2	2	-	-	-	-	-	-
Stephen John Crook *	5	4	-	-	-	-	2	2	-	-
Kate Louise Joss *	5	2	-	-	4	2	-	-	4	-
Nicholas Robert Forbes Shady *	5	3	2	1	-	-	-	-	-	-
Megan Reed **	3	-	-	-	-	-	-	-	-	-

A - eligible to attend * - (Appointed 12 November 2015)
B - number attended ** - (Resigned 1 September 2015)

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 finance 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 finance 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.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Signed in accordance with a resolution of the Board of Directors at Beaufort, Victoria on 19 September 2016.

Timothy George Chandler,
Chairman

Auditor’s independence declaration

PPT
AUDIT

Beaufort Community Financial Services Limited

Auditors Independence Declaration under Section 307C of the Corporations Act 2001 to the Board of Beaufort Community Financial Services Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in 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.

PPT Audit Pty Ltd
....
PPT Audit Pty Ltd

....
Jason D. Hargreaves
Director

20 Lydiard Street South, Ballarat

18 September 2016

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2016

	Notes	2016 $	2015 $
Revenue from ordinary activities	4	733,444	692,591
Employee benefits expense		(351,852)	(404,026)
Charitable donations, sponsorship, advertising and promotion		(77,310)	(57,562)
Occupancy and associated costs		(32,107)	(31,397)
Systems costs		(22,047)	(22,484)
Depreciation and amortisation expense	5	(23,011)	(24,792)
Finance costs	5	(2,989)	(3,241)
General administration expenses		(106,257)	(119,701)
Profit before income tax expense		**117,871**	**29,388**
Income tax expense	6	(34,307)	(13,442)
Profit after income tax expense		**83,564**	**15,946**
Total comprehensive income for the year		**83,564**	**15,946**
Earnings per share for profit attributable to the ordinary shareholders of the company:		**¢**	**¢**
Basic earnings per share	25	19.41	3.70

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2016

	Notes	2016 $	2015 $
Assets			
Current assets			
Cash and cash equivalents	7	200,580	124,783
Investment portfolio	8	279,017	271,491
Trade and other receivables	9	74,021	53,835
Current tax asset	12	-	794
Total current assets		**553,618**	**450,903**
Non-current assets			
Property, plant and equipment	10	122,058	135,069
Intangible assets	11	7,500	17,500
Deferred tax asset	12	13,128	15,228
Total non-current assets		**142,686**	**167,797**
Total assets		**696,304**	**618,700**
Liabilities			
Current liabilities			
Trade and other payables	13	40,070	36,867
Current tax liabilities	12	28,426	-
Borrowings	14	5,685	5,388
Provisions	15	56,016	57,329
Total current liabilities		**130,197**	**99,584**
Non-current liabilities			
Borrowings	14	16,120	21,804
Provisions	15	4,303	9,366
Total non-current liabilities		**20,423**	**31,170**
Total liabilities		**150,620**	**130,754**
Net assets		**545,684**	**487,946**
Equity			
Issued capital	16	430,440	430,440
Retained earnings	17	115,244	57,506
Total equity		**545,684**	**487,946**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
for the year ended 30 June 2016

	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2014	**430,440**	**63,082**	**493,522**
Total comprehensive income for the year	**-**	**15,946**	**15,946**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(21,522)	(21,522)
Balance at 30 June 2015	**430,440**	**57,506**	**487,946**
Balance at 1 July 2015	**430,440**	**57,506**	**487,946**
Total comprehensive income for the year	**-**	**83,564**	**83,564**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(25,826)	(25,826)
Balance at 30 June 2016	**430,440**	**115,244**	**545,684**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2016

	Notes	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		785,148	716,339
Payments to suppliers and employees		(673,183)	(694,612)
Interest received		1,022	1,542
Interest paid		(2,989)	(3,241)
Income taxes paid		(2,987)	(7,672)
Net cash provided by operating activities	**18**	**107,011**	**12,356**
Cash flows from investing activities			
Payments for property, plant and equipment		-	18,391
Payments for intangible assets		-	(29,858)
Net cash used in investing activities		**-**	**(11,467)**
Cash flows from financing activities			
Proceeds from borrowings			37,000
Repayment of borrowings		(5,388)	(30,035)
Dividends paid		(25,826)	(21,522)
Net cash used in financing activities		**(31,214)**	**(14,557)**
Net increase/(decrease) in cash held		**75,797**	**(13,668)**
Cash and cash equivalents at the beginning of the financial year		124,783	138,451
Cash and cash equivalents at the end of the financial year	**7(a)**	**200,580**	**124,783**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2016

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.

Application of new and amended accounting standards

The following amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) became mandatorily effective for accounting periods beginning on or after 1 July 2015, and are therefore relevant for the current financial year.

- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.
- AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.

None of the amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) that became mandatorily effective for accounting periods beginning on or after 1 July 2015, materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The following accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) become effective in future accounting periods.

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Application of new and amended accounting standards (continued)

	Effective for annual reporting periods beginning on or after
AASB 9 Financial Instruments, and the relevant amending standards.	1 January 2018
AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.	1 January 2018
AASB 16 Leases	1 January 2019
AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations.	1 January 2016
AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.	1 January 2016
AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants.	1 January 2016
AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements.	1 January 2016
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.	1 January 2018
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle.	1 January 2016
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.	1 January 2016
AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception.	1 January 2016
AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses.	1 January 2017
AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107.	1 January 2017

The company has not elected to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2015. Therefore the abovementioned accounting standards or interpretations have no impact on amounts recognised in the current period or any prior period.

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 Beaufort, 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**® 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.

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

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

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

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** 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®** 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

Over the period from September 2013 to February 2015, Bendigo and Adelaide Bank Limited conducted a review of the **Community Bank®** model, known as 'Project Horizon'. This was conducted in consultation with the **Community Bank®** network. The objective of the review was to develop a shared vision of the **Community Bank®** model that positions it for success now and for the future.

The outcome of that review is that the fundamental franchise model and community participation remain unchanged. Changes to be implemented over a three year period reflect a number of themes, including a culture of innovation, agility and flexibility, network collaboration, Director and staff development and a sustainable financial model. This will include changes to the financial return for **Community Bank®** companies from 1 July 2016. A funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin. All revenue paid on core banking products will be through margin share. Margin on core banking products will be shared on a 50/50 basis.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Revenue calculation (continued)

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. From 1 July 2016, both will mean the cost for Bendigo and Adelaide Bank Limited to borrow the money in the market.

Products and services on which margin is paid include variable rate deposits and variable rate home loans. From 1 July 2016, examples include Bendigo Bank branded at call deposits, term deposits and home loans.

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.

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. This currently also includes Bendigo Bank branded fixed rate home loans and term deposits of more than 90 days, but these will become margin products from 1 July 2016.

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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Ability to change financial return (continued)

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.

As discussed above in relation to Project Horizon, among other things, there will be changes in the financial return for **Community Bank**® companies from 1 July 2016. This includes 50% share of margin on core banking products, all core banking products become margin products and a funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin.

The Board is yet to appreciate the full impact of the above changes on our revenue moving forward. We would anticipate that by the time of this year's AGM we will be able to inform our shareholders of the likely outcomes of the new model.

The Board is continuing to work with Bendigo and Adelaide Bank Limited to understand any potential changes to revenue and will provide further details as appropriate in due course.

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.

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax (continued)

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.

Current and deferred tax for the period

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

d) 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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	6 - 30 years
• plant and equipment	5 - 8 years
• motor vehicles	8 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

<u>Recognition and initial measurement</u>

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.

<u>Derecognition</u>

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.

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

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) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in the Statement of Profit or Loss and Other Comprehensive Income. Available-for-sale financial assets are included in non-current assets except where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(iv) 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 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 of 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.

Note 1. Summary of significant accounting policies (continued)

m) Provisions (continued)

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.

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.

Note 2. Financial risk management (continued)

(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 2016 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 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.

Note 3. Critical accounting estimates and judgements (continued)

Taxation (continued)

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

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

Estimation of useful lives of assets

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

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.

Fair value measurement

Some of the company's assets and liabilities are measured at fair value for financial reporting purposes. The Board of Directors determine the appropriate valuation techniques and inputs for fair value measurements.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Note 3. Critical accounting estimates and judgements (continued)

Fair value measurement (continued)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

	2016 $	2015 $
Note 4. Revenue from ordinary activities		
Operating activities:		
- services commissions	721,736	661,253
Total revenue from operating activities	**721,736**	**661,253**
Non-operating activities:		
- interest received	1,022	1,542
- profit on sale of non-current assets	-	5,366
- other revenue (sundry income)	171	4,125
- other revenue (IOOF portfolio - income)	16,998	15,553
- other revenue (IOOF portfolio - increment)	(6,483)	4,752
Total revenue from non-operating activities	**11,708**	**31,338**
Total revenues from ordinary activities	**733,444**	**692,591**
Note 5. Expenses		
Depreciation of non-current assets:		
- plant and equipment	1,287	1,767
- leasehold improvements	7,992	9,035
- motor vehicle	3,732	3,990
Amortisation of non-current assets:		
- franchise renewal fee	10,000	10,000
	23,011	**24,792**
Finance costs:		
- interest paid	**2,989**	**3,241**
Bad debts	**277**	**31**

	2016 $	2015 $

Note 6. Income tax expense

	2016 $	2015 $
The components of tax expense comprise:		
- Current tax	34,529	8,435
- Movement in deferred tax	1,623	4,206
- Adjustment to deferred tax to reflect change to tax rate in future periods	477	801
- Over provision of tax in the prior period	(2,322)	-
	34,307	**13,442**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	117,871	29,388
Prima facie tax on profit from ordinary activities at 28.5% (2015: 30%)	33,594	8,816
Add tax effect of:		
- non-deductible expenses	-	-
- timing difference expenses	935	(976)
- other deductible expenses	-	595
	34,529	**8,435**
Movement in deferred tax	1,623	4,206
Adjustment to deferred tax to reflect change of tax rate in future periods	477	801
Under/(Over) provision of income tax in the prior year	(2,322)	-
	34,307	**13,442**

Note 7. Cash and cash equivalents

	2016 $	2015 $
Cash at bank and on hand	157,510	82,722
Term deposits	43,070	42,061
	200,580	**124,783**
Note 7.(a) Reconciliation to cash flow statement		
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:		
Cash at bank and on hand	157,510	82,722
Term deposits	43,070	42,061
	200,580	**124,783**

	2016 $	2015 $

Note 8. Investment portfolio

IOOF Portfolio		
- Cash Account	7,535	14,249
- AMP Capital Global Property Securities Fund	11,731	8,789
- Bendigo Balanced Index Fund	140,894	131,415
- Bendigo Diversified Fixed Interest Fund	32,863	21,925
- BlackRock Australian Equity Opportunities Fund	8,368	13,485
- Grant Samuel Epoch Global Equity Shareholder Yield	23,887	20,068
- Macquarie Income Opportunities Fund	13,524	15,907
- Platinum International Fund	17,440	17,374
- RARE Infrastructure Value Fund	8,623	4,444
- Sandhurst IML Industrial Share Fund	14,152	23,835
	279,017	**271,491**

Note 9. Trade and other receivables

Trade receivables	65,713	53,835
Prepayments	8,308	-
	74,021	**53,835**

Note 10. Property, plant and equipment

Leasehold improvements		
At cost	247,563	247,563
Less accumulated depreciation	(153,225)	(145,233)
	94,338	**102,330**
Plant and equipment		
At cost	22,841	22,841
Less accumulated depreciation	(19,243)	(17,956)
	3,598	**4,885**
Motor vehicles		
At cost	29,857	29,857
Less accumulated depreciation	(5,735)	(2,003)
	24,122	**27,854**
Total written down amount	**122,058**	**135,069**

	2016 $	2015 $

Note 10. Property, plant and equipment (continued)

Movements in carrying amounts:

	2016 $	2015 $
Leasehold improvements		
Carrying amount at beginning	102,330	111,365
Less: depreciation expense	(7,992)	(9,035)
Carrying amount at end	**94,338**	**102,330**
Plant and equipment		
Carrying amount at beginning	4,885	6,652
Less: depreciation expense	(1,287)	(1,767)
Carrying amount at end	**3,598**	**4,885**
Motor vehicles		
Carrying amount at beginning	27,854	15,011
Additions	-	29,858
Disposals	-	(13,025)
Less: depreciation expense	(3,732)	(3,990)
Carrying amount at end	**24,122**	**27,854**
Total written down amount	**122,058**	**135,069**

Note 11. Intangible assets

	2016 $	2015 $
Franchise fee		
At cost	150,000	150,000
Less: accumulated amortisation	(142,500)	(132,500)
	7,500	**17,500**
Total written down amount	**7,500**	**17,500**

Note 12. Tax

	2016 $	2015 $
Current:		
Income tax payable/(refundable)	**28,426**	**(794)**
Non-current:		
Deferred tax assets		
- accruals	688	1,208
- employee provisions	16,588	19,007
	17,276	**20,215**

	Note	2016 $	2015 $

Note 12. Tax (continued)

	Note	2016 $	2015 $
Deferred tax liability			
- accruals		-	4,987
- franchise fee amortisation		2,063	-
- property, plant and equipment		2,085	-
		4,148	**4,987**
Net deferred tax asset		**13,128**	**15,228**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income		**2,100**	**5,008**

Note 13. Trade and other payables

	Note	2016 $	2015 $
Current:			
Trade creditors		2,079	1,287
Other creditors and accruals		37,991	35,580
		40,070	**36,867**

Note 14. Borrowings

	Note	2016 $	2015 $
Current:			
Chattel mortgage (Navara)	20	5,685	5,388
		5,685	**5,388**
Non-current:			
Chattel mortgage (Navara)	20	16,120	21,804
		16,120	**21,804**

Chattel Mortgage is repayable monthly with the final instalment due in January 2019. Interest is recognised at an implicit interest rate of 0.4478%. The loan is secured by a fixed and floating charge over the company's assets.

Note 15. Provisions

	2016 $	2015 $
Current:		
Provision for annual leave	15,406	21,454
Provision for long service leave	40,610	35,875
	56,016	**57,329**

	2016 $	2015 $

Note 15. Provisions (continued)

	2016 $	2015 $
Non-current:		
Provision for long service leave	**4,303**	**9,366**

Note 16. Contributed equity

	2016 $	2015 $
430,440 ordinary shares fully paid (2015: 430,440)	**430,440**	**430,440**

Rights attached to shares

(a) Voting rights

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

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

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

(b) Dividends

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

(c) Transfer

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

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

Prohibited shareholding interest

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

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the Board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").

Note 16. Contributed equity (continued)

Prohibited shareholding interest(continued)

- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the “base number test”). The base number is 258. As at the date of this report, the company had 274 shareholders.

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

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

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

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

	2016 $	2015 $

Note 17. Retained earnings

Balance at the beginning of the financial year	57,506	63,082
Net profit from ordinary activities after income tax	83,564	15,946
Dividends paid or provided for	(25,826)	(21,522)
Balance at the end of the financial year	**115,244**	**57,506**

Note 18. Statement of cash flows

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

Profit from ordinary activities after income tax	83,564	15,946
Non cash items:		
- depreciation	13,011	14,792
- amortisation	10,000	10,000
- gain in value of investment	(7,526)	(34,167)
- profit on sale of asset	-	(5,366)

	2016 $	2015 $
Note 18. Statement of cash flows (continued)		
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(20,185)	(349)
- (increase)/decrease in other assets	2,894	5,008
- increase/(decrease) in payables	3,203	2,596
- increase/(decrease) in provisions	(6,376)	3,134
- increase/(decrease) in current tax liabilities	28,426	762
Net cash flows provided by operating activities	**107,011**	**12,356**

Note 19. Fair value measurement

This section explains the judgements and estimates made in determining the fair values of the company's assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the applicable assets have been classified into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 30 June 2016	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value measurements:				
Available-for-sale financial assets				
Listed investments:				
- investment portfolio	279,017	-	-	279,017
	279,017	**-**	**-**	**279,017**
Total assets at fair value	**279,017**	**-**	**-**	**279,017**

At 30 June 2015	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value measurements:				
Available-for-sale financial assets				
Listed investments:				
- investment portfolio	271,491	-	-	271,491
	271,491	**-**	**-**	**271,491**
Total assets at fair value	**271,491**	**-**	**-**	**271,491**

There were no transfers between Level 1 and Level 2 during the reporting period. The company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of available-for-sale financial assets traded in active markets is based on the quoted market price at the close of business at the end of the reporting period.

Note 19. Fair value measurement (continued)

Level 2: The fair value of property, plant and equipment is based on a valuation performed by a third party qualified valuer using quoted prices for similar assets in an active market.

Level 3: There were no fair value measurements by the Level 3 fair value hierarchy.

	2016 $	2015 $

Note 20. Leases

Finance lease commitments		
Payable - minimum lease payments:		
- not later than 12 months	6,718	6,718
- between 12 months and 5 years	17,077	23,794
- greater than 5 years	-	-
Minimum lease payments	**23,795**	**30,512**
Less future finance charges	(1,990)	(3,320)
Present value of minimum lease payments	**21,805**	**27,192**

Chattel Mortgage is repayable monthly with the final instalment due in January 2019. Interest is recognised at an implicit interest rate of 0.4478%. The loan is secured by a fixed and floating charge over the company's assets.

Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	6,982	10,367
- between 12 months and 5 years	-	6,912
- greater than 5 years	-	-
	6,982	**17,279**

The property lease is a non-cancellable lease with a five-year term beginning on the 1 February 2012, with rent payable monthly in advance. The lease has the option for two further terms of five years.

Note 21. Auditor's remuneration

Amounts received or due and receivable by the Auditor of the company for:		
- audit and review services	4,350	5,550
	4,350	**5,550**

Note 22. Director and related party disclosures

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

Timothy George Chandler
Jayne Louise Briody
Alexander David Carson
Nigel Charles Ponder
Sharon Michelle Roxburgh
Robert John Byrne
Stephen John Crook (Appointed 12 November 2015)
Kate Louise Joss (Appointed 12 November 2015)
Nicholas Robert Forbes Shady (Appointed 12 November 2015)
Megan Reed (Resigned 1 September 2015)

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.

	2016	2015
Directors' shareholdings		
Timothy George Chandler	-	-
Jayne Louise Briody	700	700
Alexander David Carson	-	-
Nigel Charles Ponder	2,000	2,000
Sharon Michelle Roxburgh	600	600
Robert John Byrne	750	750
Stephen John Crook (Appointed 12 November 2015)	-	-
Kate Louise Joss (Appointed 12 November 2015)	-	-
Nicholas Robert Forbes Shady (Appointed 12 November 2015)	-	-
Megan Reed (Resigned 1 September 2015)	-	-

Note 23. Dividends paid or provided

	2016 $	2015 $
a. Dividends paid during the year		
Current year dividend		
100% (2015: 100%) franked dividend - 6 cents (2015: 5 cents) per share	**25,826**	**21,522**
b. Dividends proposed and not recognised as a liability		
Current year final dividend		
100% (2015: 100%) franked dividend - 6 cents (2015: 6 cents) per share	**25,826**	**25,826**

The tax rate at which dividends have been franked is 30% (2015: 30%).
Dividends proposed will be franked at a rate of 30% (2015: 30%).

	2016 $	2015 $

Note 23. Dividends paid or provided (continued)

c. Franking account balance

	2016 $	2015 $
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	76,627	80,021
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	30,097	(1,585)
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	**106,724**	**78,436**
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	**106,724**	**78,436**

Note 24. 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.

Community Bank® Directors' Privileges Package

The Board has adopted the **Community Bank®** Directors' Privileges package. The package is available to all Directors, who can elect to avail themselves of the benefits based on their personal banking with the **Community Bank®** branch at Beaufort. There is no requirement to own BEN shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank Limited shareholders. The total benefits received by the Directors from the Directors' Privilege Package are $nil for the year ended 30 June 2016 (2015: $nil).

	2016 $	2015 $

Note 25. Earnings per share

	2016 $	2015 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	83,564	15,946

	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	430,440	430,440

Note 26. 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 27. 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 28. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Beaufort pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 29. 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
17 Lawrence Street
Beaufort VIC 3373

Principal place of business
17 Lawrence Street
Beaufort VIC 3373

Note 30. 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.

	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
Financial instrument	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 %	2015 %
Financial assets												
Cash and cash equivalents	157,510	82,722	43,070	42,061	-	-	-	-	-	-	0.24	1.23
Receivables	-	-	-	-	-	-	-	-	65,713	53,835	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	5,685	5,388	16,120	21,804	-	-	-	-	4.48	4.48
Payables	-	-	-	-	-	-	-	-	2,079	1,287	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.

Note 30. Financial instruments (continued)

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 2016, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2016 $	2015 $
Change in profit/(loss)		
Increase in interest rate by 1%	1,788	976
Decrease in interest rate by 1%	1,788	976
Change in equity		
Increase in interest rate by 1%	1,788	976
Decrease in interest rate by 1%	1,788	976

Directors' declaration

In accordance with a resolution of the Directors of Beaufort 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 2016 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.

This declaration is made in accordance with a resolution of the Board of Directors.

Timothy George Chandler,
Chairman

Signed on the 19th of September 2016.

Independent audit report

Beaufort Community Financial Services Limited

Independent Audit Report to the members of Beaufort Community Financial Services Limited

We have audited the accompanying financial report of Beaufort Community Financial Services Limited which comprises the balance sheet as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

The Responsibility of the Director's for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements* that the financial statements comply with International Financial Reporting Standards (IFRS).

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. Those 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 the auditor's 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, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Beaufort Community Financial Services Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

PPT
AUDIT

Beaufort Community Financial Services Limited

Independent Audit Report to the members of Beaufort Community Financial Services Limited

Auditor's Opinion

In our opinion:

a. the financial report of Beaufort Community Financial Services Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PPT Audit Pty Ltd
....
PPT Audit Pty Ltd

....
Jason D. Hargreaves
Director

20 Lydiard Street South, Ballarat

28 September 2016

Beaufort **Community Bank**® Branch
17 Lawrence Street, Beaufort VIC 3373
Phone: (03) 5349 2322 Fax: (03) 5349 2722

Franchisee: Beaufort Community Financial Services Limited
17 Lawrence Street, Beaufort VIC 3373
ABN: 53 097 961 058

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