

HIGHETT COMMUNITY FINANCIAL SERVICES LIMITED

ABN:23 094 393 683

A photograph of two cyclists on a rocky ridge. One cyclist is wearing a red jacket and the other is wearing a blue jacket. They are both on their bicycles, which are parked on the edge of the ridge. The background shows a clear blue sky and a valley with patches of snow.

**ANNUAL REPORT
30TH JUNE 2016**

YOUR COMPANY HAS ONCE AGAIN DELIVERED A MORE THAN ACCEPTABLE OUTCOME IN A DIFFICULT AND HIGHLY COMPETITIVE ENVIRONMENT. EQUALLY PLEASING ARE THE COMMUNITY BENEFITS ARISING FROM OUR ACTIVITIES

www.highettcb.com

**Annual Report
for the year ended 30 June 2016**

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Chairperson's Report
For the year ending 30 June 2016



As the Chairperson of Highett Community Financial Services Limited it gives me great pleasure to present our Annual Report.

Business

The low interest environment is still a very challenging time for all within the banking/finance sector. However, we did manage to increase our income very slightly and keep our expenses within budget resulting in the following;

Profit before Tax & Community Returns

Total Gross Income	\$912,481	Up 0.91% from prior year
Less Total Expenses	<u>\$762,626</u>	Down 7.50% from prior year
Income before Tax	\$149,855	
Add Community Returns	<u>\$88,667</u>	Down 31.56% from prior year
Profit before Tax & Community Returns	\$238,522	Up 13.98% from prior year

Community Returns

Sponsorships	\$59,322
Grants and Donations	<u>\$29,345</u>
	\$88,667

The overall result was better than budgeted. This was mainly due to not running a formal Grants program, resulting in fewer Grants and Donations being made during the period. However, I note that we did manage to satisfy all Grant requests that were made directly from local Community Organisations. Based on our profit result and strong balance sheet the Board, in line with our constitution, has determined that a fully franked dividend of 10% will be paid.

To provide continued support for our Community and provide ongoing returns to our Shareholders we still need to focus on growth and be ever mindful of our expenses. Going forward we have budgeted for modest growth, to reflect the current business environment and are actively looking at ways to re-engage with the community. The Community Bank Model has been revamped with more focus now on Collaboration within the Community Bank network. We strongly support the new model and look forward to working more closely with other Bayside Community Bank branches.

Community

Over the year we have provided support to many local organisations. Significant funding was provided to BAYCISS (Smart Kids Program) and the Highbury Youth Club (Interest Free Loan).

Our total returns to date are:

Dividends/Returns to Shareholders	\$480,596 (103% return to initial shareholders)
Sponsorships	\$721,165
Grants and Donations	<u>\$955,161</u>
Total Community Returns	\$2,156,922

Branch Staff

Our Branch Team has undergone some changes during the period and the new team members have settled in well. Our valued team continues to be led by our Branch Manager, Mr Christopher Wheeler and provides excellent customer service.

The Board

During the year, due to serious illness I had a 'Leave of Absence' for several months and Brian Octigan stepped in to act as the chairperson. I wish to thank Brian for his support during the period and advise that due to ongoing health issues I plan to step down as chairperson.

It has been a difficult year for the board, with others also impacted with health issues, which resulted in less people around to share the workload. All our Directors are unpaid volunteers and I would like to thank them all for the great job they performed during the year. I would like to thank our 'Minute Secretary' Mary Fordyce for her support during the year.

Going forward we are actively seeking new Directors and I am very confident that we can recruit and strengthen our team.



Ian Orchard
Chairperson

**Branch Managers Report
For year ending 30 June 2016**



With the Highett Community Bank having just completed its 15th year of operation who would have thought that we would have been able to return \$2,156,922 back to the community in the form of Grants, Sponsorships and Dividends.

Our branch had a successful year with our overall footings at the end of financial year being \$151.4 million dollars. Our aim is to continue to improve our current footings next year in what appears to be challenging times ahead so we can continue to support the many community and sporting groups within our area.

As branch manager I am extremely lucky to be supported by a wonderful team of staff. I thank our existing staff of Mandy, Christina, Robyn and Daniel for their continued support and exceptional customer service that they provide to all new and existing customers. We also lost 2 staff during the year with both Kate and Rachelle leaving but I would like to acknowledge their support and service to the branch during their time with us.

I would like to thank the staff, Board of Directors and also the Bendigo and Adelaide Bank Bayside region for their continued support and assistance over the last 12 months.

Finally to our current shareholders and customers thank you for your ongoing support and I trust that you continue to support Highett Community Bank to ensure we continue to grow and prosper.

A handwritten signature in black ink, appearing to read 'Chris Wheeler'.

Chris Wheeler
Branch Manager

Directors' Report for the year ended 30 June 2016

Directors

Names and details of the company's directors who held office during the financial year:

Ian Michael Orchard

Chairman (Director since 2008)

Occupation: Small Business Owner

Experience and expertise:

16 years with local business specialising in Superannuation Audit and Compliance.

26 years' prior experience in supporting and managing 'Information Technology' for the Financial Services Industry.

Other Current Directorships: 2

Former Directorships in last 3 years: NIL

Interests: Finance, Governance,

Community Engagement

Interest in Shares: 9,450 ordinary shares

Frederick Brian Octigan

Deputy Chairman (Director since 2001)

Occupation: Retired, now a Volunteer

Experience and expertise:

30 years experience as Licenced Land Surveyor,

20 years Director of St Agnes Parish Co-operative and has been involved with Local Community groups, notably Moorabbin Lions and St Vincent De Paul Conference.

Other Current Directorships NIL

Former Directorships in last 3 years: NIL

Interests: Property, Governance

Interest in Shares: 900 ordinary shares

Leslie Simon Heimann OAM

Company Secretary (Director since 2000)

Occupation: Retired, now a Volunteer

Experience and expertise:

16 Years as a CPA Accountant in private practice, 36 prior years with the Australian Taxation Office in various roles, ultimately Group Head of Small Business Review and Litigation. Involved in many Community Organisations and received 'Order of Australia' for service to the Community.

Other Current Directorships: NIL

Former Directorships in last 3 years: NIL

Interests: Community Engagement

Interest in Shares: 900 ordinary shares

Nola McConchie CTA

Company Treasurer (Director since 2001)

Occupation: Small Business Owner

Experience and expertise:

Many years as owner and operator of local small business providing Taxation Services. Over the years has been involved with local Community Groups, Sports Clubs and Sporting Organisations.

Qualified as a Chartered Tax Advisor.

Other Current Directorships: NIL

Former Directorships in last 3 years: NIL

Special Interests: Finance, Human Resources

Interest in Shares: 1,350 ordinary shares

Directors' Report (Continued)

Ross Howard Newton OAM

Director (since 2003)

Occupation: Retired now a Volunteer

Experience and expertise:

10 Years experience in various roles within the Liquor Industry. 35 prior years in the Information Technology Industry in various roles including IT Management supporting Financial Services and Manufacturing businesses. Involved in many Community Organisations and received 'Order of Australia' for service to the Community.

Other Current Directorships: NIL

Former Directorships in last 3 years: NIL

Interests: Finance, Community Engagement

Interest in Shares: 1800 ordinary shares

Dr Robyn Cochrane

Director (since 2008)

Occupation: Researcher/Small Business Owner

Experience and expertise:

Over 20 years of experience in research and teaching in the TAFE and higher education sectors. Previously worked in the local government sector. Has been involved as a volunteer for many years with local schools, community organisations and sports clubs.

Other Current Directorships: NIL

Former Directorships in last 3 years: NIL

Special Interests: Human Resources, Governance

Interest in Shares: NIL

Directors' Meetings

During the year 9 Director's meetings were held. Attendances by each Director were as follows:

	Numbers of Meetings While a Director	Meetings Attended
Robyn Cochrane	9	7
Leslie Heimann OAM	9	8
Nola McConchie	9	8
Ross Newton OAM	9	8
Brian Octigan	9	7
Ian Orchard	9	4*

* Director granted 'Leave of Absence' during the period due to serious illness.

Directors are involved in 'Special Interest' meetings during the year, these meetings involve discussion about specific areas. Where Director decisions are required, recommendations are made to the Board of Directors' and dealt with at the regular Director meetings. As Directors effectively make all decisions at the regular Director's meetings, attendance at such 'Special Interest' meetings are not disclosed.

Directors' Report (Continued)

Operating Result

The profit of the company for the financial year after providing for community returns, sponsorship and income tax amounted to:

Year Ended	Year Ended
30 June 2016	30 June 2015
\$108,831	\$50,138

Review of Operations

A review of the operations of the company during the financial year and the results of those operations highlights a modest increase in income received from the Bendigo and Adelaide Bank and reduced expenses. The income reflects the business held and generated over the period. The reduction in recorded expenses is mainly due to a reduction in Community Returns as no Grants Program was run during the period.

Principal Activities

The principal activities of the company during the course of the year were Financial Services. No significant change in the nature of these activities occurred during the year.

After Reporting Date Events

No matters or circumstances have arisen since the end of the financial year which 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 subsequent financial years.

Future Developments

The company expects to maintain the present status and level of operations and hence there are no likely developments in the operations in future financial years.

Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.

Dividends

A fully Franked Dividend was paid during the period for the 2014-2015 year. In line with our constitution the Board has determined that a 10% fully Franked Dividend will be paid for the 2015-2016 year.

Options

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Directors' Interests in Shares of the Company or Related Bodies Corporate

The particulars of shares held by the directors of the company in the company or in related bodies corporate have been noted and are declared in the register of directors' shareholdings.

Directors' Report (Continued)

Directors' Benefits

No director has received or has become entitled to receive, during or since the financial year, a benefit because of a contract made by the company 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 the auditor of the company or a related body corporate.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or 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 any part of those proceedings. The company was not a party to any such proceedings during the year.

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 and has been included in this report.

Signed in accordance with a resolution of the Board of Directors.



Ian M Orchard
Director/Chairperson



Ross H Newton OAM
Director

Date: 22nd September 2016

**AUDITOR'S INDEPENDENCE DECLARATION TO THE MEMBERS OF
HIGHETT COMMUNITY FINANCIAL SERVICES LTD
ABN 23 094 393 683**

To Highett Community Financial Services Ltd

As lead auditor for the audit of Highett Community Financial Services Ltd for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- (i) No contraventions of the independence requirements of the Corporations Act in relation to the audit, and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

ALKEMADE & ASSOCIATES

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end.

**Registered Auditor 8799
Melbourne
Date: 3rd day of October 2016**

Highett Community Financial Services Ltd
ABN 23 094 393 683

Statement of Comprehensive Income
for the year ended 30 June 2016

	Note	2016 \$	2015 \$
Revenue from Ordinary Activities	4	912,481	904,226
Community Returns (Grants and Donations)		(29,345)	(81,456)
Sponsorship		(59,322)	(48,091)
Marketing Expenses		(20,859)	(45,797)
Employee and Associated Costs		(371,605)	(378,941)
Occupancy and Associated Costs		(97,792)	(87,356)
Systems Costs		(51,543)	(58,338)
Depreciation and Amortisation	5	(17,954)	(21,907)
General Administration Expenses		<u>(114,206)</u>	<u>(102,617)</u>
Profit before Income Tax		149,855	79,723
Income Tax	6	<u>(41,024)</u>	<u>(29,585)</u>
Profit after Income Tax		108,831	50,138
Other comprehensive income for the year		0	0
Total comprehensive income for the year		108,831	50,138

This statement should be read in conjunction with the notes to the financial statements.

Highett Community Financial Services Ltd
ABN 23 094 393 683

Balance Sheet
as at 30 June 2016

	Note	2016 \$	2015 \$
Current Assets			
Cash and Cash Equivalents	8	699,604	651,195
Receivables	9	<u>76,901</u>	<u>73,210</u>
Total Current Assets		776,505	724,405
Non Current Assets			
Property , plant and equipment	10	181,004	190,527
Intangible Assets	11	<u>48,306</u>	<u>6,110</u>
Total Non-Current Assets		229,310	196,637
Total Assets		1,005,815	921,042
Current Liabilities			
Payables	12	10,544	9,402
Current Tax Liabilities	13	45,345	20,901
Provisions	14	<u>61,980</u>	<u>69,849</u>
Total Current Liabilities		117,869	100,152
Non Current Liabilities			
Highett Youth Club	15	<u>80,000</u>	<u>0</u>
Total Non Current Liabilities		80,000	0
Total Liabilities		197,869	100,152
Net Assets		807,946	820,890
Equity			
Contributed Equity	16	464,175	464,175
Reserves	17	0	90,000
Accumulated Profits	18	<u>343,771</u>	<u>266,715</u>
Total Equity		807,946	820,890

This statement should be read in conjunction with the notes to the financial statements.

Highett Community Financial Services Ltd
ABN 23 094 393 683

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

	Issued Capital \$	Accumulated Profit \$	Accumulated Reserves	Total Equity \$
Balance at 1 July 2014	464,175	346,032	0	810,207
Total comprehensive income for year	-	50,138	-	50,138
Transactions				
Transfer from Accumulated Profits to Reserve	-	(90,000)	90,000	0
Dividends provided for or paid	-	(39,455)	-	(39,455)
Balance at 30 June 2015	464,175	266,715	90,000	820,890
Balance at 1 July 2015	464,175	266,715	90,000	820,890
Total comprehensive income for year	-	108,831	-	108,831
Transactions				
Transfer from Reserve to Accumulated Profit	-	90,000	(90,000)	0
Create Highett YC Liability from Accumulated Profit	-	(80,000)	-	(80,000)
Dividends provided for or paid	-	(41,776)	-	(41,776)
Balance at 30 June 2016	464,175	343,771	0	807,945

This statement should be read in conjunction with the notes to the financial statements.

Highett Community Financial Services Ltd
ABN 23 094 393 683

Statement of Cashflows
for the year ended 30 June 2016

	Note	2016 \$	2015 \$
Cash Flows from Operating Activities			
Receipts from customers		891,036	892,753
Payments to community, suppliers and employees		(761,188)	(758,336)
Interest received		14,958	12,852
Interest and other costs of finance paid		(29,275)	(30,164)
Income Tax paid		(27,847)	(7,383)
Net cash provided by operating activities	19	<u>87,684</u>	<u>109,722</u>
 Cash Flows from Investing Activities			
Proceeds from other assets		0	0
Purchases of new assets		(627)	(850)
Receivables from other persons		1,987	(1,987)
Net cash provided by investing activities		<u>1,360</u>	<u>(2,837)</u>
 Cash Flows from Financing Activities			
Return of Capital Amounts Paid		(30)	0
Dividends paid		(41,776)	(39,455)
Unclaimed Dividend Monies		1,171	5,353
Net cash provided by financing activities		<u>(40,635)</u>	<u>(34,102)</u>
 Net increase in cash and equivalents held		 48,409	 72,783
Cash and cash equivalents at the beginning of the financial year		<u>651,195</u>	<u>578,412</u>
Cash and cash equivalents at the end of the financial year	8	699,604	651,195

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements
for the year ended 30 June 2016

Note 1. Summary of Significant Accounting Policies

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

The financial statements covers HIGHETT COMMUNITY FINANCIAL SERVICES LTD as an individual entity. HIGHETT COMMUNITY FINANCIAL SERVICES LTD is a company limited by shares, incorporated and domiciled in Australia.

(A) Basis of Preparation

Reporting Basis and Conventions

The financial statements have been prepared on an accruals basis and is based on historical costs.

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

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and internally. The financial statements are presented in Australian dollars which is the company's functional and presentation currency.

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 Highett, Victoria.

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

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

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

Notes to the Financial Statements (continued)

(B) Accounting Policies

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.

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).

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. 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.

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company. The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, 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.

The third source of revenue is a proportion of the 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.

Income 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).

Notes to the Financial Statements (continued)

Employee Benefits

Provision is made for the liability for employee entitlements arising from services rendered by employees to reporting date. Employee entitlements expected to be settled wholly within one year have been measured at the amount expected to be paid when the liability is settled, plus related on-costs.

Employee entitlements payable later than one year have been measured at the present value of the estimated future cash out flows to be made for those entitlements.

Cash and Cash Equivalents

Cash and Cash Equivalents includes cash on hand, deposits held at call with banks or financial institutions, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts i.e. investments which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Trades Receivables and Payables

Receivables are carried at their amounts due. The collectability of debts is assessed at reporting 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.

Property, Plant and Equipment

Each class of plant and equipment and leasehold improvements are carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The cost of the Leasehold Improvements includes all costs paid to contractors for provision of the improvements. Subsequent costs are included in the asset's carrying amount recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The depreciable amount of all fixed assets including capitalised leased assets, is depreciated on a diminishing value basis over their useful lives to HIGHETT COMMUNITY FINANCIAL SERVICES LTD commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement.

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

- | | |
|--------------------------|--------------|
| - Leasehold Improvements | 40 years |
| - Plant and Equipment | 2.5-40 years |
| - Motor Vehicle | 8 years |

Notes to the Financial Statements (continued)

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.

Leases

Lease payments under operating leases, where substantially all the risks and benefits remain with the leaser, are charged as expenses in the periods in which they are incurred.

Our branch operating premises at 322-324 Highett Road, Highett, VIC, 3190 is currently leased until 18th March 2021 with a further 3 options of 5 years. The next review date is 18th March 2021

Provisions

Provision are recognised when HIGHETT COMMUNITY FINANCIAL SERVICES LTD has a legal or constructive obligation, as a result of past events, for which it is probable that the outflow of economic benefit will result and that the outflow can be measured reliably.

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

Contributed Equity

Ordinary shares are recognised at the fair value of the consideration received by the company.
All Ordinary Shares were issued at \$1.00 per share.

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 equity as recorded in the balance sheet.

In accordance with the franchise agreement, the funds distributed to shareholders shall not exceed the distribution limit of 20% of available profit for distribution for any 12 month period.

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

Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the Statement of cash flows statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Notes to the Financial Statements (continued)

Note 2: Financial Risk Management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk), 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.

Market Risk

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

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.

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.

Liquidity Risk

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

Cash Flow 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.

Notes to the Financial Statements (continued)

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.

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 circumstance, 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.

Impairment of Assets

At each reporting date, the directors review the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the assets fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement. Where it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs.

Highett Community Financial Services Ltd
ABN 23 094 393 683

Notes to the Financial Statements (continued)

	2016	2015
	\$	\$
Note 4: Revenue from Ordinary Activities		
Interest Revenue	14,667	16,909
Upfront Product Commission	11,083	9,383
Trailer Product Commission	185,424	181,582
Fee Income	75,158	78,146
Market Development Fund	50,000	50,000
EFTPOS Terminal Rental	538	52
Gross Margin Income	<u>575,611</u>	<u>568,154</u>
	912,481	904,226

Note 5: Expenses

Profit (Loss) from ordinary activities before income tax has been determined after Charging as Expense:

Amortisation of non-current assets		
- Intangible Assets	7,804	10,000
Depreciation of non-current assets		
- Property , plant and equipment	10,150	11,907
Bad and Doubtful Debts	<u>0</u>	<u>0</u>
	17,954	21,907

Note 6: Income Tax

Prima facie income tax payable on operating profit at 30%	44,957	23,917
Add Tax Effect of		
-other non allowable items less PAYG Instalments	<u>(3,933)</u>	<u>5,668</u>
Income Tax Expense	41,024	29,585

Note 7: Dividends Paid or Provided

Dividends provided for or paid*	41,776	39,455
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Note 8: Cash and Cash Equivalents

Cash at Bank or on Hand	154,100	111,803
Term Deposit	<u>545,504</u>	<u>539,392</u>
	699,604	651,195

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

Note 9: Trade and Other Receivables

Trade Debtors (Profit Share from Bendigo Bank)	73,134	67,166
Other loans (Manager FBT Account)	0	1,987
Interest Receivable	<u>3,767</u>	<u>4,057</u>
	76,901	73,210

Highett Community Financial Services Ltd
ABN 23 094 393 683

Notes to the Financial Statements (continued)

	2016	2015
	\$	\$
Note 10: Property, Plant and Equipment		
Leasehold Improvements		
- At Cost	221,797	221,797
- Less Accumulated Depreciation	<u>(61,894)</u>	<u>(56,881)</u>
	159,903	164,916
Plant and Equipment		
- At Cost (Office Equipment)	28,829	33,589
- Less Accumulated Depreciation	<u>(27,995)</u>	<u>(31,821)</u>
	834	1,768
Motor Vehicles		
- At Cost	43,824	43,824
- Less Accumulated Depreciation	<u>(23,557)</u>	<u>(19,981)</u>
	20,267	23,843
Total written down amount	181,004	190,527
Movements in carrying amounts:		
Leasehold Improvements		
Carrying amount at beginning	164,916	169,937
Less: Depreciation Expense	(5,013)	(5,021)
Carrying amount at end	159,903	164,916
Plant and Equipment		
Carrying amount at beginning	1,768	3,595
Add: Additions	627	850
Less: Depreciation Expense	(1,561)	(2,677)
Carrying amount at end	834	1,768
Motor Vehicles		
Carrying amount at beginning	23,843	28,050
Add: Additions	0	0
Less: Disposal	0	0
Less: Depreciation Expense	(3,576)	(4,207)
Carrying amount at end	20,267	23,843
Note 11: Intangible Assets		
Franchise Fee		
At Cost	50,000	50,000
Less: Accumulated Amortisation	<u>(1,694)</u>	<u>(43,890)</u>
	48,306	6,110
Note 12: Payables		
Unclaimed Dividend and Capital Reduction Payments	<u>10,544</u>	<u>9,402</u>
	10,544	9,402

Highett Community Financial Services Ltd
ABN 23 094 393 683

Notes to the Financial Statements (continued)

	2016	2015
	\$	\$
Note 13: Tax Liabilities		
Taxation	24,776	11600
GST Payable (Control Account)	7,736	7,711
Input Tax Credit (Control Account)	(2,845)	(4,381)
Amounts withheld	15,678	5,971
	<u>45,345</u>	<u>20,901</u>

Note 14: Provisions

Employee Entitlements (Leave, Long Service & Super)	61,979	69,849
	<u>61,979</u>	<u>69,849</u>

Note 15: Non Current Liability

Highett Youth Club Loan Account *	80,000	0
	<u>80,000</u>	<u>0</u>

* \$100,000 was provided to Highett Youth Club to assist with the New Club Building, a loan account was established during 2015. The principal is to be paid by HCFSL in 10 annual instalments of \$10,000, 8 Instalments are still to be paid.

Note 16: Contributed Equity

Ordinary shares at \$1.00 each fully paid at beginning	464,175	464,175
Less Share Capital Reduction	0	0
Ordinary shares at \$1.00 each fully paid at end	464,175	464,175

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At shareholders meetings each shareholder is entitled to one vote whether a show of hands is declared or a poll is called.

Note 17: Reserves

Balance at beginning of reporting period	90,000	0
Increase (decrease) in reserves during the reporting period *	(90,000)	90,000
Balance at reporting date	<u>0</u>	<u>90,000</u>

* Reserves increased to cover monies for loan to Highett Youth Club

Highett Community Financial Services Ltd
ABN 23 094 393 683

Notes to the Financial Statements (continued)

	2016	2015
	\$	\$
Note 18: Accumulated Profits		
Balance at beginning of reporting period	266,715	346,032
Transfer from/to Reserve from Accumulated Profits	90,000	(90,000)
Transfer from Accumulative Profit to Non Current Liability	(80,000)	0
Dividends Paid	(41,775)	(39,455)
Net Profit after Income Tax	108,831	50,138
Balance at the reporting date	<u>343,771</u>	<u>266,715</u>

Note 19: Statement of Cashflows

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

Profit from ordinary activities after tax	108,831	50,138
Non Cash Items:		
-Depreciation & Amortisation	(32,046)	21,908
Changes in assets and liabilities		
-(Increase) Decrease in Tax Liabilities	24,444	19,482
-(Increase) Decrease in Property, Plant & Equipment Assets	0	(823)
-(Increase) Decrease in Receivables	(5,677)	2,296
-Increase (Decrease) in Provisions	(7,868)	16,721
	<u>87,684</u>	<u>109,722</u>

Note 20: Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the Financial Statements

Payable - estimate minimum lease payments		
- next 12 months	66,400	64,600
- between 12 months and next review 18th March 2021	282,000	48,450
	<u>348,400</u>	<u>113,050</u>

Note 21: Superannuation Commitments

The entity participated in several Industry Superannuation Funds to provide benefits to employees on retirement, death or disability. Benefits provided under the plan are based on accumulated contributions and earnings for each employee.

Employees contribute various percentages of their gross income and the company also contributes at the rate of 12%.

Note 22: Auditors' Remuneration

Remuneration of the auditor of the company for: Auditing the financial report.	3,750	3,750
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Notes to the Financial Statements (continued)

Note 23: Key Management Personnel Disclosures

No Director of the company receives remuneration for services as a company director.
There are no executives within the company whose remuneration is required to be disclosed.

Note 24: Events Occuring After the Reporting Date

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

Note 25: Contingent Liabilities

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

Note 26: Registered Office and Principle Place of Business

The entity is a company limited by shares, incorporated and domiciled in Australia.

The registered office and principal place of business are:

Registered Office
322-324 Highett Road
Highett, VIC, 3190

Principal Place of Business
322-324 Highett Road
Highett, VIC, 3190

Directors Declaration

In accordance with a resolution of the directors of Highett Community Financial Services Limited, we state that in the opinion of the directors:

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

- (i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements: and

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

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



Ian M Orchard
Director/Chairman



Ross H Newton OAM
Director

Date: 22nd September 2016

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
HIGHETT COMMUNITY FINANCIAL SERVICES LTD
ABN 51 004 313 142**

We have audited the attached financial report of Highett Community Financial Services Ltd for the year ended 30 June 2016. The Directors are responsible for the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements are appropriate to meet the requirements of the Corporations Act 2001 and are appropriate to meet the needs of the members. We have conducted an independent audit of the financial report in order to express an opinion on it to the members. No opinion is expressed as to whether the accounting policies used, and described in Note 1, are appropriate to the needs of the members.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Unqualified Audit Opinion

In our opinion, the financial report of Highett Community Financial Services Ltd is in accordance with:

1. the Corporations Act 2001, including:
 - (a) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
 - (b) complying with Accounting Standards to the extent described in Note 1 and the Corporations Regulations; and
2. other mandatory professional reporting requirements to the extent described in Note 1

ALKEMADE & ASSOCIATES



**Registered Auditor 8799
Melbourne
Date: 3rd day of October 2016**

HIGHETT COMMUNITY FINANCIAL SERVICES LIMITED

ABN:23 094 393 683



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