

annual report 2018

Somerset Region
Community Enterprises Limited
ABN 33 138 179 450



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Vision Statement

Partnering strong prosperous communities

Mission Statement

***Delivering quality banking services to the mutual
benefit of clients and communities
in the Somerset Region***

Chairman's report

Chairman's Report 2018

Having served as Chairman of our Company for the past 6 years, I am again pleased to report our business remains in a solid financial position. With Bendigo as our partner, our commitment and relevance to growing our Somerset communities remains strong. Pressures from lending competitors, banking regulators and evolving technology however, do make for a challenging business landscape.

As our business matures, so too does our level of business. Whilst loans are paid out, new business is also being written. This year, Michael and his team have written \$8.7 million worth of new business, a truly outstanding amount considering the present economic climate. \$4.3 million was also discharged this past year. The level of business on the books at 30th June 2018 was \$ 113,204,599 .

During the past 2 years, we worked extensively with the Toogoolawah sub-committee to provide a greater Bendigo presence in the Toogoolawah district. I must congratulate the sub-committee or their enthusiasm and commitment to building the stronger agency in Toogoolawah. We remain committed to building the Bendigo awareness in this part of the Somerset region. The billboard on the Brisbane Valley highway, similar to that near Fernvale, is just one strategy being used to promote the benefits of banking Bendigo.

Annabell Boughen chose to resign at our AGM in November, due to other work commitments. I would like to thank Annabell for her commitment and contribution to our Company whilst a Director, and wish her all the best for the future.

Malcolm Sippel was elected a Director in October 2017. With Malcolm's long term business and community background, he is well suited to serving on our Board of Director. I also welcomed Marion Vaster to our Board of Directors in February 2018. Marion brings to her role, extensive management, leadership, networking and IT skills.

Once again, the Directors and our Ambassador, Michael Ogg, have engaged with many community groups, from Fernvale in the south, to Linville in the north of the Somerset region. We are now the co-owners of "piggy" our Bendigo promotional mascot. "piggy" was out and about at the Lowood, Esk and Toogoolawah shows, and was well received by both the young and old.

For the fourth consecutive year, we paid a dividend on shares invested in our company. This year it was a massive 6.5%. Together with this dividend, a total \$635,820 has been reinvested back into the community, in the form of sponsorships, donations, grants and scholarships.

I would like to thank our Bank team for their continued commitment and professionalism, and our Board of Directors, and Ambassador, for their commitment to managing and promoting our growing company. Thanks also to our Bendigo partners for their continued support.

In conclusion, I would like to extend my thanks and appreciation to our Shareholders and loyal customers, for their commitment and support during the past year.



Keith Manz (Chairman)

Manager's report

Manager's Report

for the year ending 30 June 2018.

I am pleased to present my fifth report as Manager of the Lowood and Fernvale Community Bank.

We are continuing to operate in a difficult environment, however, it does please me to report that the business has grown again from total footings of \$111.6M at 30 June 2017 to total footings of \$113.2M as at 30 June 2018. The breakup of the business on our books is \$59.7m in lending, \$49.2m in deposits and \$4.3m in other business, comprising of deposits with our Treasury Department, Financial Planning, Superannuation and deposits with our Not for Profit arm – Community Sector Banking

As a direct result of the support of our shareholders and customers, we have been able to continue to support the local community with sponsorships, grants and donations to a number of worthy groups. Our scholarship program continued this year supporting a further three students with expenses related to furthering their education

We welcomed two new employees in this financial year, Tanya McHugh (Part Time Customer Service Officer) and Verena Walker (Casual Customer Service Officer). Both Tanya & Verena have embraced our unique Community Bank, my thanks goes to them for their efforts this year. My continued thanks goes to Leonie Sippel (Customer Relationship Manager), Sue Kendrick (Senior Customer Relationship Officer), Natasha Harris (Customer Service Officer) & Janine Watkins (Customer Service Officer) for their service to our customers and the support provided to me.

My thanks also goes to our Board for their continued commitment to our company and the region. The board work extremely hard in ensuring that our community benefits from your Community Bank® and the profit it is able to distribute throughout our Community.

In closing and as always it is only through the support of the greater community that we are able to operate. Your Community Bank® is able to offer the full service of your banking needs, so I ask that you please consider us for any of your financial needs



Michael Doherty
Branch Manager
Lowood & Fernvale Community Bank Branch

Agencies

***Our Agents
provide a valued
extended banking service
to our Communities***



**Esk agents
Dion and Tracey Wengel**



**Toogoolawah agents
Mark and Pauline Bulow**

Directors' report

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

Directors

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

Keith Mervyn Manz

Chairman

Occupation: Business Manager

Qualifications, experience and expertise: Keith has been part of a local family business and has been active in community group for many years. He brings considerable local knowledge, business management and business development skills to the Board.

Special responsibilities: Chairman, Business Development and Marketing committees.

Interest in shares: 18,501

Jean Bray

Company Secretary

Occupation: Retired

Qualifications, experience and expertise: Former Community Partnership Manager with SEQ Catchments Ltd. In addition to her Company Secretary responsibilities with the bank, she serves in a volunteer capacity as Director/Treasurer of Folk Art Cooperative Society Ltd. and Secretary of West Moreton Landcare Group Inc.

Special responsibilities: Secretary, Governance Committee and Representative of Bendigo South West Qld Cluster Group.

Interest in shares: 7,001

Sharyn Marree Voss

Treasurer

Occupation: Personal Assistant to Director of Nursing Home

Qualifications, experience and expertise: Sharyn has been employed by Bundaleer Lodge Nursing Home since 1981 and now serves as a personal assistant to the Director of the nursing home. She has a Diploma in Management, Business & Administration and also serves as a Commissioner of Declarations. She is Secretary/Treasurer of the South East Queensland Illawarra Cattle Club and serves on the Queensland Dairy Showcase Committee. Sharyn and her husband have owned and operated a cattle transport business from their dairy farm at Glamorgan Vale since 1986.

Special responsibilities: Treasurer, Marketing Committee.

Interest in shares: 5,000

Brett Wayne Freese

Director

Occupation: Information Technology Professional

Qualifications, experience and expertise: Brett has considerable experience in the Communications industry and has an Associate Diploma in mathematics and computing. He is extensively involved in local community work as a Director of the GlamorganVale Water Board, Treasurer of the GlamorganVale Tennis Club and the GlamorganVale Community Hall Association. He currently works in the IT area for Ipswich City Council as a team leader. He owns a small crop and cattle property at Glamorganvale.

Special responsibilities: Marketing & Sponsorship Committee Chair, Business Development Committee Chair

Interest in shares: 1

Directors' report (continued)

Directors (*continued*)

Aaron Leigh Heck

Director

Occupation: Business person

Qualifications, experience and expertise: Aaron previously worked in management for Colorado Group from 1990 - 2005. He ran and managed a motel from 2005 - 2010 and currently manages a footwear retail store since 2013. Aaron is involved with Lutheran church and running local senior units (Trinity Haven Units).

Special responsibilities: Marketing Committee

Interest in shares: 833

Malcom John Sippel

Director (*Appointed 25 October 2017*)

Occupation: Plumber

Qualifications, experience and expertise: Malcolm runs his own plumbing business and is a licenced plumber, drainer and gasfitter. He has been a committee member and a past President of the Lowood Golf Club and has served on the Lowood Show Society.

Special responsibilities: Marketing Committee

Interest in shares: 10,000

Maria Valster

Director (*Appointed 28 February 2018*)

Occupation: Self Employed & Coach

Qualifications, experience and expertise: Maria has completed a Bachelor of Psychology (Hons) and Master of Business Administration. She is the secretary of BCAL Wildlife Rescue Group and has IT and leadership skills. Maria also works as a trainer and assessor.

Special responsibilities: Marketing Committee

Interest in shares: Nil

Annabel Jane Boughen

Director (*Resigned 8 November 2017*)

Occupation: Driveway Construction

Qualifications, experience and expertise: Annabel worked for 10 years as a phlebotomist liaising with patients and health care professionals before commencing work with Boughens Bitumen. She teaches music and serves as an administrative officer for the Rosewood Lutheran Church and is the Organist at St Johns Lutherab Church at Coolana.

Special responsibilities: Marketing Committee and Assistant Secretary.

Interest in shares: Nil

Michael David Ogg

Director (*Resigned 23 August 2017*)

Occupation: Councillor

Qualifications, experience and expertise: Michael owned and operated a successful retail outlet in Lowood for over 30 years. He was the Chairman of the Fernvale Hall Committee for six years and the Chairman of Commerce Lowood for four years.

Michael is currently serves his second term as an elected representative on Somerset Regional Council. He is also a current director of the Lockyer View Water Company.

Special responsibilities: Marketing Committee

Interest in shares: 3

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' report (continued)

Company Secretary

The company secretary is Jean Bray. Jean was appointed to the position of secretary on 8 July 2009

Jean is retired and volunteers her time for a number of community based organisations.

Principal Activities

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

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

Operating results

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

Year ended 30 June 2018	Year ended 30 June 2017
\$	\$
25,534	60,405

	Year ended 30 June 2018	
Dividends	Cents	\$
Dividends paid in the year	6.5	39,481

Significant changes in the state of affairs

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

Events since the end of the financial year

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

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

Directors' report (continued)

Indemnification and insurance of directors and officers

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

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

Directors' meetings

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

	Board Meetings Attended		Planning and Business Development		Marketing Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Keith Mervyn Manz	11	11	1	1	11	11
Jean Bray	11	10	1	1	-	-
Sharyn Marree Voss	11	11	1	1	11	11
Brett Wayne Freese	11	11	1	1	11	11
Aaron Leigh Heck	11	9	1	-	11	11
Malcom John Sippel ¹	8	8	1	1	6	5
Maria Valster ²	5	4	-	-	3	2
Annabel Jane Boughen ³	4	2	-	-	4	3
Michael David Ogg ⁴	2	-	-	-	1	-

1. (Appointed 25 October 2017)

3. (Resigned 8 November 2017)

2. (Appointed 28 February 2018)

4. (Resigned 23 August 2017)

Proceedings on behalf of the company

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

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

Non audit services

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

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

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

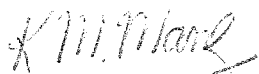
- all non-audit services have been reviewed by the board to ensure they do not impact on the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including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

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Signed in accordance with a resolution of the board of directors at Lowood, Queensland on 4 September 2018.



Keith Mervyn Manz, Chairman

Signed on the 24th of August 2018.

Auditor's independence declaration



Partners in success

Chartered Accountants

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

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Somerset Region Community Enterprises Limited

As lead auditor for the audit of Somerset Region Community Enterprises Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

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

A handwritten signature in black ink, appearing to read 'David Hutchings'.

David Hutchings
Lead Auditor

Financial statements

	Notes	2018 \$	2017 \$
Revenue from ordinary activities	4	863,739	799,766
Employee benefits expense		(393,513)	(341,563)
Charitable donations, sponsorship, advertising and promotion		(154,507)	(115,646)
Occupancy and associated costs		(56,500)	(54,524)
Systems costs		(21,194)	(21,119)
Depreciation and amortisation expense	5	(31,883)	(28,088)
General administration expenses		(170,922)	(155,319)
Profit before income tax expense		35,220	83,507
Income tax expense	6	(9,686)	(23,102)
Profit after income tax expense		25,534	60,405
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		25,534	60,405
Earnings per share		¢	¢
Basic earnings per share	22	4.20	9.94

The accompanying notes form part of these financial statements

Financial statements (continued)

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	225,711	215,452
Trade and other receivables	8	63,054	59,538
Total current assets		288,765	274,990
Non-current assets			
Property, plant and equipment	9	108,916	117,326
Intangible assets	10	86,899	100,510
Deferred tax asset	11	3,291	4,343
Total non-current assets		199,106	222,179
Total assets		487,871	497,169
LIABILITIES			
Current liabilities			
Trade and other payables	12	24,487	24,923
Current tax liabilities	11	8,633	9,471
Provisions	13	22,807	22,461
Total current liabilities		55,927	56,855
Non-current liabilities			
Provisions	13	20,500	14,922
Total non-current liabilities		20,500	14,922
Total liabilities		76,427	71,777
Net assets		411,444	425,392
EQUITY			
Issued capital	14	585,786	585,786
Accumulated losses	15	(174,342)	(160,394)
Total equity		411,444	425,392

The accompanying notes form part of these financial statements

Financial statements (continued)

		Issued capital \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016		585,786	(190,429)	395,357
Total comprehensive income for the year		-	60,405	60,405
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(30,370)	(30,370)
Balance at 30 June 2017		585,786	(160,394)	425,392
Balance at 1 July 2017		585,786	(160,394)	425,392
Total comprehensive income for the year		-	25,534	25,534
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(39,482)	(39,482)
Balance at 30 June 2018		585,786	(174,342)	411,444

The accompanying notes form part of these financial statements

Financial statements (continued)

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		941,659	875,895
Payments to suppliers and employees		(876,316)	(765,596)
Interest received		3,732	2,967
Income taxes paid		(9,472)	-
Net cash provided by operating activities	16	59,603	113,266
Cash flows from investing activities			
Payments for property, plant and equipment		(9,862)	(33,459)
Net cash used in investing activities		(9,862)	(33,459)
Cash flows from financing activities			
Dividends paid	20	(39,482)	(30,370)
Net cash used in financing activities		(39,482)	(30,370)
Net increase in cash held		10,259	49,437
Cash and cash equivalents at the beginning of the financial year		215,452	166,015
Cash and cash equivalents at the end of the financial year	7(a)	225,711	215,452

The accompanying notes form part of these financial statements

Notes to the financial statements

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

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

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

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

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

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

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

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

Notes to the financial statements (continued)

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

a) Basis of preparation (*continued*)

Application of new and amended accounting standards (continued)

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating lease of its branch. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to \$60,102, on an undiscounted basis (see Note 17).

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

Economic dependency - Bendigo and Adelaide Bank Limited

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

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

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

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

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

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** 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 and assistance in relation to:

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

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

b) Revenue

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

Notes to the financial statements (continued)

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

b) Revenue (*continued*)

Revenue calculation

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

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

Core banking products

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

Margin

Margin is arrived at through the following calculation:

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

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

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

Commission

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

Fee income

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

Discretionary financial contributions

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

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

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

Notes to the financial statements (continued)

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

b) Revenue (*continued*)

Ability to change financial return

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

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

If Bendigo and Adelaide Bank Limited makes a change to the margin or commission on core banking products and services, it must not reduce the margin and commission the company receives on core banking products and services Bendigo and Adelaide Bank Limited attributes to the company to less than 50% (on an aggregate basis) of Bendigo and Adelaide Bank Limited's margin at that time. For other products and services, there is no restriction on the change Bendigo and Adelaide Bank Limited may make.

Bendigo and Adelaide Bank Limited must give the company 30 days notice before it changes the products and services on which margin, commission or fee income is paid, the method of calculation of margin and the amount of margin, commission or fee income.

Monitoring and changing financial return

Bendigo and Adelaide Bank Limited monitors the distribution of financial return between **Community Bank®** companies and Bendigo and Adelaide Bank Limited on an ongoing basis.

Overall, Bendigo and Adelaide Bank Limited has made it clear that the **Community Bank®** model is based on the principle of shared reward for shared effort. In particular, in relation to core banking products and services, the aim is to achieve an equal share of Bendigo and Adelaide Bank Limited's margin.

c) Income tax

Current tax

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

Deferred tax

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

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

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

Notes to the financial statements (continued)

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

c) Income tax (*continued*)

Deferred tax (continued)

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

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or gain from a bargain purchase.

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

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

- leasehold improvements	5 - 15	years
- plant and equipment	2.5 - 40	years
- motor vehicles	3 - 5	years

Notes to the financial statements (continued)

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

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

Financial liabilities include borrowings, trade and other payables and non-derivative financial liabilities (excluding financial guarantees). They are subsequently measured at amortised cost using the effective interest rate method.

Impairment

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

Notes to the financial statements (continued)

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

l) Leases

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

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

m) Provisions

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

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

n) Issued capital

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

o) Earnings per share

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

p) Goods and Services Tax

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

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

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

Notes to the financial statements (continued)

Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

- (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
- (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

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

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

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

Impairment of assets

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

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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

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

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

Note 4. Revenue from ordinary activities	2018	2017
	\$	\$
Operating activities:		
- gross margin	648,337	561,656
- services commissions	88,787	112,691
- fee income	97,883	93,695
- market development fund	25,000	28,333
Total revenue from operating activities	<u>860,007</u>	<u>796,375</u>
Non-operating activities:		
- interest received	3,732	3,391
Total revenue from non-operating activities	<u>3,732</u>	<u>3,391</u>
Total revenues from ordinary activities	<u>863,739</u>	<u>799,766</u>

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	3,463	4,166
- leasehold improvements	7,667	8,452
- motor vehicle	7,142	1,859
Amortisation of non-current assets:		
- franchise agreement	2,268	2,268
- franchise renewal fee	11,343	11,343
	<u>31,883</u>	<u>28,088</u>
Bad debts	<u>587</u>	<u>635</u>
Loss on disposal of asset	<u>-</u>	<u>682</u>

Notes to the financial statements (continued)

Note 6. Income tax expense	2018	2017
	\$	\$
The components of tax expense comprise:		
- Current tax	8,633	9,471
- Movement in deferred tax	1,053	(773)
- Recoupment of prior year tax losses	-	14,404
	<u>9,686</u>	<u>23,102</u>

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

Operating profit	35,220	83,507
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	9,686	22,964
Add tax effect of:		
- non-deductible expenses	-	325
- timing difference expenses	(1,053)	586
	<u>8,633</u>	<u>23,875</u>
Movement in deferred tax	1,053	(773)
	<u>9,686</u>	<u>23,102</u>

Note 7. Cash and cash equivalents		
Cash at bank and on hand	101,627	51,113
Term deposits	124,084	164,339
	<u>225,711</u>	<u>215,452</u>

Note 7.(a) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

Cash at bank and on hand	101,627	51,113
Term deposits	124,084	164,339
	<u>225,711</u>	<u>215,452</u>

Note 8. Trade and other receivables		
Trade receivables	50,194	53,377
Prepayments	12,436	5,737
Accrued interest	424	424
	<u>63,054</u>	<u>59,538</u>

Notes to the financial statements (continued)

Note 9.	Property, plant and equipment	2018	2017
		\$	\$
	Leasehold improvements		
	At cost	146,840	140,110
	Less accumulated depreciation	(77,853)	(70,186)
		<u>68,987</u>	<u>69,924</u>
	Plant and equipment		
	At cost	60,921	57,789
	Less accumulated depreciation	(43,732)	(40,269)
		<u>17,189</u>	<u>17,520</u>
	Motor vehicles		
	At cost	31,741	31,741
	Less accumulated depreciation	(9,001)	(1,859)
		<u>22,740</u>	<u>29,882</u>
	Total written down amount	<u>108,916</u>	<u>117,326</u>

Movements in carrying amounts:

Leasehold improvements		
Carrying amount at beginning	69,924	78,376
Additions	6,730	-
Disposals	-	-
Less: depreciation expense	(7,667)	(8,452)
Carrying amount at end	<u>68,987</u>	<u>69,924</u>
Plant and equipment		
Carrying amount at beginning	17,520	20,650
Additions	3,132	1,718
Disposals	-	(682)
Less: depreciation expense	(3,463)	(4,166)
Carrying amount at end	<u>17,189</u>	<u>17,520</u>
Motor vehicles		
Carrying amount at beginning	29,882	-
Additions	-	31,741
Disposals	-	-
Less: depreciation expense	(7,142)	(1,859)
Carrying amount at end	<u>22,740</u>	<u>29,882</u>
Total written down amount	<u>108,916</u>	<u>117,326</u>

Notes to the financial statements (continued)

Note 10. Intangible assets	2018	2017
	\$	\$
Franchise fee		
At cost	21,343	21,343
Less: accumulated amortisation	(17,372)	(15,104)
	<u>3,971</u>	<u>6,239</u>
Renewal processing fee		
At cost	56,713	56,713
Less: accumulated amortisation	(36,864)	(25,521)
	<u>19,849</u>	<u>31,192</u>
Agency buy-out fee		
At cost	<u>63,079</u>	<u>63,079</u>
Total written down amount	<u>86,899</u>	<u>100,510</u>

Note 11. Tax

Current:

Income tax payable	<u>8,633</u>	<u>9,471</u>
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Non-Current:

Deferred tax assets		
- accruals	770	743
- employee provisions	11,910	10,280
	<u>12,680</u>	<u>11,023</u>
Deferred tax liability		
- accruals	117	117
- property, plant and equipment	9,272	6,563
	<u>9,389</u>	<u>6,680</u>
Net deferred tax asset	<u>3,291</u>	<u>4,343</u>
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	<u>1,052</u>	<u>13,631</u>

Note 12. Trade and other payables

Current:

Trade creditors	6,535	5,096
Other creditors and accruals	17,952	19,827
	<u>24,487</u>	<u>24,923</u>

Notes to the financial statements (continued)

Note 13. Provisions	2018	2017
	\$	\$
Current:		
Provision for annual leave	<u>22,807</u>	<u>22,461</u>
Non-Current:		
Provision for long service leave	<u>20,500</u>	<u>14,922</u>

Note 14. Issued capital		
607,407 ordinary shares fully paid (2017: 607,407)	607,407	607,407
Less: equity raising expenses	(21,621)	(21,621)
	<u>585,786</u>	<u>585,786</u>

Rights attached to shares

(a) *Voting rights*

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

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

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

(b) *Dividends*

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

(c) *Transfer*

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

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

Notes to the financial statements (continued)

Note 14. Issued capital (continued)

Prohibited shareholding interest

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

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 196. As at the date of this report, the company had 218 shareholders.

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

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

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

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

Note 15. Accumulated losses	2018	2017
	\$	\$
Balance at the beginning of the financial year	(160,394)	(190,429)
Net profit from ordinary activities after income tax	25,534	60,405
Dividends provided for or paid	(39,482)	(30,370)
Balance at the end of the financial year	<u>(174,342)</u>	<u>(160,394)</u>

Notes to the financial statements (continued)

Note 16. Statement of cash flows	2018	2017
	\$	\$
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	25,534	60,405
Non cash items:		
- depreciation	18,272	14,477
- amortisation	13,611	13,611
- loss on disposal of asset	-	682
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(3,516)	5,896
- (increase)/decrease in other assets	1,052	13,631
- increase/(decrease) in payables	(436)	(14,161)
- increase/(decrease) in provisions	5,924	9,254
- increase/(decrease) in tax liabilities	(838)	9,471
Net cash flows provided by operating activities	<u>59,603</u>	<u>113,266</u>

Note 17. Leases

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments:

- not later than 12 months	34,344	34,159
- between 12 months and 5 years	25,758	59,779
- greater than 5 years	-	-
	<u>60,102</u>	<u>93,938</u>

The branch premises lease is a non-cancellable lease with a five-year term. The lease is due for renewal on 24 March 2020 and has one five year renewal option remaining. Rent is payable monthly in advance.

Note 18. Auditor's remuneration

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

- audit and review services	4,400	4,200
- share registry services	3,111	3,183
- non audit services	4,700	2,616
	<u>12,211</u>	<u>9,999</u>

Notes to the financial statements (continued)

Note 19. Director and related party disclosures

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

Keith Mervyn Manz
 Jean Bray
 Sharyn Marree Voss
 Brett Wayne Freese
 Aaron Leigh Heck
 Malcolm John Sippel (*Appointed 25 October 2017*)
 Maria Valster (*Appointed 28 February 2018*)
 Annabel Jane Boughen (*Resigned 8 November 2017*)
 Michael David Ogg (*Resigned 23 August 2017*)

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

Directors Shareholdings	2018	2017
Keith Mervyn Manz	18,501	18,501
Jean Bray	7,001	7,001
Sharyn Marree Voss	5,000	5,000
Brett Wayne Freese	1	1
Aaron Leigh Heck	833	-
Malcolm John Sippel (<i>Appointed 25 October 2017</i>)	10,000	10,000
Maria Valster (<i>Appointed 28 February 2018</i>)	-	-
Annabel Jane Boughen (<i>Resigned 8 November 2017</i>)	-	-
Michael David Ogg (<i>Resigned 23 August 2017</i>)	-	-

There was no movement in directors shareholdings during the year.

Note 20. Dividends provided for or paid	2018	2017
	\$	\$
a. Dividends paid during the year		
Current year dividend		
Unfranked dividend - 6.5 cents (2017 : 5 cents) per share	39,482	30,370
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	9,472	-
- franking credits that will arise from payment of income tax as at the end of the financial year	8,413	9,069
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	17,885	9,069
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	17,885	9,069

Notes to the financial statements (continued)

Note 21. Key management personnel disclosures	2018	2017
	\$	\$
The directors received remuneration including superannuation, as follows:		
Keith Mervyn Manz	900	-
Jean Bray	900	-
Sharyn Marree Voss	900	-
Brett Wayne Freese	900	-
Aaron Leigh Heck	600	-
Malcolm John Sippel (<i>Appointed 25 October 2017</i>)	-	-
Maria Valster (<i>Appointed 28 February 2018</i>)	-	-
Annabel Jane Boughen (<i>Resigned 8 November 2017</i>)	-	-
Michael David Ogg (<i>Resigned 23 August 2017</i>)	600	-
	<u>4,800</u>	<u>-</u>

Community Bank® Directors' Privileges Package

The board has adopted the **Community Bank®** Directors' Privileges Package. The package is available to all directors, who can elect to avail themselves of the benefits based on their personal banking with the **Community Bank®** branch at Lowood, Queensland. There is no requirement to own BEN shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank Limited shareholders. The total benefits received by the directors from the Directors' Privilege Package are \$97 for the year ended 30 June 2018 (2017: \$nil).

Note 22. Earnings per share	2018	2017
	\$	\$
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	25,534	60,405
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	607,407	607,407

Note 23. Events occurring after the reporting date

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

Note 24. Contingent liabilities and contingent assets

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

Notes to the financial statements (continued)

Note 25. Segment reporting

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

Note 26. Registered office/Principal place of business

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

Registered Office
Shop 15/6 Walter Street
LOWOOD QLD 4311

Principal Place of Business
Shop 15/6 Walter Street
LOWOOD QLD 4311

Notes to the financial statements (continued)

Note 27. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial assets												
Cash and cash equivalents	101,627	51,113	124,084	164,339	-	-	-	-	-	-	1.65	2.46
Receivables	-	-	-	-	-	-	-	-	50,194	53,377	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	6,535	5,096	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

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

Sensitivity Analysis

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

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

	2018	2017
	\$	\$
Change in profit/(loss)		
Increase in interest rate by 1%	2,257	2,155
Decrease in interest rate by 1%	(2,257)	(2,155)
Change in equity		
Increase in interest rate by 1%	2,257	2,155
Decrease in interest rate by 1%	(2,257)	(2,155)


Directors' declaration

In accordance with a resolution of the directors of Somerset Region Community Enterprises Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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



Keith Mervyn Manz, Chairman

Signed on the 24th of August 2018.

Independent audit report



Independent auditor's report to the members of Somerset Region Community Enterprises Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial report of Somerset Region 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 2018 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

What we have audited

Somerset Region Community Enterprises Limited's (the company) financial report comprises the:

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

Basis for opinion

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

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

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

Other information

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

Independent audit report (continued)

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

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

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

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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



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



David Hutchings
Lead Auditor

Sponsorships 2017-2018

<i>Amazons Netball Assoc</i>	<i>* sport sponsor</i>
<i>Brisbane Valley Apex Club</i>	<i>* donation - Esk's community Christmas tree celebrations</i>
<i>Brisbane Valley Rattlers AFL club</i>	<i>* sport sponsor</i>
<i>Brisbane Valley Soccer Club</i>	<i>* sport sponsor</i>
<i>Brisbane Valley & West Moreton</i>	
<i>Show Girl finals at Toogoolawah</i>	<i>* supporting our local shows</i>
<i>Coominya Public Hall Inc.</i>	<i>* donation towards hall's new stair treads</i>
<i>Esk Country Womens Association</i>	<i>* donation - new stove</i>
<i>Esk Girl Guides Association</i>	<i>* donation – eskies</i>
<i>Esk Show Society</i>	<i>* sponsor - Show Ball & Show</i>
<i>Fernvale Lions Club</i>	<i>* painting roof of Fernvale Lions building</i>
<i>Fernvale's Spirit of the Valley</i>	<i>* sponsor – “Colours of Somerset” event</i>
<i>Fernvale Youth Inc</i>	<i>* sponsor – “Car and Bike” show</i>
<i>Fernvale State School</i>	<i>* advertising in school newsletter</i>
<i>GlamorganVale Hall C/tee</i>	<i>* donation for community Christmas carnival</i>
<i>GlamorganVale State School P & C</i>	<i>* sponsor – “Country Fair”</i>
<i>Harlin State School</i>	<i>* fridge for students lunches</i>
<i>Ipswich Community Youth Services</i>	<i>* community service – rental sponsorship</i>
<i>Lockyer Valley Regional Council</i>	<i>* sponsor – Miguel's cooking school</i>
<i>Lowood Beautification Project</i>	<i>* partnering with Peter Bevan & Somerset Regional Council to revegetate rail trail in Lowood – provision of bench seats</i>
<i>Lowood Blue Nurses Association</i>	<i>* signage on building</i>
<i>Lowood & District Bowls Club</i>	<i>* sport sponsor</i>
<i>Lowood Ladies Bowls Club</i>	<i>* sports sponsor</i>
<i>Lowood Community Action Group</i>	<i>* sponsor – “Community festival”</i>
<i>Lowood Junior Rugby League</i>	<i>* donation - sports wear</i>
<i>Lowood & District Golf Club</i>	<i>* sport sponsor</i>
<i>Lowood & Dist. Kindergarten Assoc</i>	<i>* grant – Kindy Fair – appearance by “piggy”</i>
<i>Lowood & District Lions Club</i>	<i>* sponsor - “Car Show”</i>
<i>Lowood Recreation Complex Assoc</i>	<i>* sponsor - Lowood Rodeo</i>
<i>Lowood Slimmers</i>	<i>* donation - annual charity walk</i>
<i>Lowood Show Society</i>	<i>* sponsor -Show Ball & Show fireworks/Utes and Shutes event</i>
<i>Lowood State High School</i>	<i>* sponsor – “Kokoda Challenge”</i>
<i>Lowood Primary School P & C C'tee</i>	<i>* donation towards school air conditioning project</i>
<i>Lowood & Tarampa Rugby League</i>	<i>* sport sponsor</i>
<i>Minden Baptist Church</i>	<i>* sponsor – Christmas tree</i>
<i>Minden State School</i>	<i>* sponsor - school garden – Christmas carnival</i>
<i>Moore District Tennis club</i>	<i>* donation towards court lighting</i>
<i>Mt Tarampa State School</i>	<i>* donation & participation – “trivia night fundraiser”</i>
<i>Prenzlau Rural Fire Brigade</i>	<i>* grant – 4 navigational units</i>
<i>Promotional leaflets – Lowood</i>	<i>* leaflets featuring historical points around Lowood</i>
<i>Somerset Regional Council</i>	<i>* sponsor – Brisbane Valley Fun Run – Mayoral ball</i>
<i>Somerset Seniors week</i>	<i>* bus hire for seniors to attend celebrations in Esk</i>
<i>Toogoolawah Bowls Club</i>	<i>* score cards – club shirts</i>
<i>Toogoolawah Cattle sale</i>	<i>* donation of gift vouchers</i>
<i>T/wah & District Progress Assoc</i>	<i>* donation – Community Christmas tree celebrations</i>
<i>T/wah D A & I Association</i>	<i>* sponsor – Junior Cattle Camp</i>
<i>T/wah & Dist Historical Group Inc</i>	<i>* grant - signage on historical buildings</i>
<i>T/wah & District Progress Assoc</i>	<i>* installation of air conditioning in project room</i>
<i>T/wah Rodeo Association</i>	<i>* support - arena lighting upgrade</i>
<i>Toogoolawah Show Society</i>	<i>* sponsor - Show and Show Ball</i>

Student Scholarships: Alisha VanSchie, Holly Pakleppa and Talena Harvey

Lowood & Fernvale **Community Bank®** Branch,
Shop 15, 6 Walter Street, Lowood QLD 4311
Phone: (07) 5426 1208

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Shop 15, 6 Walter Street, Lowood QLD 4311
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ABN: 33 138 179 450

www.bendigobank.com.au/lowood_fernvale

