Hervey Bay & District Financial Services Limited

ABN 46 116 567 072

ANNUAL REPORT 2013

Hervey Bay **Community Bank®** Branch

Contents

Chairman’s report

For year ending 30 June 2013

This past year has seen the company face and overcome many challenges. It was a tough year in business and it seems we confront the same issues again and again.

Changing local, regional, national, and international economic conditions present the Board and staff with ever changing hurdles to overcome in trying to gain our necessary market share and most profitable mix of products sold to generate the profits the company and its shareholders deserve.

We have increased turnover, increased lending activity and are working at increasing the number of products per customer ratios. These results have been achieved in difficult times of low economic and development activity in this area.

Earlier in the year the board, with the assistance of senior local, regional and state bank staff, reviewed the company’s strategic plan. We established key areas where we believed the branch should focus its attentions. We believe we need to aggressively target substantial commercial and government lending opportunities. Particular emphasis was placed on the agricultural sector, simply because of the size of transactions involved.

We understand that these markets are very competitive, but with the pricing policies of Bendigo and Adelaide Bank, our community benefit model and award winning service offerings, we believe we are more than competitive and should be able to increase our market share in this area. It is pleasing to note that these efforts have gained results already in this current financial year.

I know we always seem to be about to turn the corner and be able to declare profits and start paying dividends. Regretfully we have not been able to do that this year but I assure everyone here that these are our prime goals and the board and staff are working very hard to achieve them.

Recent significant local capital works projects in the area as well as a growing confidence in the prevailing economic conditions offer even further hope for the results we all seek.

Shareholders can assist your **Community Bank®** branch by using, supporting and advocating the branch and all its services and products. By doing so, you will assist greatly in generating profits for yourselves and the community. Please spread the message, tell people you know to come and talk to our staff and make use of the award winning services and products they offer.

I welcome all our new Board members that have given, along with the more experienced of us, freely of their time, skills, knowledge and experience. I would like to thank those Directors who regretfully have had to resign this year for their hard work and support of the company.

The Board members’ efforts, vigour and support will make our goals achievable and the journey a satisfying and rewarding experience. The Board and I are well aware of the need to grow the company faster and in the more profitable areas as laid down in our strategic plan.

The Board sets the policy but our staff are the ones that put it into place and practice. On behalf of the Board, I sincerely thank the Manager, David and all his staff for their efforts, support and candour in the past year. We have had our issues but we have and will always work to resolve them the best way we can with the resources we have. Similarly I acknowledge the regional and various specialist Managers we work with throughout the year and thank them for their assistance and guidance.

Chairman's report (continued)

Remember that this company is not only different because it exists for the benefit of its community and shareholders, but also because it is working with fifth largest bank in Australia that has also been judged the best customer service and best business bank in Australia. Please believe in the model, use the services and products and spread the word of this unique model to friends and associates.

Neil Canning FCA
Chairperson

Manager's report

For year ending 30 June 2013

Whilst a number of positives have been seen in the local economy, the Fraser Coast region has still remained relatively depressed. However, whilst this has contributed to lower growth than forecasted, I am happy to advise we had overall growth of over 15% for the last 12 months or more than $9.6 million. Total business is now over $73 million with some solid prospects in place for the early start of the new year.

It seems the lower interest rates go, the more competitive the market becomes, especially in the area of deposits. Despite this, our unique point of difference has allowed us to increase our business in this area again this year. We are still working hard towards increasing our lending book, however this still only accounts for 33% of our total business.

The branch has made significant progress in improving awareness of the brand and branch within the local community including the business community and this is assisting with enquiries and growth moving forward.

Whilst the Board have not hosted another community forum, its third is in planning now that the majority of projects have been escalated and brought to fruition. The Board and staff should be congratulated for their work in this area as it highlights that whilst we aim at providing competitive banking products and services, we are also responsible for making our Fraser Coast Region a more prosperous and stronger one.

We have continued our support of The Indy Foundation, Hervey Bay Meals on Wheels and Hervey Bay Community Centre and these relationships are proving valuable sources of business for the branch.

Branch staffing has again seen a number of changes. My appreciation and thanks goes to Linda and Julie for their support. And I welcome the new perspectives Carlie and Kylie now bring to the team. Whilst Diana has left us on a permanent basis, she has assisted at times to cover shortages from time to time and I thank Diana for her efforts in this regard.

The Board have committed to a new strategic plan moving forward in an effort to see the business through to a position where its able to pay a long awaited dividend and this is a constant discussion point amongst Directors of how they can add value to the business and yourselves as shareholders. I thank you for your patience in this regard.

Please remember when considering your banking and insurance needs, the Hervey Bay **Community Bank®** Branch can assist with just about all of your requirements, with the added benefit of the profits remaining here on the Fraser Coast. I encourage you all to consider the branch this year to see how we might be able to assist you with your and of your banking needs and I'm sure you will be surprised with the level of service you receive from any of our knowledgeable staff.

David Skeels
Branch Manager

Directors' report

For the financial year ended 30 June 2013

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

Directors

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

Neil Arthur Owen Canning
Chairman
Chartered Accountant
Business Advisor Enterprise Connect/QMI Solutions. President Rotary Club of Hervey Bay. From July 2011 to January 2013, Neil was employed as a business advisor under the Federal Government program Enterprise Connect. Neil was specifically engaged to work with the manufacturing and tourism industries. He is currently employed part-time as Chief FInancial Officer for Youthcare Hervey Bay Inc.
Member, Governance, Marketing

David John Lewis
Director
Solicitor
President/Executive of various Clubs and Associations, Lifeline Board Member, Managing Partner legal practice for 30 years.
Member, Governance, Audit

Lorna Ann Mary Sutton
Treasurer (Appointed 29 July 2013)
Chartered Accountant
Chartered Accountant, Bachelor of Commerce (Accounting and Finance), Graduate Diploma ICAA, Company Treasurer. Past and present member of local sporting clubs.
Audit and Risk Committee

Rodney Mark Cullen
Director
Town Planner/Surveyor
Bachelor of Surveying; Graduate Diploma in Urban and Regional Planning and is now the managing director Cullen & Colper Pty Ltd. Senior Member of Hervey Bay Apex Club 2007-2010; Chairman of Hervey Bay & District Financial Services Ltd 2006-2013.
Member, HR, Marketing, Community Forum Governor.

Tanya Leigh Stevenson
Director
Manager/ Counsellor
Operations Manager for Fraser and South Burnett Uniting Care Community. Bachelor of Psychology and Masters in Education, also Advanced Diploma in Community Sector Management. Member of Qld Counselling Association for 6 years. Young Business Person of the Year 2012, Young Alumni for USQ 2013
Chair, Marketing

Gerard Daniel O'Connell
Director
Councillor of the Fraser Coast Regional Council. Bachelor of Business (Accounting), Bachelor of Theology, Graduate of the Australian Institute of Company Directors. Committee Member of the Hervey Bay and Maryborough Chambers of Commerce, Committee Member of UDIA Fraser Coast, Chair of Fraser Coast Opportunities, Member of St Mary's Parish Finance Committee.

Directors' report (continued)

Directors (continued)

Peita Josephine Bates
Director/Secretary
Owner/Events Manager
Previously worked for Queensland Government in a variety of roles and departments. Owns event management business and works at Uniting Care Community in a casual position. Currently completing a Bachelor of Business through University of Southern Queensland (due for completion February 2014). Secretary of St James Lutheran Kindergarten Governance Committee.
Chair, Governance Committee

Craig William Winter
Director
Marketing Consultant
Degree in Commerce (Marketing/Business Law), marketing consultant for over 30 years, past National Marketing Manager of Woolworths Supermarkets, Past National Communications Manager of Abervale Wine Club. President: Rotary Club of Hervey Bay Sunrise, Black Marques Motor Racing Club Inc, Maryborough Chamber of Commerce. Director: Combined Rotary Clubs Expo Committee, Fraser Coast Sprints. Executive and Member of several other local committees.
Member, Marketing/Promotion/Sponsorship/ Business Development

Sotera Eugenia Mendoza Trevaskis
Director (Appointed 24 September 2012)
Consultant
Deputy Chairman Hervey Bay & District FSL. Member of St James College Council, member of WIRED Regional Economic Development Board. Skills and expertise include: grant and tender writing, community development, marketing, business development and strategic collaborations. BA Politics and Government, Griffith University.
Risk and Audit Committee

Adam Richard Cameron Perrier
Director (Appointed 29 April 2013)
Architect
Bachelor of Design Studies, Bachelor of Architecture.
Governance, Marketing.

Josephine Ruth Leveritt
Director (Appointed 29 July 2013)
Public Servant
Public Servant Queensland State Government, Bachelor of Laws (Hons), Bachelor of Business (HRM), Graduate Diploma Industrial Relations, Graduate Diploma Legal Practice.
HR Committee

Katrina Elizabeth Ehrlich
Director (Resigned 29 January 2013)
Accountant
Bachelor of Commerce from USQ Wide Bay. Treasurer for KSS Jets Football Club. A Reckon Accredited Professional Partner.
Company Treasurer; Member, Audit

Directors (continued)

Trevor Ian McDonald
Director (Resigned 24 September 2012)
Retired
Diploma of Physical Education and Bachelor of Education Studies. 37 years with Education Queensland, former Deputy Principal at Pialba State School for approximately 10 years. Served a term as Councillor with Hervey Bay City Council. Won bronze medal for triple jump at the World Masters Games. Member of the PCYC Board of Management.
Member, Marketing/Promotion/Sponsorship/Business Development incorporating Strategic Growth and Risk Management

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 Peita Josephine Bates. Peita was appointed to the position of secretary on 27 February 2012. After the resignation of Christine Riordan on 23 January 2012. Peita has worked in a variety of roles that focused on corporate governance and community engagement activities in both the public and private sectors. Peita is also about to complete a Bachelor of Business through University of Southern Queensland with majors in Management and Leadership as well as Information Technology Service Management.

Principal Activities

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

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

Operating Results

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

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
	(35,788)	(23,802)

Remuneration Report

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

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity.

There are therefore no specified Executives whose remuneration requires disclosure.

Remuneration Report

Hervey Bay & District Financial Services Limited has accepted the **Community Bank®** Directors' Privileges package. The package is available to all directors who can elect to avail themselves of the benefits based on their personal banking with the Hervey Bay & District **Community Bank®** branch. There is no requirement to own Bendigo and Adelaide Bank Limited shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank shareholders. The Directors have estimated the total benefits received from the Directors' Privilege Package to be $20 for the year ended 2013.

For the year ended 30 June 2013, the directors received total benefits of:

	Amount $
Neil Arthur Owen Canning	-
Peita Josephine Bates	-
Lorna Ann Mary Sutton	-
Rodney Mark Cullen	-
Tanya Leigh Stevenson	-
Gerard Daniel O'Connell	-
David John Lewis	-
Craig William Winter	-
Sotera Eugenia Mendoza Trevaskis	20
Adam Richard Cameron Perrier	-
Josephine Ruth Leveritt	-
Katrina Elizabeth Ehrlich	-
Trevor Ian McDonald	-

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.

Matters Subsequent to the End of the Financial Year

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

Directors' report (continued)

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' Meetings

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

	Board Meetings Attended	
Director	**Eligible to attend**	**Number attended**
Neil Arthur Owen Canning	12	11
Peita Josephine Bates	12	12
Lorna Ann Mary Sutton (Appointed 29 July 2013)	-	-
Rodney Mark Cullen	12	8
Tanya Leigh Stevenson	12	10
Gerard Daniel O'Connell	12	7
David John Lewis	12	8
Craig William Winter	12	7
Sotera Eugenia Mendoza Trevaskis (Appointed 24 September 2013)	10	6
Adam Richard Cameron Perrier (Appointed 29 April 2013)	5	3
Josephine Ruth Leveritt (Appointed 29 July 2013)	-	-
Katrina Elizabeth Ehrlich (Resigned 29 January 2013)	7	7
Trevor Ian McDonald (Resigned 24 September 2012)	3	1

Directors' report (continued)

Non Audit Services

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

The board of directors has considered the position, in accordance with the advice received from the audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

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

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

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

Signed in accordance with a resolution of the board of directors at Hervey Bay, Queensland on
30 September 2013.

Neil Arthur Owen Canning,
Chairman

Auditor's independence declaration

Partners in success

Chartered Accountants

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

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

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

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

Dated: 30 September 2013

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Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2013

	Note	2013 $	2012 $
Revenues from ordinary activities	4	499,839	480,454
Employee benefits expense		(281,325)	(265,883)
Charitable donations, sponsorship, advertising and promotion		(34,923)	(26,114)
Occupancy and associated costs		(56,433)	(47,874)
Systems costs		(18,954)	(19,914)
Depreciation and amortisation expense	5	(34,805)	(30,763)
Finance costs	5	(19,672)	(13,912)
General administration expenses		(89,515)	(99,796)
Loss before income tax expense		**(35,788)**	**(23,802)**
Income tax expense	6	-	-
Loss after income tax expense		**(35,788)**	**(23,802)**
Total comprehensive income for the year		**(35,788)**	**(23,802)**
Earnings per share (cents per share)		**c**	**c**
- basic for profit for the year	19	(4.42)	(2.94)

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet
as at 30 June 2013

	Note	2013 $	2012 $
ASSETS			
Current Assets			
Trade and other receivables	7	36,778	36,521
Total Current Assets		**36,778**	**36,521**
Non-Current Assets			
Property, plant and equipment	8	168,030	145,328
Intangible assets	9	41,654	55,538
Total Non-Current Assets		**209,684**	**200,866**
Total Assets		**246,462**	**237,387**
LIABILITIES			
Current Liabilities			
Trade and other payables	10	66,432	62,672
Borrowings	11	217,028	200,103
Provisions	12	7,473	5,729
Total Current Liabilities		**290,933**	**268,504**
Non-Current Liabilities			
Borrowings	11	53,228	31,460
Provisions	12	9,827	9,161
Total Non-Current Liabilities		**63,055**	**40,621**
Total Liabilities		**353,988**	**309,125**
Net Assets		**(107,526)**	**(71,738)**
Equity			
Issued capital	13	789,732	789,732
Accumulated losses	14	(897,258)	(861,470)
Total Equity		**(107,526)**	**(71,738)**

The accompanying notes form part of these financial statements.

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

	Issued Capital $	Accumulated Losses $	Total Equity $
Balance at 1 July 2011	**789,732**	**(837,668)**	**(47,936)**
Total comprehensive income for the year	**-**	**(23,802)**	**(23,802)**
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 2012	**789,732**	**(861,470)**	**(71,738)**
Balance at 1 July 2012	**789,732**	**(861,470)**	**(71,738)**
Total comprehensive income for the year	**-**	**(35,788)**	**(35,788)**
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 2013	**789,732**	**(897,258)**	**(107,526)**

The accompanying notes form part of these financial statements.

Statement of Cashflows
for the Year Ended 30 June 2013

	Note	2013 $	2012 $
Cash Flows From Operating Activities			
Receipts from customers		551,843	516,947
Payments to suppliers and employees		(496,695)	(491,377)
Interest paid		(19,672)	(13,912)
Net cash used in operating activities	**15**	**35,476**	**11,658**
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(8,654)	(2,264)
Payment of intangible asset		(30,546)	(30,546)
Net cash used in investing activities		**(39,200)**	**(32,810)**
Cash Flows From Financing Activities			
Repayment of borrowings		(11,927)	(8,790)
Net cash (used in)/provided for in financing activities		**(11,927)**	**(8,790)**
Net decrease in cash held		**(15,651)**	**(29,942)**
Cash and cash equivalents at the beginning of the financial year		(185,099)	(155,157)
Cash and cash equivalents at the end of the financial year	**11(a)**	**(200,750)**	**(185,099)**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

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

<u>Compliance with IFRS</u>

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

<u>Critical accounting estimates</u>

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.

<u>Historical cost convention</u>

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.

<u>Comparative figures</u>

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

<u>Adoption of new and revised Accounting Standards</u>

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

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

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branch at Hervey Bay, Queensland.

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

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

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

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

Going concern

The net liabilities of the company as at 30 June 2013 were $107,526 and the loss made for the year was $35,788, bringing accumulated losses to $897,258.

In addition:	$
Total assets were	246,462
Total liabilities were	353,988
Operating cash flows were	35,476

There was a 50% increase in the loss recorded for the financial year ended 30 June 2013 when compared to the prior year.

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Going concern (continued)

The company meets its day to day working capital requirements through an overdraft facility. The overdraft has an approved limit of $320,000 and was drawn to $200,750 as at 30 June 2013.

An interest free period of two years expired during 2008. As a result $11,715 of interest expense was incurred during the 2013 financial year.

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 5 to 10. 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. 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 be able to operate within the level of its current overdraft facility to meet its current obligations.

The company has held discussions with Bendigo and Adelaide Bank Limited about its future borrowing needs. It is likely that these discussions will not be completed for some time but no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. 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 2013/14 financial year. This support is provided on the basis that the company continues to fulfill 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 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.

b) Revenue

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

Revenue calculation

The franchise agreement with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the company. First, the company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the company that are regarded as "day to day" banking business (ie 'margin business'). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the company effectively incurs, and must bear, 50% of that loss.

Note 1. Summary of Significant Accounting Policies (continued)

b) Revenue (continued)

Revenue calculation (continued)

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

Hervey Bay & District FSL has been granted an exemption by Bendigo and Adelaide Bank Limited from the decrease in Trailer Product Commission, from 1 April 2013 until 30 September 2013.

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

c) Income Tax

Current tax

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

Deferred tax

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

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

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

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 comprehensive income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

d) Employee Entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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

e) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

f) Trade Receivables and Payables

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

g) Property, Plant and Equipment

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

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

Note 1. Summary of Significant Accounting Policies (continued)

g) Property, Plant and Equipment (continued)

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

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

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.

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Note 1. Summary of Significant Accounting Policies (continued)

l) Leases

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

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

m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions 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) Contributed Equity

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

o) Earnings Per Share

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

p) Goods and Services Tax

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

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

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

Note 2. Financial Risk Management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

(i) the distribution limit is the greater of:

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

  (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and

(ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

Note 2. Financial Risk Management (continued)

(vi) Capital management (continued)

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2013 can be seen in the statement of comprehensive income.

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

Note 3. Critical Accounting Estimates and Judgements

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

The calculations require the use of assumptions.

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets

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

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

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

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

Note 4. Revenue from Ordinary Activities

	2013 $	2012 $
Operating activities:		
- services commissions	488,593	478,313
- other revenue	6,091	2,141
Total revenue from operating activities	**494,684**	**480,454**
Non-operating activities:		
- profit on sale of asset	5,155	-
Total revenue from non-operating activities	**5,155**	**-**
Total revenues from ordinary activities	**499,839**	**480,454**

	2013 $	2012 $

Note 5. Expenses

	2013 $	2012 $
Depreciation of non-current assets:		
- plant and equipment	16,233	11,816
- leasehold improvements	4,688	5,062
Amortisation of non-current assets:		
- franchise agreement	2,314	2,314
- franchise renewal fee	11,570	11,571
	34,805	**30,763**
Finance costs:		
- interest paid	**19,672**	**13,912**
Bad debts	**596**	**624**

Note 6. Income Tax Expense

	2013 $	2012 $
The components of tax expense comprise:		
- Current tax	-	-
- Future income tax benefit attributed to losses	(10,033)	(6,344)
- Movement in deferred tax	(704)	(756)
- Recoup of prior year tax loss	-	-
- Tax losses not brought to account	10,737	7,100
	-	**-**
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Operating loss	(35,788)	(23,802)
Prima facie tax on loss from ordinary activities at 30%	(10,737)	(7,141)
Add tax effect of:		
- non-deductible expenses	-	41
- timing difference expenses	704	756
- other deductible expenses	-	-
	(10,033)	**(6,344)**
Movement in deferred tax	(704)	(756)
Tax losses not brought to account	10,737	7,100
	-	**-**

	2013 $	2012 $
Note 6. Income Tax Expense (continued)		
Income tax losses		
Opening balance	266,078	258,978
Future income tax benefit not brought to account	10,736	7,100
Future income tax benefits arising from tax losses are not recognised at reporting date as realisation of the benefit is not regarded as virtually certain. Future income tax benefit carried forward is:	**276,814**	**266,078**

Note 7. Trade and Other Receivables

	2013 $	2012 $
Trade receivables	30,732	30,772
Other receivables and accruals	1,097	800
Prepayments	4,949	4,949
	36,778	**36,521**

Note 8. Property, Plant and Equipment

	2013 $	2012 $
Plant and equipment		
At cost	87,330	78,676
Less accumulated depreciation	(52,996)	(48,632)
	34,334	**30,044**
Leasehold improvement		
At cost	106,635	106,635
Less accumulated depreciation	(37,998)	(33,310)
	68,637	**73,325**
Motor vehicle		
At cost	78,724	64,104
Less accumulated depreciation	(13,665)	(22,145)
	65,059	**41,959**
Total written down amount	**168,030**	**145,328**

	2013 $	2012 $

Note 8. Property, Plant and Equipment (continued)

Movements in carrying amounts:

	2013 $	2012 $
Plant and equipment		
Carrying amount at beginning	30,045	31,794
Additions	8,654	2,264
Disposals	-	-
Less: depreciation expense	(4,365)	(4,013)
Carrying amount at end	**34,334**	**30,045**
Leasehold improvements		
Carrying amount at beginning	73,325	78,846
Additions	-	-
Disposals	-	-
Less: depreciation expense	(4,688)	(5,521)
Carrying amount at end	**68,637**	**73,325**
Motor vehicles		
Carrying amount at beginning	41,958	14,028
Additions	43,449	35,275
Disposals	(10,511)	-
Less: depreciation expense	(9,837)	(7,345)
Carrying amount at end	**65,059**	**41,958**
Total written down amount	**168,030**	**145,328**

Note 9. Intangible Assets

	2013 $	2012 $
Franchise fee		
At cost	21,570	21,570
Less: accumulated amortisation	(14,628)	(12,314)
	6,942	**9,256**
Renewal processing fee		
At cost	57,853	57,853
Less: accumulated amortisation	(23,141)	(11,571)
	34,712	**46,282**
Total written down amount	**41,654**	**55,538**

	2013 $	2012 $

Note 10. Trade and Other Payables

	2013 $	2012 $
Trade creditors	38,070	1,135
Other creditors and accruals	28,362	61,537
	66,432	**62,672**

Note 11. Borrowings

	2013 $	2012 $
Current:		
Bank overdrafts	200,750	185,099
Chattel mortgage (motor vehicle)	-	6,501
Chattel mortgage (van)	6,998	8,503
Chattel mortgage (ute)	9,280	-
	217,028	**200,103**

The bank overdraft has an approved limit of $320,000 and currently attracts an interest rate of 5.104% per agreement with Bendigo and Adelaide Bank Limited. The bank overdraft is secured by a fixed and floating charge over the company's assets subject to an annual review in April each year.

	2013 $	2012 $
Non-Current:		
Chattel mortgage (motor vehicle)	-	8,127
Chattel mortgage (van)	18,299	23,333
Chattel mortgage (ute)	34,929	-
	53,228	**31,460**

The chattel mortgage on the motor vehicle was paid out during the period after the vehicle was sold.

The chattel mortgage on the van is held with Bendigo & Adelaide Bank Limited and is repayable over five years (due October 2016), attracting an average interest rate of 6.802%. The chattel mortgage is secured by a fixed and floating charge over the company's assets.

The chattel mortgage on the ute is held with Bendigo & Adelaide Bank Limited and is repayable over five years (due May 2018), attracting an average interest rate of 5.9155%. The chattel mortgage is secured by a fixed and floating charge over the company's assets.

	2013 $	2012 $
Note 11.(a) Overdraft		
Bank overdraft	**200,750**	**185,099**

	2013 $	2012 $

Note 12. Provisions

Current:		
Provision for annual leave	**7,473**	**5,729**
Non-Current:		
Provision for long service leave	**9,827**	**9,161**

Note 13. Contributed Equity

810,000 Ordinary shares fully paid (2012: 810,000)	810,000	810,000
Less: equity raising expenses	(20,268)	(20,268)
	789,732	**789,732**

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.

Note 13. Contributed Equity (continued)

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 225. As at the date of this report, the company had 237 shareholders.

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

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

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

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

	2013 $	2012 $
Note 14. Accumulated Losses		
Balance at the beginning of the financial year	(861,470)	(837,668)
Net loss from ordinary activities after income tax	(35,788)	(23,802)
Balance at the end of the financial year	**(897,258)**	**(861,470)**

	2013 $	2012 $

Note 15. Statement of Cashflows

Reconciliation of loss from ordinary activities after tax to net cash used in operating activities

	2013 $	2012 $
Loss from ordinary activities after income tax	(35,788)	(23,802)
Non cash items:		
- depreciation	20,920	16,878
- amortisation	13,885	13,885
Changes in assets and liabilities:		
- increase in receivables	(257)	(11,432)
- increase in payables	34,306	17,719
- increase in provisions	2,410	2,619
Net cashflows used in operating activities	**35,476**	**11,658**

Note 16. Leases

Finance lease commitments	2013 $	2012 $
Payable - minimum lease payments		
- not later than 12 months	20,057	15,004
- between 12 months and 5 years	60,312	37,511
- greater than 5 years	-	-
Minimum lease payments	**80,369**	**52,515**
Less future finance charges	(10,863)	(6,051)
Present value of minimum lease payments	**69,506**	**46,464**

Chattel mortgage for van is repayable monthly with the final instalment due 11 October 2016. Interest is recognised at an average rate of 6.802%. The mortgage is secured by a fixed and floating charge over the company's assets.

Chattel mortgage for ute is repayable monthly with the final instalment due 9 May 2018. Interest is recognised at an average rate of 5.9155%. The mortgage is secured by a fixed and floating charge over the company's assets.

	2013 $	2012 $

Note 16. Leases (continued)

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	28,195	27,615
- between 12 months and 5 years	56,389	82,844
- greater than 5 years	-	-
	84,584	**110,459**

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease is due for renewal on 30 April 2016.

Note 17. Auditor's Remuneration

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

- audit and review services	4,950	4,500
- share registry services	1,550	1,450
- non audit services	2,220	2,464
	8,720	**8,414**

Note 18. Director and Related Party Disclosures

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

Neil Arthur Owen Canning
Peita Josephine Bates
Lorna Ann Mary Sutton (Appointed 29 July 2013)
Rodney Mark Cullen
Tanya Leigh Stevenson
Gerard Daniel O'Connell
David John Lewis
Craig William Winter
Sotera Eugenia Mendoza Trevaskis (Appointed 24 September 2013)
Adam Richard Cameron Perrier (Appointed 29 April 2013)
Josephine Ruth Leveritt (Appointed 29 July 2013)
Katrina Elizabeth Ehrlich (Resigned 29 January 2013)
Trevor Ian McDonald (Resigned 24 September 2012)

David John Lewis is an employee of Millburn Gutridge Solicitors, who provided legal advice on the company's lease, for which they received $374.

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.

Note 18. Director and Related Party Disclosures (continued)

Directors Shareholdings	2013	2012
Neil Arthur Owen Canning	5,000	-
Peita Josephine Bates	-	-
Lorna Ann Mary Sutton (Appointed 29 July 2013)	-	-
Rodney Mark Cullen	10,001	10,001
Tanya Leigh Stevenson	-	-
Gerard Daniel O'Connell	-	-
David John Lewis	-	-
Craig William Winter	-	-
Sotera Eugenia Mendoza Trevaskis (Appointed 24 September 2013)	-	-
Adam Richard Cameron Perrier (Appointed 29 April 2013)	-	-
Josephine Ruth Leveritt (Appointed 29 July 2013)	-	-
Katrina Elizabeth Ehrlich (Resigned 29 January 2013)	-	-
Trevor Ian McDonald (Resigned 24 September 2012)	1	1

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

Note 19. Earnings Per Share

	2013 $	2012 $
(a) Loss attributable to the ordinary equity holders of the company used in calculating earnings per share	(35,788)	(23,802)
	Number	**Number**
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	810,000	810,000

Note 20. Events Occurring After the Balance Sheet Date

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

Note 21. Contingent Liabilities

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

Note 22. Segment Reporting

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

Note 23. Registered Office/Principal Place of Business

The entity is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Registered Office	Principal Place of Business
Shop 9/55-59 Main Street	Shop 9/55-59 Main Street
Pialba QLD 4655	Pialba QLD 4655

Note 24. Financial Instruments

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		Over 5 years					
Financial instrument	**2013 $**	**2012 $**	**2013 $**	**2012 $**	**2013 $**	**2012 $**	**2013 $**	**2012 $**	**2013 $**	**2012 $**	**2013 %**	**2012 %**
Financial Assets												
Receivables	-	-	-	-	-	-	-	-	30,732	30,772	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	200,750	185,099	16,728	15,004	53,228	31,460	-	-	-	-	6.17	6.12
Payables	-	-	-	-	-	-	-	-	66,431	62,672	N/A	N/A

Directors' declaration

In accordance with a resolution of the directors of Hervey Bay & District 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 2013 and of its performance for the financial year ended on that date; and

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

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

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

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

Neil Arthur Owen Canning,
Chairman

Signed on 30 September 2013.

Independent audit report

Partners in success

Chartered Accountants

Independent auditor's report to the members of Hervey Bay & District Financial Services Limited

Report on the financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

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Independent audit report (continued)

Independence

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

Auditor's opinion on the financial report

In our opinion:

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

Report on the remuneration report

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

Auditor's opinion

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

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 30 September 2013

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