Annual Report 2020

Ormond-McKinnon Community Enterprises Limited

ABN 62 131 468 703

Community Bank Ormond-McKinnon

Contents

Chair’s report

For year ending 30 June 2020

First and foremost, I would like to thank the staff and customers of Ormond-McKinnon Community Enterprises Limited (OMCEL) for the understanding, support and commitment they have provided to our branch in these challenging times. FY20 has been a pivotal year for OMCEL, your Board and branch staff have invested considerable effort in pursuing our growth strategy while consciously exploring all avenues to maximise shareholder value and strengthen the local community.

The COVID-19 pandemic and other macro-economic factors including the declining interest rate environment and changing customer behaviour, have presented significant challenges for OMCEL. Despite this, the company has delivered a profit in the year ending 30 June 2020, and as the Chair of OMCEL, it is my pleasure to present the 2020 Annual Report.

The Board

The Board’s makeup remained stable in FY20 with all directors continuing their service and providing their expertise, guidance and importantly, their time, in navigating the strategy through the difficult times OMCEL encountered in FY20.

The role of a volunteer Community Bank director requires time, commitment and passion for the community. This passion for the community needs to be supplemented by a keen desire and capability to manage a profitable business, all whilst considering returns to shareholders, who themselves are community members and leaders who contributed time and money to make the profit-sharing Community Banking model possible.

The Financial Results

I am pleased to report that in FY20, the company has realised its fourth consecutive profit after income tax, being $38,644. FY20 was a very difficult and challenging year with a number of staff changes (pre-communicated at the last AGM) and the COVID-19 pandemic affecting branch revenue growth. Despite this, the efforts of our branch staff limited the decline in total footings (the business book of the branch -total loans and deposits), and we finished the year with a total of $71M. Revenue dropped 5.5% from $634,908 (FY19) to $ 599,762 (FY20) and corresponding profitability fell from $82,836 to $38,644.

Given the decline in profitability and near-term economic environment, the Board is exploring other strategies, including consideration of a merger or asset sale. As a result, the directors recommend that no dividend be paid to shareholders for the current period.

The Branch

Earlier in the year, we welcomed to the branch Akanksha (Akki) Bahri, our new Customer Relationship Officer, and Anthony Yeates, our new Customer Relationship Manager. Both have extensive Bendigo Bank experience. We are pleased they have joined us and despite the difficult year, they stayed positive and supported each other and the team.

At the end of FY19 and beginning of FY20, OMCEL had a strong and targeted growth strategy to increase revenue. It had embarked on a restructure which included hiring a Branch Operations

Chair’s report (continued)

Manager and recruiting a Mobile Relationship Manager – a revenue-focused role to support its growth plan. However, both hires resigned after an initial 6-month period before being able to deliver on their KPIs. Unfortunately, Bendigo Bank was not able to identify a suitable replacement Mobile Relationship Manger or a Branch Manager. The Board would like to acknowledge the resilience and professionalism that the Ormond-McKinnon Branch team members have displayed during FY20, and the challenges they have overcome while operating without a Branch Manager or MRM. We are proud of the excellence with which they have served our customers and worked on growing the business through this extremely difficult year.

The further economic downturn brought about by COVID-19 and its impact from March to June created the perfect storm which resulted in a decline in profitability. Astute cost management ensured that despite these events, OMCEL delivered a profit in FY20.

I would like to thank all of our branch staff members for their outstanding contribution and continuous dedication to the Ormond-McKinnon customers and community.

Bendigo Bank

We are thankful to Bendigo Bank for showing leadership and support during the COVID-19 pandemic by putting staff health and interests above revenue and profits. Currently, the branch is closing at 2.30 pm in line with recommendations from Head Office. Bendigo Bank has also continued to support OMCEL by extending its second franchise term by an extra year, and by providing a Letter of Comfort, which gives the auditors certainty regarding the continued provision of an overdraft facility.

The Community

This year, the branch celebrated its tenth birthday. In the ten years we’ve been operating, the company has reinvested over $205,000 back into our community groups and other worthwhile causes. The Board is ensuring that any and all merger and asset sale discussions are structured in such a way that the Ormond and McKinnon communities continue to receive support and contributions.

The Next 12 Months

In line with its three-year strategic plan, your Board is exploring all options to maximise shareholder and community benefits in the face of challenging external and internal circumstances. We have successfully managed some of the recent challenges, including continuing to delay the implementation of the Funds Transfer Pricing franchise model (which would significantly affect our profitability), and entering into lease negotiations for a further one-year extension, so that the lease it can be negotiated, reviewed and extended on more favourable terms.

We would like to thank you, our shareholders and customers, for your continued support which has allowed us to invest in this community.

Kannan Nair
Chair

Bendigo and Adelaide Bank report

For year ending 30 June 2020

In the 20-plus years since the opening of the very first Community Bank branch, it's fair to say we haven't seen a year quite like 2020.

After many years of drought, the 2019 calendar year ended with bushfires burning across several states. A number of our Community Bank companies were faced with an unprecedented natural disaster that impacted lives, homes, businesses and schools in local communities.

As fires took hold, Bendigo and Adelaide Bank's head office phones started to ring, emails came in from all over the world and our customers, and non-customers, headed into our branches to donate to an appeal that we were still in the process of setting up.

Our reputation as Australia's most trusted bank and the goodwill established by 321 Community Bank branches across the country meant that people instinctively knew that Bendigo, and our Community Bank partners, would be there to help. An appeal was established and donations were received in branch and online from 135,000 donors from all around the world. More than $45 million was donated.

Just as the fires had been extinguished and the Bank's Community Enterprise Foundation was working with government, not-for-profit organisations and impacted communities to distribute donations, the global COVID-19 pandemic arrived.

The impact of this pandemic was, and continues to be, more than about health. The impacts are far-reaching and banking is not immune. Your support as a shareholder, and a customer, of your local Community Bank company has never been so important.

You should be proud of your investment in your local Community Bank company. As the Australian workforce had to adjust its way of working, your Community Bank branch staff were classified as essential workers and turned up for work every day throughout the pandemic to serve your local customers.

Your Community Bank company, led by your local directors, were committed to supporting local economies. Often it was the little things like purchasing coffees and meals from local cafes, not only for their branch staff but for other essential workers (teachers, nurses, hospital support staff, ambulance and police officers and aged care workers). This not only supported essential workers also supported many local businesses when they needed it the most.

What we've discovered in 2020 is that in times of crisis, Australia's Community Bank network has unofficially become Australia's 'second responder'. Local organisations and clubs look to their local Community Bank companies not only for financial assistance, but to take the lead in connecting groups and leading the community through a crisis.

So, what does this all mean? For Bendigo and Adelaide Bank, it reinforces the fact that you are a shareholder of a unique and caring company – run by locals to benefit not only your community but those in need.

Bendigo and Adelaide Bank report (cont.)

As Australia's 5th largest bank with more than 1.9 million customers we are proud to partner with your community.

If 2020 has shown us anything, it's that we're stronger for the partnerships we have with the communities we operate in.

On behalf of Bendigo and Adelaide Bank, we thank all of our Community Bank company directors and shareholders and your branch staff and customers for your continued support throughout the year.

Mark Cunneen
Head of Community Support
Bendigo and Adelaide Bank

Directors' report

For year ending 30 June 2020

The Directors present their report of the Company for the financial year ended 30 June 2020.

Directors

The following persons were Directors of Ormond-McKinnon Community Enterprises Limited during or since the end of the financial year up to the date of this report:

Directors	Details
Kannan Nair	Director and Chairperson CPA - Australia, MBA - University of Sydney and NSW, Commercial Law Masters - University of Melbourne. Kannan has an extensive commercial, finance, and strategy background developed through working with large ASX listed companies and being on a number of boards. His experience has been gained in a broad range of industries, including retail, property, automobiles, consulting and logistics.
Chian Kee	Director Bachelor of Laws (Hons) - University of Melbourne, Bachelor of Computer Science - University of Melbourne. Chian is a senior commercial lawyer with top tier private practice and ASX 50 in house legal experience. Chian also has previous board experience in the not for profit community legal sector. Chian currently leads an in-house legal team focused on retail, technology and consumer markets, his practice includes advising on competition and consumer law, franchising, corporate governance, sales channels and strategic partnerships, private equity acquisitions and dispute resolution.
Lucienne Harrison	Director Bachelor of Chemical Engineering, Post Graduate Qualifications in OH&S, and is a graduate of the Australian Institute of Company Directors. Lucienne has extensive experience across the private, public and not-for-profit sectors - working in a range of senior roles in corporate and operational strategy, business operations and risk and governance. She brings a wealth of governance experience, commercial acumen and a reputation for delivering results.
Nicky Mackie	Director Bachelor of Business, majoring in Human Resource Management. Nicky Mackie is a market leading Business Strategist and Human Resources expert. Nicky brings a high level of business acumen as the sole director of People Assets Pty Ltd, a niche business strategy and HR Consulting Company that has been in operation since 2001.
Johnathan Spiers	Director GAICD, MBA Melbourne Business School, Graduate Diploma of Business Monash University, Bachelor of Arts Monash University Jonathan is a customer strategy development and delivery executive, with more than 20 years' experience in growing market share and profit in the banking, pharmaceutical and health insurance industries. He has more than 12 years banking experience including customer-facing roles in retail and business banking, and in consumer product roles across deposits, mortgages, credit cards, and personal loans.

Directors' report (continued)

Directors (continued)

Stuart Gray	Director and Treasurer Chartered Accountant Stuart has 15 years of experience in finance executive roles in the construction industry, including 4 years as CFO / Company Secretary of an ASX-listed Company (SRG Global Limited).

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

No Directors have material interests in contracts or proposed contracts with the Company.

Directors' meetings

Attendances by each Director during the year were as follows:

	Board meetings	
Director	**A**	**B**
Kannan Nair	17	16
Chian Kee	17	15
Lucienne Harrison	17	14
Nicky Mackie	17	4
Johnathan Spiers	17	16
Stuart Gray	17	13

A - The number of meetings eligible to attend.

B - The number of meetings attended.

Company Secretary

Irena Peoples has been the Company Secretary of Ormond - McKinnon Community Enterprised Limited since 2018. Irena is a Mechanical Engineer experienced in project management and is also a Director and Company Secretary for Beaumaris Community Financial Services Limited (operators of the Beaumaris Community Bank Branch). Irena is not a Director of Ormond-McKinnon Community Enterprises Limited.

Principal activities

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

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

Review of operations

The profit of the Company for the financial year after provision for income tax was $38,644 (2019 profit: $82,836), which is a 53.3% decrease as compared with the previous year.This is due to:
- COVID impacting the branch by limiting opportunities for growth in the normal course of business.
- The departure of a staff member in a key sales position. This resulted in the role being vacant for a period of time.
- A fall in branch footings, caused by the sale of the financial planning department within BABL.

Directors' report (continued)

New Accounting Standards Implemented

The Company has implemented a new accounting standard that is applicable for the current reporting period.

AASB 16: Leases has been applied retrospectively using the modified cumulative approach, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at 1 July 2019. Therefore, the comparative information has not been restated and continues to be reported under AASB 117: Leases.

COVID-19 Impact on Operations

The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary interventions to stabilise economic conditions. Footings, and therefore, revenue have decreased due to a reduction in branch traffic and a reduction in applications for banking products.

The Company has determined that these events have not required any specific adjustments within the financial report. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as any impact on the financial position and results of the Company for future periods.

Dividends

No dividend has been declared or paid since the start of the financial year.

Options

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

Significant changes in the state of affairs

The Company has entered into negotiations with other Community Banks to either merge or sell the book value of the business. At the time of writing, this sale is yet to be ratified by the shareholders.

Events subsequent to the end of the reporting period

No matters or circumstances have arisen since the end of the financial year that significantly affect or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company, in future financial years.

Likely developments

The Company will continue its policy of providing banking services to the community. The Board has entered into negotiations with other Community Bank Boards regarding the potential for a merger or asset sale.

Environmental regulations

The Company is not subject to any significant environmental regulation.

Directors' report (continued)

Indemnifying Officers or Auditor

The Company has agreed to indemnify each Officer (Director, Secretary or employee) out of assets of the Company to the relevant extent against any liability incurred by that person arising out of the discharge of their duties, except where the liability arises out of conduct involving dishonesty, negligence, breach of duty or the lack of good faith. The Company also has Officers Insurance for the benefit of Officers of the Company against any liability occurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the Company or in or arising out of the discharge of the Officer's duties.

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.

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.

Auditor independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set at page 10 of this Annual Report. No Officer of the Company is or has been a partner of the Auditor of the Company.

Signed in accordance with a resolution of the Board of Directors at Ormond on 14 September 2020.

Kannan Nair
Chairperson

Auditor’s Independence Declaration

41A Breen Street
Bendigo, Victoria
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Auditors Independence Declaration under section 307C of the *Corporations Act 2001* to the Directors of Ormond – McKinnon Community Enterprises Limited

In accordance with Section 307C of the *Corporations Act 2001*, I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020 there have been no contraventions of:

(i) The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) Any applicable code of professional conduct in relation to the audit.

RSD Audit

P.P Delahunty
Partner
41A Breen Street
Bendigo VIC 3550

Dated: 14 September 2020

Richmond Sinnott & Delahunty, trading as RSD Audit
ABN 85 619 186 908
Liability limited by a scheme approved under Professional Standards Legislation

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For year ending 30 June 2020

	Note	2020 $	2019 $
Revenue	2	599,762	634,908
Expenses			
Employee benefits expense	3	(323,746)	(301,667)
Depreciation and amortisation	3	(30,781)	(31,114)
Finance costs	3	(8,341)	(15,803)
Bad and doubtful debts expense	3	(802)	(451)
Occupancy expenses		(51,529)	(50,372)
IT expenses		(32,328)	(33,413)
Marketing and advertising		(1,229)	(1,360)
Freight, cartage and delivery		(1,888)	(1,871)
Accounting and audit fees		(15,643)	(12,038)
Rates, electricity and printing expenses		(13,880)	(11,298)
Other expenses		(57,161)	(40,855)
		(537,328)	(500,242)
Operating profit before charitable donations and sponsorship		**62,434**	**134,666**
Charitable donations and sponsorship		(15,750)	(20,638)
Profit before income tax		**46,684**	**114,028**
Income tax expense	4	(8,040)	(31,192)
Profit for the year after income tax		**38,644**	**82,836**
Other comprehensive income		-	-
Total comprehensive income for the year		**38,644**	**82,836**
Profit attributable to members of the company		38,644	82,836
Total comprehensive income attributable to members of the company		**38,644**	**82,836**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company (cents per share):			
- basic earnings per share	17	4.66	9.99

The accompanying notes form part of these financial statements

Financial Statements (continued)

Statement of Financial Position

For year ending 30 June 2020

	Note	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents	5	156	4,337
Trade and other receivables	6	38,546	41,598
Other assets	7	7,580	5,566
Total current assets		**46,282**	**51,501**
Non-current assets			
Property, plant and equipment	8	189,157	204,965
Intangible assets	9	4,400	19,373
Deferred tax assets	4	202,649	210,689
Total non-current assets		**396,206**	**435,027**
Total assets		**442,488**	**486,528**
Liabilities			
Current liabilities			
Trade and other payables	11	29,322	50,885
Borrowings	12	256,543	323,513
Provisions	13	7,321	4,762
Total current liabilities		**293,186**	**379,160**
Non-current liabilities			
Provisions	13	4,724	1,434
Total non-current liabilities		**4,724**	**1,434**
Total liabilities		**297,910**	**380,594**
Net assets		**144,578**	**105,934**
Equity			
Issued capital	14	811,128	811,128
Accumulated losses	15	(666,550)	(705,194)
Total equity		**144,578**	**105,934**

The accompanying notes form part of these financial statements

Financial Statements (continued)

Statement of Changes in Equity

For year ending 30 June 2020

	Note	Issued capital	Accumulated losses	Total equity
		$	$	$
Balance at 1 July 2019		**811,128**	**(705,194)**	**105,934**
Comprehensive income for the year				
Profit for the year		-	38,644	38,644
Balance at 30 June 2020		**811,128**	**(666,550)**	**144,578**
Balance at 1 July 2018		**811,128**	**(788,030)**	**23,098**
Comprehensive income for the year				
Profit for the year		-	82,836	82,836
Balance at 30 June 2019		**811,128**	**(705,194)**	**105,934**

The accompanying notes form part of these financial statements

Financial Statements (continued)

Statement of Cash Flows

For year ending 30 June 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		662,406	697,081
Payments to suppliers and employees		(576,304)	(544,959)
Interest paid		(8,341)	(15,803)
Net cash flows provided by operating activities	18b	**77,761**	**136,319**
Cash flows from investing activities			
Purchase of intangible assets		(14,972)	(14,972)
Net cash flows used in investing activities		**(14,972)**	**(14,972)**
Net cash flows provided by financing activities		**-**	**-**
Net increase in cash held		**62,789**	**121,347**
Cash and cash equivalents at beginning of financial year		(319,176)	(440,523)
Cash and cash equivalents at end of financial year	18a	**(256,387)**	**(319,176)**

The accompanying notes form part of these financial statements

Notes to the financial statements

For year ending 30 June 2020

These financial statements and notes represent those of Ormond-McKinnon Community Enterprises Limited (the Company) as an individual entity.

Ormond-McKinnon Community Enterprises Limited is a Company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue by the Directors on 14 September 2020.

1. Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, were applicable, by the measurement at fair value of selected non current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

Economic dependency

The Company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the Community Bank branch at Ormond.

The branch operates as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank", the logo, and systems of operation 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:

- The design, layout and fit out of the Community Bank branch;
- Training for the Branch Managers 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
- Sale techniques and proper customer relations.

Notes to the financial statements (cont.)

1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Going Concern

For the period ended 30 June 2020, there are several factors that may cast a doubt on the entity's ability to continue as a going concern. These conditions include:

- the net liabilities (excluding the deferred tax asset) of the Company as at 30 June 2020 were $58,071; and
- the profit for the period was $38,644, with accumulated losses amounting to $666,550.

In 2020, the Company achieved a net profit after tax of $38,644 (2019: $82,836), and net cash inflows from operations of $77,761 (2019: $136,319). This allowed the Company to further reduce its overdraft by $62,789 (2019: $121,347).

Over the past 12 - 18 months, the Directors have implemented measures to increase the footings of the bank. Despite attempts to grow the business, branch footings have reduced by 10% since 30 June 2018. In addition, a change in the commission rates earned on banking products has led to a 10% fall in revenue since 30 June 2018. The Board has adopted a strategy of cash conservation to pursue an organic growth strategy in future periods. This is achieved through reducing operational costs, and pursuing revenue growth.

However, with the recent decline in revenue, the Board have entered into negotiations with other Community Bank Boards regarding the potential for a merger or asset sale.

The Company meets its day to day working capital requirements through an overdraft facility that is due for renewal on 1 July 2021. The overdraft has an approved limited of $450,000 and was drawn down to $256,543 as at 30 June 2020.

The Directors will continue to review their growth forecast budget and cash flows throughout the 2020/21 year, and continue to implement measures to preserve cash, and secure additional finance.

Bendigo and Adelaide Bank Limited has confirmed that it will continue to support the Company and its operations for the 2020/21 financial year, and beyond, through the provision of the overdraft facility on normal commercial terms and conditions to assist with working capital requirements. The support is provided on the basis that the Company continues to fulfil its obligations under the franchise agreement and continues to work closely with Bendigo and Adelaide Bank Limited to further develop its business. During the year, the Company reduced its borrowings by $66,970. The Company also has recognised a Deferred tax asset of $201,153 in the balance sheet. The benefit of this tax asset is contingent upon the Company continuing to achieve profits in future years.

Based on the above, the Directors believe that it is reasonably foreseeable that the Company will continue to achieve profits; and continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial statements. The Directors are also of the opinion that the recoverability of the Deferred tax asset is also probable.

(b) Impairment of assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Notes to the financial statements (cont.)

1. Summary of significant accounting policies (continued)

(c) Goods and services 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 (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(d) Comparative figures

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

(e) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements 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 within the Company. Estimates and judgements are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and judgements that have a significant risk of causing material adjustments to the carrying values of assets and liabilities are as follows:

Estimation of useful lives of assets

The Company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. The depreciation and amortisation charge will increase where useful lives are less than previously estimated lives.

Fair value assessment of non-current physical assets

The AASB 13 Fair Value standard requires fair value assessments that may involved both complex and significant judgement and experts. The value of land and buildings may be materially misstated and potential classification and disclosure risks may occur.

Employee benefits provision

Assumptions are required for wage growth and CPI movements. The likelihood of employees reaching unconditional service is estimated. The timing of when employee benefit obligations are to be settled is also estimated.

Income tax

The Company is subject to income tax. Significant judgement is required in determining the deferred tax asset. Deferred tax assets are recognised only when it is considered sufficient future profits will be generated. The assumptions made regarding future profits is based on the Company's assessment of future cash flows.

Notes to the financial statements (cont.)

1. Summary of significant accounting policies (continued)

(e) Critical accounting estimates and judgements (continued)

Impairment

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in use calculations which incorporate various key assumptions.

(f) New and revised standards that are effective for these financial statements

With the exception of the below, these financial statements have been prepared in accordance with the same accounting policies adopted in the entity's last annual financial statements for the year ended 30 June 2019. Note that the changes in accounting policies specified below ONLY apply to the current period. The accounting policies included in the Company's last annual financial statements for the year ended 30 June 2019 are the relevant policies for the purposes of comparatives.

AASB 16 Leases became mandatorily effective on 1 January 2019. Accordingly, these standards apply for the first time to this set of annual financial statements. The nature and effect of changes arising from these standards are summarised in the section below.

AASB 16 *Leases*

AASB 16 Leases replaces AASB 117 Leases and three associated Interpretations. The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting AASB 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated, as permitted under the specific transition provisions in the standard.

For contracts in place at the date of initial application, as permitted under the specific transition provisions in the standard, the Company has elected to apply the definition of a lease from AASB 117 and relevant associated Interpretations, and has not applied AASB 16 to arrangements that were previously not identified as a lease under AASB 117 and associated Interpretations. This means that any contracts that were deemed to not contain a lease under AASB 117 have not been reassessed under AASB 16.

The Company has also elected to not include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. Furthermore, at this date, the Company has elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition as allowed under the transition provisions.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value-assets (less than $10,000) the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under AASB 117 immediately before the date of initial application.

There has been no effect upon adoption of this standard.

Notes to the financial statements (cont.)

1. Summary of significant accounting policies (continued)

(f) New and revised standards that are effective for these financial statements (continued)

The Company has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019.

	$
Total operating lease commitments disclosed at 30 June 2019	48,409
Recognition exemptions:	
• leases with remaining lease terms of less than 12 months	(48,409)
Operating lease liabilities before discounting	-
Lease liability discounted using incremental borrowing rate at date of initial application (1 July 19)	-

(h) Change in accounting policies

Accounting policy applicable from 1 July 2019

The Company as a lessee

For any new contracts entered into on or after 1 July 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

• the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company

• the Company has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract

• the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net any incentives received).

The Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or to the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Notes to the financial statements (cont.)

1. Summary of significant accounting policies (continued)

(h) Change in accounting policies (continued)

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, the right-of-use assets have been included in property, plant and equipment (except those meeting the definition of investment property) and lease liabilities have been included in borrowings.
<u>Accounting policy applicable before 1 July 2019</u>
The Company as a lessee
Finance leases
Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Company obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

See the accounting policy note in the year-end financial statements for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases
All other leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Impact of standards issued but not yet applied by the entity

AASB 17 Insurance Contracts
AASB 17 was issued in July 2017 as replacement for AASB 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under AASB 9.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. As the Company does not issue any insurance contracts or investment contracts with discretionary participation features, the Directors have determined this standard will not affect the Company when adopted.

The Company does not intend to adopt the standard before its effective date.

AASB 1059 Service Concession Arrangements: Grantors
The standard applies to both not-for-profit and for-profit public sector entities that are grantors in a service concession arrangement. These are arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector entity for a specified period of time and managing at least some of those services.

As the Company is not a grantor in a service concession arrangement, the Directors have determined this standard will not affect the Company when adopted.

The Company does not intend to adopt the standard before its effective date.

Notes to the financial statements (cont.)

2. Revenue

	2020 $	2019 $
Revenue		
- service commissions	582,312	634,908
	582,312	634,908
Other revenue		
- government subsidies	17,450	-
	17,450	-
Total revenue	**599,762**	**634,908**

Revenue arises from the rendering of services through the Company's franchise agreement with the Bendigo and Adelaide Bank Limited. The revenue recognised is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

The entity applies the revenue recognition criteria set out below to each separately identifiable sales transaction in order to reflect the substance of the transaction.

Government Subsidies and Other Income
Government Subsidies are recognised when the right to the income has been established.

All revenue is stated net of the amount of goods and services tax (GST).

Rendering of services
As detailed in the franchise agreement, companies earn three types of revenue - margin, commission and fee income. Bendigo and Adelaide Bank Limited decides the method of calculation of revenue the Company earns on different types of products and services and this is dependent on the type of business the Company generates, also taking into account other factors including economic conditions, including interest rates.

Core Banking Products
Bendigo and Adelaide Bank Limited identifies specific products and services as 'core banking products', however it also reserves the right to change the products and services identified as 'core banking products', providing 30 days notice is given. The core banking products, as at the end of the financial year included:

Margin
Margin is earned on all core banking products and services. The model used for calculating the margin is determined by taking the interest paid by customers on loans less interest paid to customers on deposits, plus any deposit returns, i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit, minus any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan. The Company is then entitled to a share of the margin earned by Bendigo and Adelaide Bank Limited. However, if this reflects a loss, the Company incurs a share of that loss.

Commission
Commission is a fee earned on products and services sold. Depending on the product or services, it may be paid on the initial sale or on an ongoing basis.

Fee Income
Fee income is a share of 'bank fees and charges' charged to customers by Bendigo and Adelaide Bank Limited, including fees for loan applications and account transactions.

Notes to the financial statements (cont.)

2. Revenue (continued)

Discretionary Financial Contributions
Bendigo and Adelaide Bank Limited has made discretionary financial payments to the Company, outside of the franchise agreement and in addition to margin, commission and fee income. This income received by the Company is classified as "Market Development Fund" (MDF) income. The purpose of these payments is to assist the Company with local market development activities, however, it is for the Board to decide how to use the MDF. Due to their discretionary nature, Bendigo and Adelaide Bank Limited may change or stop these payments at any time.

Form and Amount of Financial Return
The franchise agreement stipulates that Bendigo and Adelaide Bank Limited may change the form, method of calculation or amount of financial return the Company receives. The reasons behind making a change may include, but not limited to, changes in Bendigo and Adelaide Bank Limited's revenue streams/processes, economic factors or industry changes.

Bendigo and Adelaide Bank Limited may make any of the following changes to form, method of calculation or amount of financial returns:
• A change to the products and services identified as 'core banking products and services'
• A change as to whether it pays the Company margin, commission or fee income on any product or service.
• A change to the method of calculation of costs of funds, deposit return and margin and a change to the amount of any margin, commission and fee income.
These abovementioned changes, may impact the revenue received by the Company on a particular product or service, or a range of products and services.

However, if Bendigo and Adelaide Bank Limited make any of the above changes, per the franchise agreement, it must comply with the following constraints in doing so:
a) If margin or commission is paid on a core banking product or service, Bendigo and Adelaide Bank Limited cannot change it to fee income;
b) In changing a margin to a commission or a commission to a margin on a core banking product or service, OR changing the method of calculation of a cost of funds, deposit return or margin or amount of margin or commission on a core product or service, Bendigo and Adelaide Bank Limited must not reduce the Company's share of Bendigo and Adelaide Bank Limited's margin on core banking product and services when aggregated to less than 50% of Bendigo and Adelaide Bank Limited's margin on core banking products attributed to the Company's retail branch operation; and
c) Bendigo and Adelaide Bank Limited must publish the change at least 30 days before making the change.

3. Expenses

	2020 $	2019 $
Profit before income tax includes the following specific expenses:		
Employee benefits expense		
- wages and salaries	267,099	254,420
- superannuation costs	24,482	24,073
- other costs	32,165	23,174
	323,746	301,667
Depreciation and amortisation		
Depreciation		
- leasehold improvements	15,694	15,695
- furniture and fittings	114	446
	15,808	16,141

Notes to the financial statements (cont.)

3. Expenses (continued)

	2020 $	2019 $
Amortisation		
- franchise fees	14,973	14,973
Total depreciation and amortisation	30,781	31,114
Finance costs		
- Interest paid	8,341	15,803
Bad and doubtful debts expenses	802	451
Auditors' remuneration		
Remuneration of the Auditor, RSD Audit, for:		
- Audit or review of the financial report	5,250	5,180
- Non-audit services	1,750	2,100
	7,000	7,280

Operating expenses

Operating expenses are recognised in profit or loss on an accruals basis, which is typically upon utilisation of the service or at the date upon which the entity becomes liable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

Depreciation

The depreciable amount of all fixed and intangible assets are depreciated over the asset's useful life to the Company 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 depreciation rates used for each class of depreciable asset are:

Class of asset	*Rate*	*Method*
Leasehold improvements	2.5%-15%	Straight line
Furniture & Fittings	7%-40%	Diminishing value
Franchise Fees	20%	Straight line

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Notes to the financial statements (cont.)

4. Income tax

	2020 $	2019 $
a. The components of tax expense comprise:		
Current tax expense	9,026	30,361
Deferred tax expense	8,040	31,358
Recoupment of prior year tax losses	(9,026)	(30,361)
Under / (over) provision of prior years	-	(166)
	8,040	**31,192**
b. Prima facie tax payable		
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie tax on profit before income tax at 27.5% (2019: 27.5%)	12,838	31,358
Add tax effect of:		
- ATO Cash Flow Boost	(4,798)	
- Under / (over) provision of prior years	-	(166)
Income tax attributable to the entity	**8,040**	**31,192**
The applicable weighted average effective tax rate is:	17.22%	27.35%
c. Current tax liability		
Current tax relates to the following:		
Current tax liabilities / (assets)		
Opening balance	-	-
Current tax	9,026	30,361
Recoupment of carried forward tax losses	(9,026)	(30,361)
	-	**-**
d. Deferred tax asset		
Deferred tax relates to the following:		
Deferred tax assets comprise:		
Accruals	2,433	2,502
Employee provisions	3,312	1,704
Unused tax losses	198,777	207,802
	204,522	**212,008**
Deferred tax liabilities comprise:		
Prepayments	1,873	1,319
	1,873	1,319
Net deferred tax asset	**202,649**	**210,689**
e. Deferred income tax included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets	7,486	31,160
(Decrease) / increase in deferred tax liabilities	554	364
Under / (over) provision prior years	-	(166)
	8,040	**31,358**

Notes to the financial statements (cont.)

4. Income tax (continued)

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to profit or loss is the tax payable on taxable income for the current period. Current tax liabilities/assets are measured at the amounts expected to be paid to/recovered from the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
- the initial recognition of goodwill; and
- the initial recognition of an asset or liability in a transaction which:
    - is not a business combination; and
    - at the time of the transaction, affects nether accounting profit nor taxable profit (tax loss).

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred income tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Current tax assets and liabilities are offset where a legally enforceable right of off-set exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (i) a legally enforceable right of set-off exists; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

5. Cash and cash equivalents

	2020 $	2019 $
Cash at bank and on hand	156	4,337
	156	**4,337**

Cash and cash equivalents include cash on hand, deposits available on demand with banks and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

Notes to the financial statements (cont.)

6. Trade and other receivables

	2020 $	2019 $
Current		
Trade receivables	37,257	40,309
Other receivables	1,289	1,289
	38,546	**41,598**

Trade and other receivables are initially measured at the transaction price. Trade and other receivables are due for settlement usually no more than 30 days from the date of recognition.

The Company's main debtor relates to the Bendigo and Adelaide Bank Limited monthly profit share distribution, which is deposited 14 days post month end, there are no items that require the application of the lifetime expected credit loss model.

Credit risk

The main source of credit risk relates to a concentration of trade receivables owing by Bendigo and Adelaide Bank Limited, which is the source of the majority of the Company's income.

The Company always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current and forecast directions of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The balances of receivables that remain within initial trade terms (as detailed in the table below) are considered to be high credit quality.

	Gross amount	Not past due	Past due but not impaired			Past due and impaired
			< 30 days	31-60 days	> 60 days	
2020	$	$	$	$	$	$
Trade receivables	37,257	37,257	-	-	-	-
Other receivables	1,289	1,289	-	-	-	-
Total	**38,546**	**38,546**	**-**	**-**	**-**	**-**
2019						
Trade receivables	40,309	40,309	-	-	-	-
Other receivables	1,289	1,289	-	-	-	-
Total	**41,598**	**41,598**	**-**	**-**	**-**	**-**

7. Other assets

	2020 $	2019 $
Prepayments	6,809	4,795
Other	771	771
	7,580	**5,566**

Other assets represent items that will provide the entity with future economic benefits controlled by the entity as a result of past transactions or other past events.

Notes to the financial statements (cont.)

8. Property, plant and equipment

	2020 $ At cost	Accumulated depreciation	Written down value	2019 $ At cost	Accumulated depreciation	Written down value
Leasehold improvements	319,328	(130,985)	188,343	319,328	(115,291)	204,037
Furniture and fittings	6,239	(5,425)	814	6,239	(5,311)	928
Total property, plant and equipment	**325,567**	**(136,410)**	**189,157**	**325,567**	**(120,602)**	**204,965**

Plant and equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that 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 recognised as expenses in profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(a) Capital expenditure commitments
The entity does not have any capital expenditure commitments at 30 June 2020 (2019: None)

(b) Movements in carrying amounts of PP&E

2020	Leasehold Improvements $	Furniture & Fittings $	Total $
Opening carrying value	204,037	928	204,965
Depreciation	(15,694)	(114)	(15,808)
Closing carrying value	**188,343**	**814**	**189,157**

2019	Leasehold Improvements $	Furniture & Fittings $	Total $
Opening carrying value	219,732	1,374	221,106
Depreciation	(15,695)	(446)	(16,141)
Closing carrying value	**204,037**	**928**	**204,965**

Notes to the financial statements (cont.)

8. Property, plant and equipment (continued)

(c) Right of use assets

(i) AASB 16 related amounts recognised in the statement of profit or loss

	2020 $
Short-term leases expense	48,409
Total cash outflows for leases	**48,409**

9. Intangible assets

	2020 $			2019 $		
	At cost	Accumulated amortisation	Written down value	At cost	Accumulated amortisation	Written down value
Franchise fees	68,057	(63,657)	4,400	68,057	(48,684)	19,373
Total intangible assets	**68,057**	**(63,657)**	**4,400**	**68,057**	**(48,684)**	**19,373**

Franchise fees have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum. The current amortisation charges for intangible assets are included under depreciation and amortisation in the Statement of Profit or Loss and Other Comprehensive Income.

Movements in carrying amounts

2020	Opening written down value $	Amortisation $	Closing written down value $
Franchise fees	19,373	(14,973)	4,400
Total intangible assets	**19,373**	**(14,973)**	**4,400**

2019	Opening written down value $	Amortisation $	Closing written down value $
Franchise fees	34,346	(14,973)	19,373
Total intangible assets	**34,346**	**(14,973)**	**19,373**

Notes to the financial statements (cont.)

10. Financial liabilities

Financial liabilities include trade payables, other creditors, loans from third parties and loans from or other amounts due to related entities. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial liabilities are initially measured at fair value plus transaction costs, except where the instrument is classified as "fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

11. Trade and other payables

	2020 $	2019 $
Current		
Unsecured liabilities:		
Trade creditors	12,703	3,292
Other creditors and accruals	16,619	32,621
Franchise fee payable	-	14,972
	29,322	**50,885**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The franchise fee is repayable over a five year period, with a one year payment deferral granted for the 2020/2021 payment.

The average credit period on trade and other payables is one month.

12. Borrowings

	2020 $	2019 $
Current		
Unsecured liabilities		
Bank overdraft	256,543	323,513
Total borrowings	**256,543**	**323,513**

(a) Bank overdraft and bank loans
The Company has an overdraft facility of $450,000 which is subject to normal commercial terms and conditions.

Notes to the financial statements (cont.)

13. Provisions

	2020 $	2019 $
Current		
Employee benefits	7,321	4,762
Non-current		
Employee benefits	4,724	1,434
Total provisions	**12,045**	**6,196**

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

Short-term employee benefits
Provision is made for the Company's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The liability for annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Other long-term employee benefits
Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurement for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Company's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Company does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

14. Share capital

	2020 $	2019 $
828,860 Ordinary shares fully paid	828,860	828,860
Less: Equity raising costs	(17,732)	(17,732)
	811,128	**811,128**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(a) Movements in share capital

Fully paid ordinary shares:		
At the beginning of the reporting period	828,860	828,860
At the end of the reporting period	**828,860**	**828,860**

Notes to the financial statements (cont.)

14. Share capital (continued)

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At the shareholders' meetings each shareholder is entitled to one vote when a poll is called, or on a show of hands. The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the Company's residual assets.

(b) 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 Statement of Financial Position.

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 Company 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%.

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 can be seen in the Statement of Profit or Loss and Comprehensive Income.

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

15. Accumulated losses

	2020 $	2019 $
Balance at the beginning of the reporting period	(705,194)	(788,030)
Profit for the year after income tax	38,644	82,836
Balance at the end of the reporting period	**(666,550)**	**(705,194)**

16 Dividends paid or provided for on ordinary shares

No dividends were paid or proposed by the Company during the year.

17. Earnings per share

	2020 $	2019 $
Basic earnings per share (cents)	4.66	9.99
Earnings used in calculating basic earnings per share	38,644	82,836
Weighted average number of ordinary shares used in calculating basic earnings per share	828,860	828,860

Basic earnings per share
Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issues during the year.

Notes to the financial statements (cont.)

18. Statement of cash flows

	2020 $	2019 $
(a) Cash and cash equivalents balances as shown in the Statement of Financial Position can be reconciled to that shown in the Statement of Cash Flows as follows:		
Cash and cash equivalents (Note 5)	156	4,337
Less bank overdraft (Note 12)	(256,543)	(323,513)
As per the Statement of Cash Flow	**(256,387)**	**(319,176)**
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit for the year after income tax	38,644	82,836
Non-cash flows in profit		
- Depreciation and amortisation	30,781	31,114
Changes in assets and liabilities		
- (Increase) / decrease in trade and other receivables	3,052	(1,318)
- (increase) / decrease in prepayments and other assets	(2,014)	(1,322)
- (Increase) / decrease in deferred tax asset	8,040	28,231
- Increase / (decrease) in trade and other payables	(6,591)	(820)
- Increase / (decrease) in provisions	5,849	(2,402)
Net cash flows from operating activities	**77,761**	**136,319**

(c) Credit standby arrangement and loan facilities

The Company has a bank overdraft and commercial bill facility amounting to $450,000 (2019: $550,000). This may be terminated at any time at the option of the bank. At 30 June 2020, $256,543 of this facility was used (2019: $323,513). Variable interest rates apply to these overdraft and bill facilities.

19. Key management personnel and related party disclosures

(a) Key management personnel

Key management personnel includes any person having authority or responsibility for planning, directing or controlling the activities of the entity, directly or indirectly including any Director (whether executive or otherwise) of that Company.

No remuneraton was paid to the Board members of the Company during the year.

(b) Other related parties

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

(c) Transactions with key management personnel and related parties

Other than detailed below, no key management personnel or related party has entered into any contracts with the Company. No Director fees have been paid as the positions are held on a voluntary basis.

Ormond-McKinnon Community Enterprises Limited has not accepted the Bendigo and Adelaide Bank Limited's Community Bank Directors Privileges package.

Notes to the financial statements (cont.)

19. Key management personnel and related party disclosures (continued)

(e) Other key management transactions

There have been no other transactions with key management or related parties other than those described above.

20. Events after the reporting period

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

21. Contingent liabilities and contingent assets

Throughout the year, the Board entered into negotiations to sell the assets of the business to another BABL franchise, it is expected that further legal costs will be incurred in relation to this in the coming financial year.

22. Operating segments

The Company operates in the financial services sector where it provides banking services to its clients. The Company operates in one area being Ormond, Victoria. The Company has a franchise agreement in place with Bendigo and Adelaide Bank Limited which accounts for 98% of the revenue (2019: 100%).

23. Commitments

(a) Operating lease commitments

	2020 $	2019 $
Payable:		
- no later than 12 months		48,409
Minimum lease payments	-	48,409

The property lease is a non-cancellable lease with a six month term, with rent payable monthly in advance and with CPI increases at each review date.

Non-cancellable operating leases contracted for but not capitalised in the Statement of Financial Position.

24. Company details

The registered office and principal place of business is 485 North Road, Ormond, VIC, 3204.

Notes to the financial statements (cont.)

25. Financial instrument risk

Financial risk management policies

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Specific financial risk exposure and management

The main risks the Company is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and other price risk. There have been no substantial changes in the types of risks the Company is exposed to, how the risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

The Company's financial instruments consist mainly of deposits with banks, short term investments, account receivables and payables, bank overdraft and loans. The totals for each category of financial instruments measured in accordance with AASB 9 Financial Instruments as detailed in the accounting policies are as follows:

	Note	2020 $	2019 $
Financial assets			
Financial assets at amortised cost:			
- Cash and cash equivalents	5	156	4,337
- Trade and other receivables	6	38,546	41,598
Total financial assets		**38,702**	**45,935**
Financial liabilities			
Financial liabilities at amortised cost:			
- Trade and other payables	11	29,322	50,885
- Bank overdraft	12	256,543	323,513
Total financial liabilities		**285,865**	**374,398**

(a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms for normal fee income are generally 30 days from the date of invoice. For fees with longer settlements, terms are specified in the individual client contracts. In the case of loans advanced, the terms are specific to each loan.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets as presented in the table above.

The Company has significant concentrations of credit risk with Bendigo and Adelaide Bank Limited. The Company's exposure to credit risk is limited to Australia by geographic area.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are detailed at Note 6.

The Company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Limited and therefore credit risk is considered minimal.

Notes to the financial statements (cont.)

25. Financial instrument risk (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures it will have enough liquidity to meet its liabilities when due under both normal and stressed conditions. Liquidity management is carried out within the guidelines set by the Board.

Typically, the Company maintains sufficient cash on hand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition the Company has established an overdraft facility of $450,000 with Bendigo and Adelaide Bank Limited. The undrawn amount of this facility is $193,457 (2019: $226,487).

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. The Bank overdraft facility is subject to annual review, may be drawn at any time, and may be terminated by the bank without notice. Therefore the balance of the overdraft facility outstanding at year end could become repayable within 12 months.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis:

30 June 2020	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
- Cash and cash equivalents	0.00%	156	156	-	-
- Trade and other receivables		38,546	38,546	-	-
Total anticipated inflows		38,702	38,702	-	-
Financial liabilities					
- Trade and other payables		29,322	29,322	-	-
- Bank overdraft *	6.00%	256,543	256,543	-	-
Total expected outflows		285,865	285,865	-	-
Net inflow / (outflow) on financial instruments		**(247,163)**	**(247,163)**	**-**	**-**

25. Financial instrument risk (continued)

(b) Liquidity risk (continued)

30 June 2020	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
- Cash and cash equivalents	0.00%	4,337	4,337	-	-
- Trade and other receivables		41,598	41,598	-	-
Total anticipated inflows		45,935	45,935	-	-
Financial liabilities					
- Trade and other payables		50,885	50,885	-	-
- Bank overdraft *	3.69%	323,513	323,513	-	-
Total expected outflows		374,398	374,398	-	-
Net inflow / (outflow) on financial instruments		**(328,463)**	**(328,463)**	**-**	**-**

* The Bank overdraft has no set repayment period and as such all has been included as current.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The primary risks the Company is exposed to is interest rate risk. The Company has no exposure to fluctuations in foreign currency or other price risk.

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The financial instruments that primarily expose the Company to interest rate risk are borrowings.

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, management believes the following movements are 'reasonably possible' over the next 12 months:
- A parallel shift of +/- 1% in market interest rates from year-end rates.

These movements will not have a material impact on the valuation of the Company's financial assets and liabilities, nor will they have a material impact on the results of the Company's operations.

Directors' Declaration

In accordance with a resolution of the Directors of Ormond-McKinnon Community Enterprises Limited, the Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 11 to 36 are in accordance with the *Corporations Act 2001* and:

   (i) comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

   (ii) give a true and fair view of the Company's financial position as at 30 June 2020 and of the performance for the year ended on that date;

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Kannan Nair
Chairperson

Signed at Ormond on 14 September 2020.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ORMOND – MCKINNON COMMUNITY ENTERPRISES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Ormond – McKinnon Community Enterprises Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion the accompanying financial report of Ormond – McKinnon Community Enterprises Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001;* and

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the financial statements which highlights a material uncertainty regarding the going concern basis of accounting. The company made a net profit of $38,644 during the year ended 30 June 2020 and as of that date, the company's current liabilities exceeded its current assets by $246,904. The company has explored the opportunity to either merge with another company to create a new company, or to sell off the assets of the company to expedite the likelihood of returning profits to the shareholders. The company has future tax assets of $202,649, the value of which is wholly contingent upon the future profitability of the company, or the profitability of the merged company, or companies purchasing the assets of the company as part of an asset sale. These events or conditions, along with other matters further detailed in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our review report is not modified in respect of this matter.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements related to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

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

Independence

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

Director's Responsibility for the Financial Report

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

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

Auditor's Responsibility for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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.

We identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's report (continued)

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RSD Audit
Chartered Accountants

P.P Delahunty
Partner
Bendigo
Dated: 14 September 2020

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ABN: 62 131 468 703

www.bendigobank.com.au/ormond-mckinnon
www.facebook.com/OrmondMcKinnonCommunityBankBranch

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(DATE: 10/20)