



# Annual Report 2017

Clovelly Community  
Financial Services Ltd

ABN 69 097 378 740

Clovelly **Community Bank**® Branch

# Contents

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<b>Chairman's report</b>	<b>2</b>
<b>Manager's report</b>	<b>4</b>
<b>Directors' report</b>	<b>5</b>
<b>Auditor's independence declaration</b>	<b>11</b>
<b>Financial statements</b>	<b>12</b>
<b>Notes to the financial statements</b>	<b>16</b>
<b>Directors' declaration</b>	<b>36</b>
<b>Independent audit report</b>	<b>37</b>

# Chairman's report

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For year ending 30 June 2017

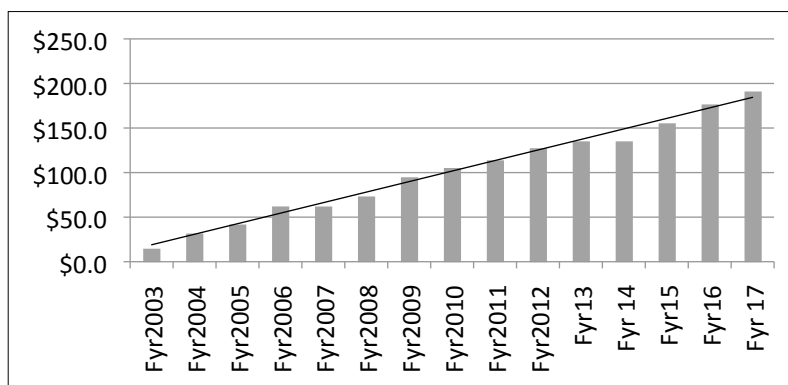
Welcome to the 16th Annual Report of Clovelly Community Financial Services Limited (CCFSL).

It is my great pleasure to report on the progress of the Clovelly **Community Bank**<sup>®</sup> Company for the financial year ended 30 June 2017.

## Current financial position

We had a solid start to the financial year with growth of \$1.2 million increasing our book to \$178 million by August. During the next three months growth slowed dramatically until December when we experienced a remarkable turnaround. A steep rise in monthly profit associated with a \$2.1 million increase to the total book. This upward trend continued right through to the end of the financial year with total business finishing at \$191.4 million with the annual growth being 14.5 million.

## Portfolio growth



Profit before tax \$205,339 (previous year \$165,276) net profit after tax \$147,063 (previous year \$116,386) our net borrowings reduced from \$753,830 to \$642,585.

## Dividend

The Board of Directors have declared a final dividend of 0.10 cents per share fully franked for the year ended 30 June 2017.

## Director contributions

The Board of Directors met on a monthly basis to plan and monitor the operations of CCFSL. As an adjunct to these meetings our Governance and Marketing Committees met regularly to monitor compliance and set vision for the overall marketing strategies. To the members of those committees my sincere thanks, and also to the Board of Directors for your devoted time and expertise in the successful running of CCFSL.

During the past year we farewelled Adam Davids from our Board of Directors. Adam joined the Board in May 2011. Adams thoughtful and well measured contributions will be greatly missed. On behalf of the fellow Directors I would like to thank him and wish him well in his future endeavours.

# Chairman's report (continued)

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## Community participation

The **Community Bank**<sup>®</sup> model's core philosophy is to return profits back to the community through grants and sponsorships.

Sponsorships are our main form of advertising and sponsored organisations are required to do their best to market and advertise our **Community Bank**<sup>®</sup> branch to their members and supporters.

Sponsorship recipients in 2016/17	
Bondi Outreach Project	Coogee Randwick RLFC
Head on Foundation	Randwick City Football Club
Surfing Mums	Clovelly Crocodiles JRLFC
Clovelly Mens Bowling Club	Glebe Wanderers Football Club
National Seniors	Clovelly Eskimos
East's Cricket Club	Randwick Art Society
Randwick Rugby Club	Windgap Foundation
Bondi Bathers Surf Life Saving Club	Coogee Dolphins
Mood Active	Purple Hearts (R.C.F.C)
Wanderers Netball Club	
Recipients through Grants Program	
Randwick Waverley Community Transport	BOP 'Patrol Outreach'
The Deli Domestic Violence – No Excuses	Kooloora Community Centre
JNC Community Connections Outreach	

## Acknowledging our staff

Congratulations go to our Manager, Peter Swan and his team for continuing to deliver excellent customer service, by providing local residents, traders and businesses with professional and friendly face to face banking. The outstanding results this past year are a testament to their dedication.



**Michael Joseph De Navi**  
Chairman

# Manager's report

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For year ending 30 June 2017

We have come a long way since opening our **Community Bank**<sup>®</sup> branch in 2002.

This year we celebrate some very major milestones:

- 15 years of ethical, philanthropic, premium retail banking service to the community
- Total community contributions over \$1 million
- Strong Balance Sheet with net assets over \$1 million
- Total business portfolio now \$192.9 million
- Earnings before interest, taxes, depreciation and amortisation and community contributions (EBITDA) \$390,272.

	2017	2016
Revenue	\$1,198,335	\$1,103,066
Net Assets	\$1,006,334	\$909,695
Cash on hand	\$230,928	\$203,363
Earnings Per Share	\$23.33	\$18.47
EBITDA	\$390,272	\$347,950
Community contributions	\$109,574	\$96,046
<b>Total business</b>	<b>\$191.4 million</b>	<b>\$176.9 million</b>

Thank you to our hardworking staff who work diligently day in, day out, ensuring our client's get the very best retail banking experience and community outcomes possible. Our customer and community engagement is paramount to our success. Your efforts have resulted in another great team result for 2017.

Congratulations and thanks to the Board of Directors and sub committees for their work and voluntary contribution to our community social enterprise. The returns for all stakeholders are significant and of which we are justifiably proud.

Thank you to Denice Kelly, Amy Land and the whole team at Bendigo Bank for their assistance and support throughout the year partnering together with us for great outcomes.

This coming year appears to be both dynamic and challenging. With changes in housing markets, industry disrupters, changing regulatory framework, interest rates and margins, the right balance between growth and profitability will be constantly moving. Whilst we continually strive for book growth, Balance Sheet and profitability remains the priority. It is the means by which we are able to continue returns for our stakeholders and philanthropic endeavours that benefit our communities.

We look forward to another year ahead building on the strong foundation we have laid down over the last 15 years.



**Peter Swan**  
**Branch Manager**

# Directors' report

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For the financial year ended 30 June 2017

Your directors submit the financial statements of the company for the financial year ended 30 June 2017.

## Directors

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

### **Michael Joseph De Navi**

Chairman

Occupation: Small Business Owner

Qualifications, experience and expertise: Michael has extensive experience in small business. He has worked in and owned several small businesses. His present small business has been operating locally for 23 years and has won many accolades including Randwick Council Small Business of the Year. Michael has a strong sense of community. He is a lifetime member of the Clovelly Eagles Junior Rugby Club and was on the steering committee that established the **Community Bank**<sup>®</sup> branch.

Special responsibilities: Chairman.

Interest in shares: 1 ordinary

### **Jonathan Henry Hancock**

Company Secretary

Occupation: Stockbroker

Qualifications, experience and expertise: Jonathan is a Stockbroker at Ord Minnett Limited providing a full range of stockbroking and direct asset management services to clients. He was a former President of Tamarama Surf Life Saving Club.

Special responsibilities: Company Secretary.

Interest in shares: 1,000 ordinary

### **Janet May Kidson**

Treasurer

Occupation: Senior Consultant

Qualifications, experience and expertise: Janet has a degree in Computer Science. She ran her own IT consulting business for over 20 years and now works as a senior consultant specialising in financial systems and performance monitoring. She is Company Secretary of ARTD Pty Ltd and Treasurer and Management Committee Member of The Junction Neighbourhood Centre.

Special responsibilities: Treasurer, Member of the Marketing committee, Member of the Audit & Governance committee.

Interest in shares: 11,000 ordinary

### **Andrew Winters**

Director

Occupation: Retired Small Business Proprietor

Qualifications, experience and expertise: Andrew has expertise in Sales and Marketing working as National Manager in a number of Corporations. For the last 20 years he has been the Proprietor of a Chilled Dairy Foods Distribution Business. He is a past President of Bondi Surf Bathing Life Saving Club.

Special responsibilities: Member of Marketing Committee.

Interest in shares: 1,000 ordinary

# Directors' report (continued)

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## Directors (continued)

### **William Patrick O'Connell**

Director

Occupation: Self Employed

Qualifications, experience and expertise: Bill has a degree in Business from the NSW Institute of Technology (now UTS). For thirty years he has worked in various marketing roles, including advertising, marketing management, research and analytics. He is currently self employed managing his family interests, which include primary production. He is a member of the Abstract Committee (since 2005) which raises funds for the Royal Institute for Deaf and Blind Children. He is also a non financial Director of the Australasian Pioneers' Club (2004-2011, 2015-current).

Special responsibilities: Member of the Marketing Committee.

Interest in shares: 1,000 ordinary

### **Lyndall Briony Sank**

Director (resigned 3 September 2016)

Occupation: General Manager

Qualifications, experience and expertise: Lyndall has had over 15 years as a senior finance professional, most recently the General Manager, Integration for CSR Bradford, working with newly acquired businesses to implement CSR's policies, processes and systems. Lyndall is an active member of Clovelly Surf Life Saving Club.

Special responsibilities: Member of the Audit & Governance committee.

Interest in shares: Nil

### **Adam Davids**

Director (resigned 2 March 2017)

Occupation: Learning & Development Manager

Qualifications, experience and expertise: Adam has a Bachelor of Commerce degree from the University of NSW. He is currently a Manager for Career Trackers, a non-profit organisation that provides career pathways for Indigenous university students through a structured internship program within the private sector. He is also a former employee and board member of the Kool Kids Club, a non-profit organisation that provides Indigenous Australian children with the facilities and skills to cook healthy, simple meals that are inspired by bush tucker. Adam's main expertise is in non profit organisation management, leadership development, executive coaching, training and development, workshop facilitation, and strategic planning.

Special responsibilities: Nil

Interest in shares: Nil

### **Alison Cunniffe**

Director

Occupation: Financial Services Adviser, Corporate Sustainability

Qualifications, experience and expertise: Alison has a Diploma of Financial Services from the Financial Services Institute of Australasia. Alison is a corporate sustainability specialist with over 15 years experience in the financial services industry, focused on infrastructure and community investment sectors.

Special responsibilities: Member of the Audit & Governance committee, Member of the Marketing committee.

Interest in shares: Nil

# Directors' report (continued)

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## Directors (continued)

### **Karen Taylor**

Director (Appointed 2 March 2017)

Occupation: Compliance Officer, Crescent Wealth Funds Management (Aust) Limited

Qualifications, experience and expertise: Karen has a BA (Hons), MBA, Msc Info Science, BA (Honours) Business and Administration as well as Diplomas in Financial Services and Financial markets. Karen is also a graduate of the Australian Institute of Company Directors. She has over 25 years financial industry experience encompassing all aspects of the wealth management chain.

Special responsibilities: Member of the Audit & Governance committee.

Interest in shares: 2,000 ordinary

### **Elissa Raptis**

Director (Appointed 2 March 2017)

Occupation: Sales & Marketing Professional

Qualifications, experience and expertise: Elissa has a Graduate Certificate in Business Administration and is a graduate of the Australian Institute of Company Directors, She has had extensive experience in the Fast Moving Consumer Goods environment, but more recently has focused on Finance marketing. She has had various Board exposures for over 10 years.

Special responsibilities: Marketing Committee.

Interest in shares: Nil

### **Paul Simmons**

Director (Appointed 2 March 2017)

Occupation: HR Professional

Qualifications, experience and expertise: Paul has a degree in Psychology and Post Graduate qualification in Human Resources. He was previously a member of Orange Base Hospital Ethics Committee, and is currently an active member of Clovelly Surf Life Saving Club.

Special responsibilities: Nil

Interest in shares: Nil

### **Daniela Crollini**

Director (Appointed 2 March 2017)

Occupation: Financial Analyst, Ord Minnett Ltd

Qualifications, experience and expertise: Daniela holds a Bachelor of Business from UTS in Sydney and is a CFA charter holder having completed the course in 2013. Prior to joining Ord Minnett Daniela held accounting positions at Rothschild, Leadenhall Corporate Advisory and Ernst & Young.

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 Jonathan Hancock. Jonathan was appointed to the position of secretary on 14 April 2010.

His qualifications and experience are outlined in the List of Directors at the beginning of this report.

## **Principal Activities**

The principal activities of the company during the financial year were facilitating **Community Bank**<sup>®</sup> services under management rights to operate a franchised branch of Bendigo and Adelaide Bank Limited.

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



# Directors' report (continued)

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## 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 2017 \$	Year ended 30 June 2016 \$
147,063	116,386

## Dividends

	Year ended 30 June 2017	
	Cents	\$
	8	50,424

## Significant changes in the state of affairs

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

## Events since the end of the financial year

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

## Likely developments

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

## Environmental regulation

The company is not subject to any significant environmental regulation.

## Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest.

## Indemnification and insurance of directors and officers

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

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

# Directors' report (continued)

## Directors' meetings

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

	Board Meetings Attended		Committee Meetings Attended			
			Audit & Governance		Marketing & Sponsorship	
	A	B	A	B	A	B
Michael Denavi	11	11	-	-	-	-
Jonathon Hancock	11	11	-	-	-	-
Janet Kidson	11	10	4	3	5	3
Andrew Winters	11	10	-	-	8	1
William O'Connell	11	11	-	-	8	6
Adam Davids **	7	3	-	-	-	-
Lyndall Sank ***	2	2	-	-	-	-
Alison Cunniffe	11	9	4	4	8	6
Karen Taylor *	5	4	2	1	-	-
Elissa Raptis *	5	5	-	-	-	-
Paul Simmons *	5	5	-	-	-	-
Daniela Crollini *	5	3	-	-	-	-

A - eligible to attend

\* - (Appointed 2 March 2017)

B - number attended

\*\* - (Resigned 2 March 2017)

\*\*\* - (Resigned 3 September 2016)

## 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 audit and governance 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.

# Directors' report (continued)

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## **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 audit and governance 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 11.

Signed in accordance with a resolution of the board of directors at Clovelly, Sydney on 31 August 2017.



**Michael Joseph De Navi,  
Chairman**

# Auditor's independence declaration

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

As lead auditor for the audit of Clovelly Community Financial Services Limited for the year ended 30 June 2017, 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: 31 August 2017

**David Hutchings**  
Lead Auditor

# Financial statements

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## Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Revenue from ordinary activities	4	1,198,335	1,103,066
Employee benefits expense		(644,106)	(594,182)
Charitable donations, sponsorship, advertising and promotion		(109,574)	(96,046)
Occupancy and associated costs		(28,785)	(27,822)
Systems costs		(16,533)	(16,260)
Depreciation and amortisation expense	5	(41,915)	(46,483)
Finance costs	5	(33,444)	(39,890)
General administration expenses		(118,639)	(117,107)
<b>Profit before income tax expense</b>		<b>205,339</b>	<b>165,276</b>
Income tax expense	6	(58,276)	(48,890)
<b>Profit after income tax expense</b>		<b>147,063</b>	<b>116,386</b>
<b>Total comprehensive income for the year attributable to the ordinary shareholders of the company:</b>		<b>147,063</b>	<b>116,386</b>
<b>Earnings per share</b>		<b>¢</b>	<b>¢</b>
Basic earnings per share	22	23.33	18.47

The accompanying notes form part of these financial statements.

# Financial statements (continued)

## Balance Sheet as at 30 June 2017

	Notes	2017 \$	2016 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	230,928	203,363
Trade and other receivables	8	126,284	116,537
<b>Total Current Assets</b>		<b>357,212</b>	<b>319,900</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	1,478,000	1,503,903
Intangible assets	10	55,961	11,553
Deferred tax asset	11	21,773	20,145
<b>Total Non-Current Assets</b>		<b>1,555,734</b>	<b>1,535,601</b>
<b>Total Assets</b>		<b>1,912,946</b>	<b>1,855,501</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	135,447	90,573
Current tax liabilities	11	33,161	14,026
Borrowings	13	149,590	149,590
Provisions	14	88,877	58,101
<b>Total Current Liabilities</b>		<b>407,075</b>	<b>312,290</b>
<b>Non-Current Liabilities</b>			
Borrowings	13	492,995	604,240
Provisions	14	6,542	29,276
<b>Total Non-Current Liabilities</b>		<b>499,537</b>	<b>633,516</b>
<b>Total Liabilities</b>		<b>906,612</b>	<b>945,806</b>
<b>Net Assets</b>		<b>1,006,334</b>	<b>909,695</b>
<b>Equity</b>			
Issued capital	15	630,284	630,284
Retained earnings	16	376,050	279,411
<b>Total Equity</b>		<b>1,006,334</b>	<b>909,695</b>

The accompanying notes form part of these financial statements.

# Financial statements (continued)

## Statement of Changes in Equity for the year ended 30 June 2017

	Issued capital \$	Retained earnings \$	Total equity \$
<b>Balance at 1 July 2015</b>	<b>630,284</b>	<b>213,448</b>	<b>843,732</b>
Total comprehensive income for the year	-	116,386	116,386
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(50,423)	(50,423)
<b>Balance at 30 June 2016</b>	<b>630,284</b>	<b>279,411</b>	<b>909,695</b>
<b>Balance at 1 July 2016</b>	<b>630,284</b>	<b>279,411</b>	<b>909,695</b>
Total comprehensive income for the year	-	147,063	147,063
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(50,424)	(50,424)
<b>Balance at 30 June 2017</b>	<b>630,284</b>	<b>376,050</b>	<b>1,006,334</b>

The accompanying notes form part of these financial statements.

# Financial statements (continued)

## Statement of Cash Flows for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,186,495	1,192,924
Payments to suppliers and employees		(920,236)	(928,084)
Interest received		1,647	1,126
Interest paid		(33,444)	(39,890)
Income taxes paid		(40,769)	(31,718)
<b>Net cash provided by operating activities</b>	<b>17</b>	<b>193,693</b>	<b>194,358</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(4,458)	(2,668)
<b>Net cash used in investing activities</b>		<b>(4,458)</b>	<b>(2,668)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(111,246)	(105,600)
Dividends paid		(50,424)	(50,423)
<b>Net cash used in financing activities</b>		<b>(161,670)</b>	<b>(156,023)</b>
<b>Net increase in cash held</b>		<b>27,565</b>	<b>35,667</b>
Cash and cash equivalents at the beginning of the financial year		203,363	167,696
<b>Cash and cash equivalents at the end of the financial year</b>	<b>7(a)</b>	<b>230,928</b>	<b>203,363</b>

The accompanying notes form part of these financial statements.



# Notes to the financial statements

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For year ended 30 June 2017

## 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

There are a number of 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 2016, and are therefore relevant for the current financial year.

None of these amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

There are also a number of accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that become effective in future accounting periods.

The company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2016. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

#### Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**<sup>®</sup> branch at Clovelly, New South Wales.

# Notes to the financial statements (continued)

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

### a) Basis of preparation (continued)

#### Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the company facilitating the provision of those products. 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**<sup>®</sup> branch franchise operations. It also continues to provide ongoing management and operational support and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

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

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

### b) Revenue

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

#### Revenue calculation

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

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

# Notes to the financial statements (continued)

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

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

#### Core banking products

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

#### Margin

Margin is arrived at through the following calculation:

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

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

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

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

#### Commission

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

#### Fee income

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

#### Discretionary financial contributions

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

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

It is for the board to decide how to use the MDF.

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

#### Ability to change financial return

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

# Notes to the financial statements (continued)

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## 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**<sup>®</sup> 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**<sup>®</sup> model is based on the principle of shared reward for shared effort. In particular, in relation to core banking products and services, the aim is to achieve an equal share of Bendigo and Adelaide Bank Limited's margin.

### **c) Income tax**

#### Current tax

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

#### Deferred tax

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

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

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

# Notes to the financial statements (continued)

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

### **c) Income tax (continued)**

#### Deferred tax (continued)

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.

### **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:

- buildings 40 years
- leasehold improvements 40 years
- plant and equipment 2.5 - 40 years

# Notes to the financial statements (continued)

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

### **h) Intangibles**

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

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

### **i) Payment terms**

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

### **j) Borrowings**

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

### **k) Financial instruments**

#### Recognition and initial measurement

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

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

#### Derecognition

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

#### Classification and subsequent measurement

##### (i) Loans and receivables

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

##### (ii) Held-to-maturity investments

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

##### (iii) 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.

# Notes to the financial statements (continued)

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

### **k) Financial instruments (continued)**

#### Impairment

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

### **l) Leases**

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

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

### **m) Provisions**

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

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

### **n) Contributed equity**

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

### **o) Earnings per share**

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

### **p) Goods and Services Tax**

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

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

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

# Notes to the financial statements (continued)

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## Note 2. Financial risk management

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

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

### (i) Market risk

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

### (ii) Price risk

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

The company is not exposed to commodity price risk.

### (iii) Credit risk

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

### (iv) Liquidity risk

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

### (v) Cash flow and fair value interest rate risk

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

### (vi) Capital management

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

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

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 2017 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.



# Notes to the financial statements (continued)

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## Note 3. Critical accounting estimates and judgements

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

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

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

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

### Taxation

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

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

These judgements and assumptions are subject to risk and uncertainty. 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.

# Notes to the financial statements (continued)

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

### Impairment of assets (continued)

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.

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>

## Note 4. Revenue from ordinary activities

### Operating activities:

- gross margin	906,215	760,850
- services commissions	187,401	191,030
- fee income	91,179	98,777
- market development fund	10,000	50,000
<b>Total revenue from operating activities</b>	<b>1,194,795</b>	<b>1,100,657</b>

### Non-operating activities:

- interest received	1,647	1,126
- other revenue	1,893	1,283
<b>Total revenue from non-operating activities</b>	<b>3,540</b>	<b>2,409</b>

<b>Total revenues from ordinary activities</b>	<b>1,198,335</b>	<b>1,103,066</b>
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## Note 5. Expenses

### Depreciation of non-current assets:

- plant and equipment	4,821	3,684
- buildings	24,935	24,934
- leasehold improvements	607	6,311

### Amortisation of non-current assets:

- franchise renewal fee	11,552	11,554
	<b>41,915</b>	<b>46,483</b>

### Finance costs:

<b>- interest paid</b>	<b>33,444</b>	<b>39,890</b>
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<b>Bad debts</b>	<b>3,211</b>	<b>202</b>
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## Notes to the financial statements (continued)

	2017 \$	2016 \$
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### Note 6. Income tax expense

The components of tax expense comprise:

- Current tax	57,569	47,874
- Adjustment to deferred tax to reflect change to tax rate in future periods	707	1,016
	<b>58,276</b>	<b>48,890</b>

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

Operating profit	205,338	165,276
Prima facie tax on profit from ordinary activities at 27.5% (2016: 28.5%)	56,467	47,104
Add tax effect of:		
- non-deductible expenses	1,102	770
- timing difference expenses	2,334	2,821
	<b>59,903</b>	<b>50,695</b>
Movement in deferred tax	(2,334)	(2,821)
Adjustment to deferred tax to reflect change of tax rate in future periods	707	1,016
	<b>58,276</b>	<b>48,890</b>

### Note 7. Cash and cash equivalents

Cash at bank and on hand	128,986	142,846
Term deposits	101,942	60,517
	<b>230,928</b>	<b>203,363</b>

#### 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	128,986	142,846
Term deposits	101,942	60,517
	<b>230,928</b>	<b>203,363</b>

### Note 8. Trade and other receivables

Trade receivables	109,919	99,725
Prepayments	16,245	16,692
Other receivables and accruals	120	120
	<b>126,284</b>	<b>116,537</b>

## Notes to the financial statements (continued)

	2017 \$	2016 \$
<b>Note 9. Property, plant and equipment</b>		
Land and buildings		
Freehold land		
At cost	591,403	591,403
Buildings		
At cost	997,389	997,389
Less accumulated depreciation	(124,674)	(99,739)
	<b>872,715</b>	<b>897,650</b>
Leasehold improvements		
At cost	239,366	238,243
Less accumulated depreciation	(233,665)	(233,059)
	<b>5,701</b>	<b>5,184</b>
Plant and equipment		
At cost	40,310	36,975
Less accumulated depreciation	(32,129)	(27,309)
	<b>8,181</b>	<b>9,666</b>
<b>Total written down amount</b>	<b>1,478,000</b>	<b>1,503,903</b>
<b>Movements in carrying amounts:</b>		
Land at Cost	591,403	591,403
Buildings		
Carrying amount at beginning	897,650	922,584
Additions	-	-
Disposals	-	-
Less: depreciation expense	(24,935)	(24,934)
<b>Carrying amount at end</b>	<b>872,715</b>	<b>897,650</b>
Leasehold improvements		
Carrying amount at beginning	5,184	11,495
Additions	1,124	-
Disposals	-	-
Less: depreciation expense	(607)	(6,311)
<b>Carrying amount at end</b>	<b>5,701</b>	<b>5,184</b>

## Notes to the financial statements (continued)

	2017 \$	2016 \$
Note 9. Property, plant and equipment (continued)		
Plant and equipment		
Carrying amount at beginning	9,666	10,682
Additions	3,335	2,668
Disposals	-	-
Less: depreciation expense	(4,820)	(3,684)
<b>Carrying amount at end</b>	<b>8,181</b>	<b>9,666</b>
<b>Total written down amount</b>	<b>1,478,000</b>	<b>1,503,903</b>

## Note 10. Intangible assets

Franchise fee		
At cost	113,729	57,768
Less: accumulated amortisation	(57,768)	(46,215)
<b>Total written down amount</b>	<b>55,961</b>	<b>11,553</b>

## Note 11. Tax

### Current:

<b>Income tax payable</b>	<b>33,161</b>	<b>14,026</b>
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### Non-Current:

Deferred tax assets		
- employee provisions	26,240	24,902
	<b>26,240</b>	<b>24,902</b>

Deferred tax liability		
- deductible prepayments	4,467	4,757
	<b>4,467</b>	<b>4,757</b>

<b>Net deferred tax asset</b>	<b>21,773</b>	<b>20,145</b>
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<b>Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income</b>	<b>(1,628)</b>	<b>212</b>
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## Note 12. Trade and other payables

### Current:

Other creditors and accruals	135,447	90,573
	<b>135,447</b>	<b>90,573</b>

## Notes to the financial statements (continued)

	2017 \$	2016 \$
<b>Note 13. Borrowings</b>		
<b>Current:</b>		
<b>Bank loans</b>	<b>149,590</b>	<b>149,590</b>
<b>Non-Current:</b>		
<b>Bank loans</b>	<b>492,995</b>	<b>604,240</b>

Bank loans are repayable monthly with the final instalment due on 6 June 2022. Interest is recognised at an average rate of 4.82% (2016: 4.97%). The loans are secured by a fixed and floating charge over the company's assets.

## Note 14. Provisions

<b>Current:</b>		
Provision for annual leave	27,011	27,912
Provision for long service leave	61,866	30,189
	<b>88,877</b>	<b>58,101</b>
<b>Non-Current:</b>		
<b>Provision for long service leave</b>	<b>6,542</b>	<b>29,276</b>

## Note 15. Contributed equity

<b>630,284 ordinary shares fully paid (2016: 630,284)</b>	<b>630,284</b>	<b>630,284</b>
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### Rights attached to shares

#### (a) Voting rights

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

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

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

#### (b) Dividends

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

# Notes to the financial statements (continued)

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## Note 15. Contributed equity (continued)

### Rights attached to shares (continued)

#### c) Transfer

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

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

### Prohibited shareholding interest

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

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

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

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

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

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

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Note 16. Retained earnings</b>		
Balance at the beginning of the financial year	279,411	213,448
Net profit from ordinary activities after income tax	147,063	116,386
Dividends paid or provided for	(50,424)	(50,423)
<b>Balance at the end of the financial year</b>	<b>376,050</b>	<b>279,411</b>

# Notes to the financial statements (continued)

	2017 \$	2016 \$
<b>Note 17. Statement of cash flows</b>		
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	147,063	116,386
Non cash items:		
- depreciation	30,363	34,929
- amortisation	11,552	11,554
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(10,194)	(28,116)
- (increase)/decrease in other assets	(1,181)	3,146
- increase/(decrease) in payables	(11,087)	28,855
- increase/(decrease) in provisions	8,042	13,578
- increase/(decrease) in current tax liabilities	19,135	14,026
<b>Net cash flows provided by operating activities</b>	<b>193,693</b>	<b>194,358</b>

## Note 18. Auditor's remuneration

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

- audit and review services	4,200	3,790
- share registry services	3,728	4,834
- non audit services	1,042	790
	<b>8,970</b>	<b>9,414</b>

## Note 19. Director and related party disclosures

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

Michael De Navi  
Jonathan Hancock  
Janet Kidson  
Andrew Winters  
William O'Connell  
Adam Davids (resigned 2 March 2017)  
Lyndal Sank (resigned 3 September 2016)  
Alison Cunniffe  
Karen Taylor (appointed 2 March 2017)  
Elissa Raptis (appointed 2 March 2017)  
Paul Simmons (appointed 2 March 2017)  
Daniela Crollini (appointed 2 March 2017)

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



# Notes to the financial statements (continued)

## Note 19. Director and related party disclosures (continued)

	2017	2016
<b>Directors' Shareholdings</b>		
Michael De Navi	1	1
Jonathan Hancock	1,000	1,000
Janet Kidson	11,000	11,000
Andrew Winters	1,000	1,000
William O'Connell	1,000	1,000
Adam Davids (resigned 2 March 2017)	-	-
Lyndal Sank (resigned 3 September 2016)	-	-
Alison Cunniffe	-	-
Karen Taylor (appointed 2 March 2017)	2,000	-
Elissa Raptis (appointed 2 March 2017)	-	-
Paul Simmons (appointed 2 March 2017)	-	-
Daniela Crollini (appointed 2 March 2017)	-	-

There was no movement in directors' shareholdings during the year. Karen Taylor had a pre existing shareholding when she was appointed Director.

	2017 \$	2016 \$
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## Note 20. Dividends paid or provided

### a. Dividends paid during the year

Current year dividend		
<b>100% (2016: 100%) franked dividend - 8 cents (2016: 8 cents) per share</b>	<b>50,424</b>	<b>50,423</b>

### b. Franking account balance

Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	267,006	246,336
- franking credits that will arise from payment of income tax as at the end of the financial year	25,321	14,026
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
<b>Franking credits available for future financial reporting periods:</b>	<b>292,327</b>	<b>260,362</b>
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
<b>Net franking credits available</b>	<b>292,327</b>	<b>260,362</b>

# Notes to the financial statements (continued)

## Note 21. Key management personnel disclosures

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

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

	2017 \$	2016 \$
--	------------	------------

## Note 22. Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	147,063	116,386
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	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	630,284	630,284

## Note 23. Events occurring after the reporting date

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

## Note 24. Contingent liabilities and contingent assets

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

## Note 25. Community Enterprise Foundation™

During the period the company contributed funds to the Community Enterprise Foundation™ (CEF), the philanthropic arm of the Bendigo and Adelaide Bank Group. These contributions form part of charitable donations and sponsorship expenditure included in the Statement of Profit or Loss and Other Comprehensive Income.

The funds contributed are held by the CEF in trust on behalf of the company and are available for distribution as grants to eligible applicants. The balance of funds held by the CEF as at 30 June 2017 is as follows:

	2017 \$	2016 \$
Opening balance	57,074	60,892
Contributions	42,105	21,053
Grants paid	(43,550)	(25,000)
Interest	941	1,182
Management fees	(2,105)	(1,053)
<b>Balance available for distribution</b>	<b>54,465</b>	<b>57,074</b>

# Notes to the financial statements (continued)

## Note 26. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank**<sup>®</sup> services in Clovelly, New South Wales 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 :

226 Clovelly Road  
Clovelly NSW 2031

## 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					
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 %	2016 %
<b>Financial assets</b>												
Cash and cash equivalents	-	-	101,942	60,517	-	-	-	-	128,986	142,846	0.76	0.44
Receivables	-	-	-	-	-	-	-	-	109,919	99,725	N/A	N/A
<b>Financial liabilities</b>												
Interest bearing liabilities	642,585	753,830	-	-	-	-	-	-	-	-	4.82	4.97
Payables	-	-	-	-	-	-	-	-	135,447	90,573	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.

# Notes to the financial statements (continued)

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## Note 28. Financial instruments (continued)

### 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 2017, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Change in profit/(loss)		
Increase in interest rate by 1%	(5,406)	(6,933)
Decrease in interest rate by 1%	5,406	6,933
Change in equity		
Increase in interest rate by 1%	(5,406)	(6,933)
Decrease in interest rate by 1%	5,406	6,933

# Directors' declaration

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In accordance with a resolution of the directors of Clovelly 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 2017 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.



**Michael Joseph De Navi,**  
**Chairman**

Signed on the 31st of August 2017.

# Independent audit report

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## Independent auditor's report to the members of Clovelly Community Financial Services Limited

### Report on the audit of the financial statements

#### Our opinion

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

- i. giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

#### What we have audited

Clovelly Community Financial Services Limited's (the company) financial report comprises the:

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

#### Basis for opinion

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

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

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

#### Other information

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

# Independent audit report (continued)

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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: 31 August 2017



**David Hutchings**  
Lead Auditor

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