


Broadwater Financial Services Limited

ABN 29 095 850 463

# 2018 Annual Report




Biggera Waters **Community Bank**® Branch
Helensvale **Community Bank**® Branch

# Contents

# Chairman's report

## For year ending 30 June 2018

The financial year ended June 2018 for Broadwater Financial Services Limited has continued to be challenging but also encouraging with overall footings increasing by $10 million finishing the year on $121.5 million which has reversed the trend from last year. This has resulted in a modest increase in revenue and with a small reduction in expenses the net loss for the year after income tax credit is $41,963, an improvement of $13,825 over last year. The Balance sheet for the company at June 2018 shows a Net Liabilities position of $91,717 and as referred to in Note 1 on page 16 of the Annual Report, the Directors adopt a going concern approach to the Financial Statements and continue to receive an undertaking of support from Bendigo and Adelaide Bank Limited.

During the last financial year we have experienced the most difficult time in regards to staffing in our branches and due to privacy requirements details of these matters must remain confidential. We can report though that the issues have now been resolved and credit must go to the leaders in both our branches and our Mobile Relationship Manager for the manner in which they handled the matters and still managed to increase our footings for the year. We now believe that the renewed team at both branches are the best mix of committed and enthusiastic people we have employed for some time and look forward to a very successful year ahead.

Our Mobile Relationship Manager (MRM), Mr Peter Kai-Nielsen, who was tasked last year with building the relationships with our community partners and generating business development networks on the Gold Coast, has had a very successful year in this field and the long term results will be very positive and generate considerable growth for the company. The Board also congratulates Peter for his leadership of the team during the last year particularly during some difficult times.

The company continues to support our local community groups with sponsorship funds and we are fortunate that Bendigo and Adelaide Bank Limited provide a Market Development Fund which assists with our contributions and the support of these community partners and also funds our advertising and marketing both locally and in the Gold Coast region. Last year we established Referral Agreements with our community partners which gave them the opportunity to generate more funds by encouraging their members to bank with us. We are starting to see the benefits of these agreements with referral business increasing.

Since the last Annual Report our Board has increased by one and we now have only six Directors. Malcolm Orman, who is the Owner/Director of a local Accounting Practice in Labrador, was invited to join our Board in August this year. Malcolm brings extensive business experience to the Board and we look forward to Malcolm becoming an integral part of our community in the future. On a sad note, Trevor Jones, who has been on our Board for six years, is suffering a terminal health condition and our thoughts are with our great friend, his partner Pam and all of Trevor's family.

Our volunteer Directors spend many personal hours attending Board meetings, committee meetings, Director workshops, business development events, conferences and providing community partner support. I would like to take the opportunity to acknowledge this dedication and work and I thank them for their continual support. The Board again thanks our personal assistant, Mrs Maris Dirkx, for her outstanding efforts in secretarial support, marketing strategies, assistance in organising company events and liaison with our community partners.

Finally, as a Board, we wish to thank all our customers, community organisations and local business owners for their support during the year and in addition we would also like to acknowledge the support and assistance from senior management of the Bendigo and Adelaide Bank Limited during the year. It is their commitment and ours to grow the business to achieve consistent profits and returns to our patient shareholders. In closing, I again thank all shareholders for their continued support and look forward to a more positive future for the company.

**Robert Knight**
**Chairman**

# Manager's report

## For year ending 30 June 2018

The 2017/18 financial year was met again with challenges around staffing, tighter lending restrictions resulting from APRA's intervention and the ongoing Royal Commission along with reduced margins due to increased competition from both traditional and on-line financiers.

Despite all these challenges the year resulted in significant growth to our book by approximately $10 million and is a credit to the staff and in particularly both our Customer Relationship Managers, Megan Shields and Melanie Jackson.

Settlements as at 30 June reached $18.3 million which represents an increase from the previous year's result of $11.6 million. Discharges remained constant at $6.4 million ($7.2 million last financial year) whilst deposits grew by approx. $5.1 million.

The loan book resulted in a growth by approx. $4.4 million which illustrates a clearer picture that for every $1,000 we lose in pay-down and discharges, we need to replace it with four times as much in settlements.

The combined book now stands at $121.5 million consisting of $64.8 million in lending, $51.3 million in deposits and $5.4 million in Off Balance sheet products (i.e. Insurances, Sandhurst, and Financial Planning products).

Both customer numbers and in branch transaction numbers have increased and this is expected to continue following the recent closure of our Southport corporate branch and the potential relocation of some of their customers across to Biggera Waters and Helensvale branches in the new financial year,

From a community perspective we continue to connect with our associations and last year established (six) Referral Agency Agreements with our existing sponsors being: Labrador AFL Club, Labrador Hockey Club, Helensvale & Pacific Pines Cricket Club, Discovery Park Tennis Club, Helensvale Calisthenic and Dance Club and our most recent addition the Nerang RSL Netball Club. It is through these relationships and their members we hope to generate new opportunities in both lending and deposits for our branches to continue to move in the right direction.

Regionally, Bendigo Bank Gold Coast established new relationships with both the Gold Coast Hospital Foundation and the QLD Master Builders Association and with this comes greater opportunities for our local Managers to identifying new to bank customers.

Staffing was addressed with a new structure in both branches now realigned to allow our Managers the ability to attend external interviews and SME (Small to Medium Enterprises) visits during business hours. Succession Planning was implemented with new staff keen to succeed recruited to fill the void of past absences.

There will always be challenges ahead whilst our industry continues to evolve but I am confident that our staff will continue to drive this business forward, be it engaging with our existing customer base or community partners, or local businesses owners and residents.

In closing, I would like to take this opportunity to thank our dedicated team, our committed Board of Directors, our patient shareholders and finally our satisfied customers for their contribution to our **Community Bank**® branches and their ongoing support.

**Peter Kai-Nielsen**
**Mobile Relationship Manager**

# Bendigo and Adelaide Bank report

For year ending 30 June 2018

It's been 20 years since the doors to the first **Community Bank®** branch opened. And it has only been a few months since the latest, the 321st, **Community Bank®** branch opened its doors.

In the last 20 years, much has changed. A staggering 92 per cent of our customers do their banking online and we pay for goods and services on a range of mobile phones, our watches and even our fitness devices. Many are embracing this online world with a sense of excitement and confidence. Our model will be even more accessible to people right across Australia.

Despite the change many things have also remained constant through the last two decades. Commitment within communities remains as strong today as it has ever been; from our first **Community Bank®** branch to the most recent one, and the 319 in between.

This year, five of our **Community Bank®** branches are celebrating 20 years in business. Bendigo Bank has celebrated 160 years in business. We farewelled Managing Director Mike Hirst and welcomed into the MD role long-time Bendigo employee Marnie Baker.

Our **Be the change** online marketing campaign has been the most successful online marketing campaign ever run by our organisation. The premise behind **Be the change** is simple – it thanks individual customers for banking with their **Community Bank®** branch.

But it's not the Bank thanking the customers. It's not the staff, volunteer directors or shareholders thanking the customers. It's the kids from the local little athletics and netball clubs, it's the man whose life was saved by a **Community Bank®** funded defib unit, it's members of the local community choir and the animal rescue shelter. These people whose clubs and organisations have received a share of over $200 million in **Community Bank®** contributions, all because of people banking with their local **Community Bank®** branch.

**Be the change** has further highlighted the power of the model. For others, customers are important. For our **Community Bank®** network, customer support ensures our point of difference. It's the reason we can share in the revenue generated by their banking business. Without this point of difference, we would be just another bank.

But we're not, we're Bendigo Bank and we're Australia's only 'community bank', recently named by Roy Morgan Research as Australia's third most trusted brand and most trusted bank. As one of 70,000-plus **Community Bank®** company shareholders across Australia, these are outcomes we hope you too are proud of.

I'd like to thank you for your decision to support your local **Community Bank®** company as a shareholder. Your support has been vitally important to enhancing the prospects and outcomes within your community.

Without you, there would be no **Community Bank®** branch network in Australia.

We value your initial contribution and your ongoing support of your **Community Bank®** branch and your community. Thank you for continuing to play a role in helping your community **Be the change**.

**Robert Musgrove**
**Bendigo and Adelaide Bank**

# Directors' report

## For the financial year ended 30 June 2018

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

**Directors**

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

**Robert John Knight**
Chairman
Occupation: Business Consultant and Real Estate Business Owner
Qualifications, experience and expertise: Bachelor of Commerce, former Chartered Accountant, Financial Controller and Public Company Secretary.
Special responsibilities: Executive Management Committee
Interest in shares: 667

**Trevor Newton Jones**
Deputy Chairman
Occupation: Licensed Real Estate Agent
Qualifications, experience and expertise: Former Real Estate Sales Manager, Finance Broker and Business Owner.
Special responsibilities: Executive Management Committee, Community Engagement Committee
Interest in shares: Nil

**Leeanne Kay Braund**
Secretary
Occupation: Practice Manager at Pindara Hospital
Qualifications, experience and expertise: Former Consultant to Queensland Health and former Mortgage Broker. Currently Secretary of the Discovery Park Tennis Club in Helensvale.
Special responsibilities: Executive Management Committee
Interest in shares: Nil

**Stephen Michael O'Donoghue**
Director
Occupation: Pharmacist
Qualifications, experience and expertise: Local Pharmacist.
Special responsibilities: Nil
Interest in shares: 42,667

**Michael Douglas McCarthy**
Director
Occupation: Sales Consultant
Qualifications, experience and expertise: Former Insurance Manager for Woolworths NSW for 19 years and Real Estate Sales Consultant.
Special responsibilities: Nil
Interest in shares: Nil

### Directors (continued)

**Malcolm John Orman**

Director (Appointed 4 August 2018)

Occupation: Owner / Director Accountancy Firm

Qualifications, experience and expertise: Bachelor of Business and Chartered Accountant. Extensive experience in Australia & overseas across a wide range of business.

Special responsibilities: Nil

Interest in shares: Nil

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

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

### Company Secretary

The company secretary is Leeanne Braund. Leeanne was appointed to the position of secretary on 26 April 2013.

Leeanne holds a Certificate IV in Finance and Mortgages. She has held numerous executive roles for Touch Football Committees and currently the Secretary of the Discovery Park Tennis Club in Helensvale. Leeanne is employed as a Medical Practice Manager.

### Principal Activities

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

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

### Operating results

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

| Year ended 30 June 2018 $ | Year ended 30 June 2017 $ |
|---|---|
| (41,963) | (55,788) |

### Dividends

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

### 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:

| | Directors' Meetings | |
|---|---|---|
| | **Eligible** | **Attended** |
| Robert John Knight | 11 | 11 |
| Trevor Newton Jones | 11 | 8 |
| Leeanne Kay Braund | 11 | 10 |
| Stephen Michael O'Donoghue | 11 | 7 |
| Michael Douglas McCarthy | 11 | 9 |
| Malcolm John Orman (Appointed 4 August 2018) | - | - |

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

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

**Non audit services**

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

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

# Directors' report (continued)

**Non audit services (continued)**

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

- all non-audit services have been reviewed by the board to ensure they do not impact on the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Signed in accordance with a resolution of the board of directors at Biggera Waters, Queensland on 24 September 2018.

**Robert John Knight,**
**Chairman**

# Auditor's independence declaration

Partners in success
Chartered Accountants

61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

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

As lead auditor for the audit of Broadwater Financial Services Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

**Andrew Frewin Stewart**
61 Bull Street, Bendigo Vic 3550
Dated: 24 September 2018

**David Hutchings**
**Lead Auditor**

Taxation | Audit | Business Services
Liability limited by a scheme approved under Professional Standards Legislation. ABN 51 061 795 337

# Financial statements

## Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Revenue from ordinary activities | 4 | 983,849 | 965,228 |
| Employee benefits expense | | (633,772) | (622,683) |
| Charitable donations, sponsorship, advertising and promotion | | (34,831) | (39,011) |
| Occupancy and associated costs | | (152,589) | (140,493) |
| Systems costs | | (35,158) | (35,600) |
| Depreciation and amortisation expense | 5 | (44,180) | (40,261) |
| Finance costs | 5 | (22,428) | (20,501) |
| General administration expenses | | (117,632) | (143,599) |
| **Loss before income tax credit** | | **(56,741)** | **(76,920)** |
| Income tax credit | 6 | 14,778 | 21,132 |
| **Loss after income tax credit** | | **(41,963)** | **(55,788)** |
| **Total comprehensive income for the year attributable to the ordinary shareholders of the company:** | | **(41,963)** | **(55,788)** |
| **Earnings per share** | | **¢** | **¢** |
| Basic earnings per share | 23 | (7.09) | (9.42) |

The accompanying notes form part of these financial statements.

# Financial statements *(continued)*

## Balance Sheet
## as at 30 June 2018

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 24,417 | 15,417 |
| Trade and other receivables | 8 | 56,033 | 49,262 |
| **Total current assets** | | **80,450** | **64,679** |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 216,759 | 229,826 |
| Intangible assets | 10 | 82,075 | 106,698 |
| Deferred tax asset | 11 | 152,386 | 137,608 |
| **Total non-current assets** | | **451,220** | **474,132** |
| **Total assets** | | **531,670** | **538,811** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 58,569 | 43,191 |
| Borrowings | 13 | 298,309 | 197,087 |
| Provisions | 14 | 10,491 | 11,811 |
| **Total current liabilities** | | **367,369** | **252,089** |
| **Non-current liabilities** | | | |
| Trade and other payables | 12 | 81,255 | 141,778 |
| Borrowings | 13 | 170,132 | 185,060 |
| Provisions | 14 | 4,631 | 9,638 |
| **Total non-current liabilities** | | **256,018** | **336,476** |
| **Total liabilities** | | **623,387** | **588,565** |
| **Net liabilities** | | **(91,717)** | **(49,754)** |
| **EQUITY** | | | |
| Issued capital | 15 | 406,858 | 406,858 |
| Accumulated losses | 16 | (498,575) | (456,612) |
| **Total equity** | | **(91,717)** | **(49,754)** |

The accompanying notes form part of these financial statements.

## Statement of Changes in Equity
## for the year ended 30 June 2018

| | Notes | Issued capital $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 July 2016 | | 406,858 | (400,824) | 6,034 |
| Total comprehensive income for the year | | - | (55,788) | (55,788) |
| **Transactions with owners in their capacity as owners:** | | | | |
| Shares issued during period | | - | - | - |
| Costs of issuing shares | | - | - | - |
| Dividends provided for or paid | | - | - | - |
| **Balance at 30 June 2017** | | **406,858** | **(456,612)** | **(49,754)** |
| Balance at 1 July 2017 | | 406,858 | (456,612) | (49,754) |
| Total comprehensive income for the year | | - | (41,963) | (41,963) |
| **Transactions with owners in their capacity as owners:** | | | | |
| Shares issued during period | | - | - | - |
| Costs of issuing shares | | - | - | - |
| Dividends provided for or paid | | - | - | - |
| **Balance at 30 June 2018** | | **406,858** | **(498,575)** | **(91,717)** |

The accompanying notes form part of these financial statements.

## Statement of Cash Flows
## for the year ended 30 June 2018

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 1,075,357 | 1,057,969 |
| Payments to suppliers and employees | | (1,091,330) | (1,028,780) |
| Interest paid | | (22,428) | (20,501) |
| **Net cash provided by/(used in) operating activities** | **17** | **(38,401)** | **8,688** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (8,115) | (22,121) |
| Payments for intangible assets | | (30,778) | - |
| **Net cash used in investing activities** | | **(38,893)** | **(22,121)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | - | 24,884 |
| Repayment of borrowings | | (14,638) | (9,507) |
| **Net cash provided by/(used in) financing activities** | | **(14,638)** | **15,377** |
| **Net increase/(decrease) in cash held** | | **(91,932)** | **1,944** |
| Cash and cash equivalents at the beginning of the financial year | | (153,895) | (155,839) |
| **Cash and cash equivalents at the end of the financial year** | **7(a)** | **(245,827)** | **(153,895)** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

For year ended 30 June 2018

## Note 1. Summary of significant accounting policies

### a) Basis of preparation

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

*Compliance with IFRS*

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

*Critical accounting estimates*

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

*Historical cost convention*

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

*Comparative figures*

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

*Application of new and amended accounting standards*

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

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

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

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

The company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2017. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

AASB 16 Leases is effective for annual periods beginning on or after 1 January 2019. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

# Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies *(continued)*

a) Basis of preparation *(continued)*

*Application of new and amended accounting standards (continued)*

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

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating leases of its branches. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to $291,194, on an undiscounted basis (see Note 18).

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

*Economic dependency - Bendigo and Adelaide Bank Limited*

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at Biggera Waters and Helensvale, Queensland.

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

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

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

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

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

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

# Notes to the financial statements (continued)

## Note 1. Summary of significant accounting policies *(continued)*

### a) Basis of preparation *(continued)*

*Going concern*

The net liabilities of the company as at 30 June 2018 were $91,717 and the loss made for the year was $41,963, bringing accumulated losses to $498,575.

| In addition: | $ |
|---|---|
| Total assets were | 531,670 |
| Total liabilities were | 623,387 |
| Operating cash flows were | (38,401) |

There was a 25% decrease in the loss recorded for the financial year ended 30 June 2018 when compared to the prior year.

The company meets its day to day working capital requirements through an overdraft facility. The overdraft has an approved limit of $300,000 and was drawn to $270,244 as at 30 June 2018.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report on pages 1 to 4. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the financial statements.

The current economic environment is difficult and while revenue continues to increase the company has again reported an operating loss for the year before tax. The directors consider that the outlook presents significant challenges in terms of banking business volume and pricing as well as for operating costs. Whilst the directors have instituted measures to preserve cash and secure additional finance, these circumstances create material uncertainties over future trading results and cash flows.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should trade within its overdraft facility.

The company has also obtained an undertaking of support from Bendigo and Adelaide Bank Limited that it will continue to support the company and its operations for the 2018/19 financial year. This support is provided on the basis that the company continues to fulfil its obligations under the franchise agreement and continues to work closely with Bendigo and Adelaide Bank Limited to further develop its business.

The directors have concluded that the combination of the circumstances above represents a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern and that, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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.

# Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies *(continued)*

### b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

*Revenue calculation*

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

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

*Core banking products*

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

*Margin*

Margin is arrived at through the following calculation:

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

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

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

*Commission*

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

# Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies *(continued)*

b) Revenue *(continued)*

*Fee income*

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

*Discretionary financial contributions*

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

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

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

*Ability to change financial return*

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

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

*Ability to change financial return (continued)*

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.

# Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies *(continued)*

## 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 entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

*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.

# Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies *(continued)*

### e) Cash and cash equivalents

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

### f) Trade receivables and payables

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

### g) Property, plant and equipment

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

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

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

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

Note 1. Summary of significant accounting policies *(continued)*

### j) Borrowings

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

### k) Financial instruments

*Recognition and initial measurement*

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

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

*Derecognition*

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

*Classification and subsequent measurement*

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

*(ii) Financial liabilities*
Financial liabilities include borrowings, trade and other payables and 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.

# Notes to the financial statements (continued)

## Note 1. Summary of significant accounting policies *(continued)*

### 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.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

### n) Issued capital

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

### o) Earnings per share

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

### p) Goods and Services Tax

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

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

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

## Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(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.

**Note 2. Financial risk management *(continued)***

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

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

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

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2018 can be seen in the Statement of Profit or Loss and Other Comprehensive Income.

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

**Note 3. Critical accounting estimates and judgements**

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

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

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

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

## Note 3. Critical accounting estimates and judgements *(continued)*

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

*Estimation of useful lives of assets*

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

*Impairment of assets*

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

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

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

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

# Notes to the financial statements (continued)

| Note 4. Revenue from ordinary activities | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Operating activities: | | |
| - gross margin | 766,058 | 719,802 |
| - services commissions | 57,735 | 71,989 |
| - fee income | 82,456 | 96,354 |
| - market development fund | 77,500 | 77,083 |
| Total revenue from operating activities | 983,749 | 965,228 |
| Non-operating activities: | | |
| - other revenue | 100 | - |
| Total revenue from non-operating activities | 100 | - |
| Total revenues from ordinary activities | 983,849 | 965,228 |

| Note 5. Expenses | | |
|---|---|---|
| Depreciation of non-current assets: | | |
| - plant and equipment | 2,461 | 2,310 |
| - leasehold improvements | 12,847 | 13,113 |
| - motor vehicles | 4,249 | 1,083 |
| Amortisation of non-current assets: | | |
| - franchise fee | 4,477 | 3,652 |
| - franchise renewal fee | 20,146 | 16,097 |
| - establishment fee | - | 4,006 |
| | 44,180 | 40,261 |
| Finance costs: | | |
| - interest paid | 22,428 | 20,501 |
| - Bad debts | 1,018 | 3,109 |
| - Loss on disposal of asset | 1,625 | 3,540 |

| Note 6. Income tax credit | | | 2018 | 2017 |
|---|---|---|---|---|
| | | | $ | $ |
| The components of tax credit comprise: | | | | |
| - Future income tax benefit attributable to losses | | | (18,608) | (19,442) |
| - Movement in deferred tax | | | 3,830 | (1,690) |
| | | | (14,778) | (21,132) |
| The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax credit as follows | | | | |
| Operating loss | | | (56,741) | (76,920) |
| Prima facie tax on loss from ordinary activities at 27.5% (2017: 27.5%) | | | (14,779) | (21,153) |
| Add tax effect of: | | | | |
| - non-deductible expenses | | | 447 | 994 |
| - timing difference expenses | | | (4,276) | 717 |
| | | | (18,608) | (19,442) |
| Movement in deferred tax | | | 3,830 | (1,690) |
| | | | (14,778) | (21,132) |

| Note 7. Cash and cash equivalents | | | | |
|---|---|---|---|---|
| Cash at bank and on hand | | | 24,417 | 15,417 |

| 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 | | | 24,417 | 15,417 |
| Bank overdraft | Note | 13 | (270,244) | (169,312) |
| | | | (245,827) | (153,895) |

| Note 8. Trade and other receivables | | | | |
|---|---|---|---|---|
| Trade receivables | | | 49,128 | 41,409 |
| Prepayments | | | 5,797 | 5,705 |
| Other receivables and accruals | | | 1,108 | 2,148 |
| | | | 56,033 | 49,262 |

# Notes to the financial statements (continued)

| Note 9. Property, plant and equipment | 2018 | 2017 |
| --- | --- | --- |
| | $ | $ |
| Leasehold improvements | | |
| At cost | 287,606 | 283,053 |
| Less accumulated depreciation | (102,762) | (90,581) |
| | 184,844 | 192,472 |
| Plant and equipment | | |
| At cost | 49,333 | 48,062 |
| Less accumulated depreciation | (33,330) | (30,869) |
| | 16,003 | 17,193 |
| Motor vehicles | | |
| At cost | 21,244 | 21,244 |
| Less accumulated depreciation | (5,332) | (1,083) |
| | 15,912 | 20,161 |
| Total written down amount | 216,759 | 229,826 |
| **Movements in carrying amounts:** | | |
| Leasehold improvements | | |
| Carrying amount at beginning | 192,472 | 209,125 |
| Additions | 6,844 | (6,935) |
| Disposals | (1,625) | - |
| Less: depreciation expense | (12,847) | (9,718) |
| Carrying amount at end | 184,844 | 192,472 |
| Plant and equipment | | |
| Carrying amount at beginning | 17,193 | 18,626 |
| Additions | 1,271 | 878 |
| Disposals | - | - |
| Less: depreciation expense | (2,461) | (2,311) |
| Carrying amount at end | 16,003 | 17,193 |
| Motor vehicles | | |
| Carrying amount at beginning | 20,161 | - |
| Additions | - | 21,244 |
| Disposals | - | - |
| Less: depreciation expense | (4,249) | (1,083) |
| Carrying amount at end | 15,912 | 20,161 |
| Total written down amount | 216,759 | 229,826 |

## Note 10. Intangible assets

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Establishment fee | | |
| At cost | 32,019 | 32,019 |
| Less: accumulated amortisation | (32,019) | (32,019) |
| | - | - |
| Franchise fee | | |
| At cost | 92,384 | 92,384 |
| Less: accumulated amortisation | (77,462) | (72,985) |
| | 14,922 | 19,399 |
| Renewal processing fee | | |
| At cost | 140,730 | 140,730 |
| Less: accumulated amortisation | (73,577) | (53,431) |
| | 67,153 | 87,299 |
| Total written down amount | 82,075 | 106,698 |

## Note 11. Tax

| | | |
|---|---|---|
| Deferred tax assets | | |
| - accruals | 468 | 743 |
| - employee provisions | 4,159 | 5,898 |
| - tax losses carried forward | 158,893 | 140,285 |
| | 163,520 | 146,926 |
| Deferred tax liability | | |
| - property, plant and equipment | 11,134 | 9,318 |
| | 11,134 | 9,318 |
| Net deferred tax asset | 152,386 | 137,608 |
| Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income | (14,778) | (2,518) |

## Note 12. Trade and other payables

| | | |
|---|---|---|
| **Current:** | | |
| Trade creditors | 22,175 | 15,881 |
| Other creditors and accruals | 36,394 | 27,310 |
| | 58,569 | 43,191 |
| **Non-Current:** | | |
| Other creditors and accruals | 81,255 | 141,778 |

# Notes to the financial statements (continued)

| Note 13. Borrowings | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| **Current:** | | | |
| Bank overdrafts | | 270,244 | 169,312 |
| Chattel mortgage | 18 | 6,297 | 6,007 |
| Bank loans | | 21,768 | 21,768 |
| | | 298,309 | 197,087 |
| **Non-Current:** | | | |
| Chattel mortgage | 18 | 11,146 | 17,419 |
| Bank loans | | 158,986 | 167,641 |
| | | 170,132 | 185,060 |

The approved overdraft limit is $300,000. Interest is charged at a rate of 4.03% (2017: 3.85%), with the overdraft first commencing 1 February 2013. The debt is secured by a fixed and floating charge over the company's assets and is subject to quarterly reviews by Bendigo Bank.

The bank loan is repayable monthly. Interest is recognised at an average rate of 7.23% (2017: 7.10%). The loan are secured by a fixed and floating charge over the company's assets. In January 2016 a $200,000 bank loan was taken out to repay two loans previously held by the company. .

| Note 14. Provisions | | |
|---|---|---|
| **Current:** | | |
| Provision for annual leave | 4,985 | 11,811 |
| Provision for long service leave | 5,506 | - |
| | 10,491 | 11,811 |
| **Non-Current:** | | |
| Provision for long service leave | 4,631 | 9,638 |

# Notes to the financial statements (continued)

| Note 15. Issued capital | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| 592,038 ordinary shares fully paid (2017: 592,038) | 444,025 | 444,025 |
| Less: equity raising expenses | (37,167) | (37,167) |
| | 406,858 | 406,858 |

A bonus share issue on a 1:3 basis (148,013 shares) was issued to all existing shareholders on 18 June 2010.

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").
- 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 250. As at the date of this report, the company had 300 shareholders.

## Note 15. Issued capital *(continued)*

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.

## Note 16. Accumulated losses

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Balance at the beginning of the financial year | (456,612) | (400,824) |
| Net loss from ordinary activities after income tax | (41,963) | (55,788) |
| Balance at the end of the financial year | (498,575) | (456,612) |

## Note 17. Statement of cash flows

Reconciliation of loss from ordinary activities after tax to net cash provided by/(used in) operating activities

| | | |
|---|---|---|
| Loss from ordinary activities after income tax | (41,963) | (55,788) |
| Non cash items: | | |
| - depreciation | 19,557 | 16,506 |
| - amortisation | 24,623 | 23,755 |
| - loss on disposal of asset | 1,625 | 3,540 |
| Changes in assets and liabilities: | | |
| - increase in receivables | (6,771) | (3,167) |
| - increase in other assets | (14,778) | (21,132) |
| - increase in payables | (14,367) | 34,923 |
| - increase/(decrease) in provisions | (6,327) | 10,051 |
| Net cash flows used in operating activities | (38,401) | 8,688 |

# Notes to the financial statements *(continued)*

| Note 18. Leases | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Finance lease commitments | | |
| Payable - minimum lease payments: | | |
| - not later than 12 months | 6,985 | 6,985 |
| - between 12 months and 5 years | 11,439 | 18,424 |
| Minimum lease payments | 18,424 | 25,409 |
| Less future finance charges | (981) | (1,983) |
| Present value of minimum lease payments | 17,443 | 23,426 |

The finance lease for the motor vehicle, which commenced in Aprl 2017, is a three-year lease. Interest is recognised at an average rate of 4.725% (2017: 4.725%).

| | | |
|---|---|---|
| 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 | 90,110 | 87,990 |
| - between 12 months and 5 years | 201,084 | 294,547 |
| - greater than 5 years | - | - |
| | 291,194 | 382,537 |

The Biggera Waters and Helensvale Branch lease's are non-cancellable lease's with five-year terms, with rent payable monthly in advance. The lease for Biggera Waters commenced in July 2017 and the lease for Helensville commenced in August 2015.

## Note 19. Auditor's remuneration

| | | |
|---|---|---|
| Amounts received or due and receivable by the auditor of the company for: | | |
| - audit and review services | 4,400 | 4,200 |
| - share registry services | 1,885 | 1,885 |
| - non audit services | 2,562 | 2,390 |
| | 8,847 | 8,475 |

## Note 20. Director and related party disclosures

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

Robert John Knight
Trevor Newton Jones
Leeanne Kay Braund
Stephen Michael O'Donoghue
Michael Douglas McCarthy
Malcolm John Orman *(Appointed 4 August 2018)*

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.

# Notes to the financial statements (continued)

## Note 20. Director and related party disclosures *(continued)*

| Directors Shareholdings | 2018 | 2017 |
|---|---|---|
| Robert John Knight | 667 | 667 |
| Trevor Newton Jones | - | - |
| Leeanne Kay Braund | - | - |
| Stephen Michael O'Donoghue | 42,667 | 42,667 |
| Michael Douglas McCarthy | - | - |
| Malcolm John Orman *(Appointed 4 August 2018)* | - | - |

## Note 21. Dividends provided for or paid

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |

*a. Dividends paid during the year*

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

*b. Franking account balance*

| | 2018 | 2017 |
|---|---|---|
| Franking credits available for subsequent reporting periods are: | | |
| - franking account balance as at the end of the financial year | 23,898 | 23,898 |
| - franking credits that will arise from payment of income tax as at the end of the financial year | - | - |
| - 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: | 23,898 | 23,898 |
| - 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 | 23,898 | 23,898 |

## Note 22. 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.

# Notes to the financial statements (continued)

| Note 23. Earnings per share | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| (a) Loss attributable to the ordinary equity holders of the company used in calculating earnings per share | (41,963) | (55,788) |
| | Number | Number |
| (b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 592,038 | 592,038 |

## Note 24. 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 25. 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 26. Segment reporting

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

## Note 27. 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 |
|---|---|
| 33 Hollywell Road | 33 Hollywell Road |
| Biggera Waters QLD 4216 | Biggera Waters QLD 4216 |

# Notes to the financial statements (continued)

## Note 28. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

| Financial instrument | Floating interest | | Fixed interest rate maturing in | | | | | | Non interest bearing | | Weighted average | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 year or less | | Over 1 to 5 years | | Over 5 years | | | | | |
| | 2018 $ | 2017 $ | 2018 $ | 2017 $ | 2018 $ | 2017 $ | 2018 $ | 2017 $ | 2018 $ | 2017 $ | 2018 % | 2017 % |
| **Financial assets** | | | | | | | | | | | | |
| Cash and cash equivalents | 24,017 | 15,017 | - | - | - | - | - | - | 400 | 400 | Nil | Nil |
| Receivables | - | - | - | - | - | - | - | - | 41,409 | 37,061 | N/A | N/A |
| **Financial liabilities** | | | | | | | | | | | | |
| Interest bearing liabilities | 270,244 | 169,312 | 28,065 | 27,775 | 170,132 | 186,731 | - | - | - | - | 5.22 | 5.31 |
| Payables | - | - | - | - | - | - | - | - | 15,881 | 8,737 | N/A | N/A |

*Net Fair Values*

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

*Credit Risk*

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

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

*Interest Rate Risk*

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

*Sensitivity Analysis*

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

As at 30 June 2018, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Change in profit/(loss) | | |
| Increase in interest rate by 1% | (4,444) | (3,688) |
| Decrease in interest rate by 1% | 4,444 | 3,688 |
| | | |
| Change in equity | | |
| Increase in interest rate by 1% | (4,444) | (3,688) |
| Decrease in interest rate by 1% | 4,444 | 3,688 |

# Directors' declaration

In accordance with a resolution of the directors of Broadwater Financial Services Limited, we state that:

In the opinion of the directors:

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

(i) giving a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

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

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

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

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

**Robert John Knight,**
**Chairman**

Signed on the 24th of September 2018.

# Independent audit report

AFS
Partners in success
Chartered Accountants

61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
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## Independent auditor's report to the members of Broadwater Financial Services Limited

### Report on the audit of the financial statements

**Our opinion**
In our opinion, the financial report of Broadwater Financial Services Limited is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
ii. complying with Australian Accounting Standards.

**What we have audited**
Broadwater Financial Services Limited's (the company) financial report comprises the:

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

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

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

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

**Material uncertainty related to going concern**
Our opinion is not modified for this matter. We draw attention to Note 1 in the financial report, which indicates that the company incurred a net loss after tax of $41,963 during the year ended 30 June 2018, and as of that date, the company's liabilities exceeded its total assets by $91,717. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt over the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

# Independent audit report (continued)

**Other information**

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

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

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

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

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

### Directors' responsibility for the financial report

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

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

### Auditor's responsibility for the audit of the financial report

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

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

**Andrew Frewin Stewart**
61 Bull Street, Bendigo, 3550
Dated: 24 September 2018

**David Hutchings**
**Lead Auditor**

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