Annual Report 2018

Tongala & District Financial Services Limted

ABN 22 094 331 665

Tongala & District **Community Bank**® Branch

Contents

Chairman's report

For year ending 30 June 2018

It gives me great pleasure to present this year's report for Tongala and District Financial Services and I thank all shareholders for their ongoing support.

The year has been one of consolidation for our company following the recent changes involving Kyabram and while revenue is slightly down significant provisions have been made for future investment into the community to support and strengthen organisations and groups that are so important to the growth of our town. This investment is only possible because of the continued support of our customers and I thank all shareholders and encourage them to continue to promote the benefits of community banking.

As well as contributions to many groups in both Tongala and Mathoura this year has seen us support a local young student attend university with funding through the scholarship program. This is a great initiative that I hope will provide opportunity for other into the future.

There have been significant staff changes in recent years and I thank Kevin, Jenny, Hannah, Kate and Karen for their ongoing commitment to the branch. They are the front line face of the company and do a wonderful job in serving the needs of our customers. Thanks also to Karen, Julie, Julie and Bec in the Mathoura agency.

I wish to acknowledge the contribution over a number of years of Jean Courtney and Ian Taylor who have both chosen to retire from the board during the year. They have both made significant contributions to the community over the years and i wish them well in the future.

I welcome Greg Rossborough to the board as treasurer, his experience in the finance industry will be a great asset and I look forward to his ongoing contribution.

Michelle Baker has been engaged as company secretary and brings a wealth of knowledge and experience to the role. Her commitment matches the ever increasing obligations faced by companies like ours.

To all my fellow directors, thank you for your ongoing commitment, time and effort.

Thanks also to Leanne Willis who continues to work with both the board and branch staff to publicise the many benefits our company delivers to the local and broader community.

Neil Pankhurst
Chairman

Senior Manager’s report

For year ending 30 June 2018

It is with pleasure that I submit this annual Branch Manager’s report for Tongala & District Community Bank® Branch.

We have had a very challenging, but rewarding environment in Community Banking model of banking in the past 12 months. During this period, we have still been able to fulfil some key goals and provide important support back to our local community in the district, with quality service by our Staff.

To enable the Branch to continue with business growth we know that we will need to continue to provide the superior level of customer service that we take great pride in and offer competitive products, interest rates and banking options to our customers, which we are able to do with the tremendous support and backing of Bendigo and Adelaide Bank.

In our industry operational risk and regulatory requirements are always a major focus for Bendigo and Adelaide Bank. This ensures our staff and branch adhere to correct policies and procedures. The operational reviews conducted at our branch over the last 12 months confirm that our staff continue to meet these policy and regulatory requirements

I would like to personally thank our fantastic branch staff, Jenny, Kate , Karen and Hannah for the continued support and service they provide to our customers. The personal service we provide to our customers is something we are very proud and passionate about. They form a fantastic team and I also thank them for the support and assistance they provide to me especially whilst I am away from the Branch. I would also like to thank Julie,Karen, Julie and Rebecca at the Mathoura agency for their ongoing support in helping us build the business in Mathoura.

I also thank our Bendigo Bank support team of Mark Brown (Regional Manager), Kendall Beattie (Regional Community Manager) and Dylan Villani (People Operations Manager), Monique Bonney (Local Connection Coordinator) and their teams who are also a great support to our branch and to our staff. I would also like to sincerely thank Board Chairman Neil Pankhurst and the other Board members for their continued support and assistance.

Most of all I would like to thank our local shareholders, our individual customers and the local business and community members that choose to do their banking with Tongala & District Community Bank® Branch. It is only because they do that we are able to provide the support that we do to our local communities. Our success is directly linked to the success of our communities so assisting local groups and supporting community events and projects is ultimately a win for all.

On behalf of the branch staff we look forward to another year of servicing our current, new and potential customers, growing our business and continuing to support our communities.

Thank you

Kevin Livingston
Branch Manager

Tongala & District Financial Services Limited
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:

Neil William Pankhurst
Chairperson
Occupation: Consultant
Qualifications, experience and expertise: Campaspe Shire Councillor for 10 years. Goulburn Murray Water Board member for 4 years. Life member Tongala Apex Club. Dairy farmer for 25 years.
Special responsibilities: Finance and Business Development Committees
Interest in shares: 1,500

Keneth William Chapman
Director
Occupation: Retired
Qualifications, experience and expertise: Board Member - Tongala & District Memorial Aged Care, Director - Tongala Lions Club.
Special responsibilities: Marketing & Sponsorship and Business Development Committees
Interest in shares: 8,000

Ian Maxwell Johnstone
Director
Occupation: Retired
Qualifications, experience and expertise: Chairperson of Tongala Cemetery Trust.
Special responsibilities: Marketing & Sponsorship Committee
Interest in shares: 5,000

Jill Maree Regan
Director
Occupation: Farmer
Qualifications, experience and expertise: Board Member - Tongala & District Memorial Aged Care.
Special responsibilities: Business Development Committee
Interest in shares: 2,000

Lynette Dawn Cosham
Director
Occupation: Retired
Qualifications, experience and expertise: Previously was Administration Officer for the Shire.
Special responsibilities: Business Development Committee
Interest in shares: 1,000

John Charles Bentley
Director
Occupation: Retired
Qualifications, experience and expertise: Water Industry employee for 28 years. Member of Club, League and Recreational Reserve Committees for 27 years.
Special responsibilities: Business Development Committee
Interest in shares: 1,000

Directors *(continued)*

Gregory James Rossborough
Director *(Appointed 23 November 2017)*
Occupation: Semi-retired
Qualifications, experience and expertise: Previously Corporate Westpac Manager (26 years). General Manager in Licensed Club industry (20 years). Treasurer Tongala Football Netball Club.
Special responsibilities: Finance and Business Development Committees
Interest in shares: Nil

Amelia Jean Courtney
Director *(Resigned 15 December 2017)*
Occupation: Retired
Qualifications, experience and expertise: Board Member - Tongala & District Memorial Aged Care.
Special responsibilities: Nil
Interest in shares: Nil

Ian Harold Taylor
Director *(Resigned 15 December 2017)*
Occupation: Retired
Qualifications, experience and expertise: Previously was Shire Parks & Gardens Supervisor.
Special responsibilities: Nil
Interest in shares: 1,000

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

No directors have material interests in contracts or proposed contracts with the company.

Company Secretary

The Company Secretary was Amelia Jean Courtney until her resignation on 15 December 2017. Michelle Louise Baker was appointed the position on the same day.

Michelle is an experienced bookkeeper and holds a Bachelor of Arts and an Advanced Diploma of Business (Marketing).

Jean's qualifications and experience included RN, Ba App Sc, MHS, FCNA, GAICD.

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 $
43,505	108,558

Tongala & District Financial Services Limited
Directors' Report

Operating and financial review

Operations

Tongala and District Financial Services Ltd operates a franchise of the Bendigo and Adelaide Bank providing banking products and services to Tongala and the surrounding communities through the Tongala and District Community Bank branch. Primarily the company earns income from margin earnings based upon the total footings of business held within the Community Bank branch, which is predominantly lending and deposit products.

The taxable profit for the 2018 financial year decreased significantly from previous years however the company made significant investments into the Community Enterprise Foundation of $80,000, which is profit allocated to be used within the community for future grants.

The company operated well within the forecasted budget to produce an operating profit before tax with CEF contribution and community sponsorships added back of $133,741.

The current banking market still provides challenging to grow the banking business and produce strong profits. The ongoing low cash rate has squeezed margin income across both lending and deposit products with very low interest rates for both product streams resulting in smaller profit margin. Increased diligent lending procedures to ensure we meet Australian government recommended lending guidelines has shown slower growth in lending over the 12 month period.

Financial Position

The company continued to show strong profitability in the 2018 financial year and as a result, the Financial Position of the company remains stable. The company's investment into the CEF of $80,000 this financial year has established a commitment to invest 80% of our profits into the community whilst still improving the asset position of the company.

The cash position of the company decreased in the 2018 financial year however the net asset position of the company increased by $26,437 due to reduction of borrowings and tax liabilities.

Business Strategies

To address the future development of the business and future growth the board will focus on three key areas over the next three years:

- Leveraging our investments into our community to build a vital and sustainable community and township
- Continue to build an invested and experienced board from diverse backgrounds to drive strong governance and management
- Focus and commitment to growing the business through widening our customer reach and exploring opportunities to expand the development of the business.

Prospects for Future Financial Years

The company is aware of the limitations of business expansion due to the nature of the Community Bank model and its operations in surrounding townships. However the company sees great opportunity to develop and grow business through:

- Rural Bank and agribusiness opportunities
- Leveraging our community investments to promote existing customers increasing their numbers of products and services as well as obtaining new business from new customers
- Strategic focus on the Mathoura Agency and the retail and agribusiness opportunities.

The company foresees that the current market will remain stable with little softening of the residential housing market in rural areas. The cash rates will most likely remain low and margin income on core banking products will also remain low.

The company sees great opportunity in growing our business through increasing the number of products our customers hold and ensuring the branch continually provide a wide range of banking products and services to meet our customers requirements.

Remuneration report

Directors' remuneration

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

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

There are therefore no specified Executives whose remuneration requires disclosure.

Transactions with directors	$
Gregory Rossborough received remuneration for bookkeeping services carried out during the year.	8,400

Directors' shareholdings

	Balance at start of the year	Changes during the year	Balance at end of the year
Neil William Pankhurst	1,500	-	1,500
Keneth William Chapman	8,000	-	8,000
Ian Maxwell Johnstone	5,000	-	5,000
Jill Maree Regan	2,000	-	2,000
Lynette Dawn Cosham	1,000	-	1,000
John Charles Bentley	1,000	-	1,000
Gregory James Rossborough *(Appointed 23 November 2017)*	-	-	-
Amelia Jean Courtney *(Resigned 15 December 2017)*	-	-	-
Ian Harold Taylor *(Resigned 15 December 2017)*	1,000	-	1,000

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 and Tongala, Victoria. 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 $476 for the year ended 30 June 2018 (2017: $nil).

	Year ended 30 June 2018	
Dividends	Cents	$
Dividends paid in the year	5	17,068

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.

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		Committee Meetings Attended					
			Marketing & Sponsorship		Finance		Business Development	
	a	*b*	*a*	*b*	*a*	*b*	*a*	*b*
Neil William Pankhurst	11	10	8	8	2	2	3	3
Keneth William Chapman	11	9	-	-	-	-	3	2
Ian Maxwell Johnstone	11	8	8	8	-	-	3	2
Jill Maree Regan	11	10	-	-	-	-	3	3
Lynette Dawn Cosham	11	10	-	-	-	-	3	3
John Charles Bentley	11	11	-	-	-	-	3	3
Gregory James Rossborough*	6	6	-	-	2	2	2	2
Amelia Jean Courtney**	6	3	-	-	-	-	-	-
Ian Harold Taylor**	6	2	-	-	-	-	-	-

a - eligible *- Appointed 23 November 2017
b - attended **- Resigned 15 December 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.*

Tongala & District Financial Services Limited
Directors' Report

Non audit services

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

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

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Signed in accordance with a resolution of the board of directors at Tongala, Victoria on 21 September 2018.

Michelle Louise Baker, Secretary

Partners in success
Chartered Accountants

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PO Box 454, Bendigo 3552
03 5443 0344
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Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Tongala & District Financial Services Limited

As lead auditor for the audit of Tongala & District Financial Services 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.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 21 September 2018

David Hutchings
Lead Auditor

Tongala & District Financial Services Limited
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2018

	Notes	2018 $	2017 $
Revenue from ordinary activities	4	615,711	636,179
Employee benefits expense		(262,461)	(265,771)
Charitable donations, sponsorship, advertising and promotion		(109,831)	(23,459)
Occupancy and associated costs		(11,901)	(10,167)
Systems costs		(17,531)	(17,556)
Depreciation and amortisation expense	5	(16,322)	(18,295)
Finance costs		(2,787)	(4,354)
General administration expenses		(141,137)	(147,516)
Profit before income tax expense		**53,741**	**149,061**
Income tax expense	6	(10,236)	(40,503)
Profit after income tax expense		**43,505**	**108,558**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		**43,505**	**108,558**
Earnings per share		¢	¢
Basic earnings per share	21	12.74	31.80

The accompanying notes form part of these financial statements

Tongala & District Financial Services Limited
Balance Sheet
as at 30 June 2018

	Notes	2018 $	2017 $
ASSETS			
Current assets			
Cash and cash equivalents	7	233,361	270,715
Trade and other receivables	8	50,621	36,169
Current tax asset	11	16,476	-
Total current assets		**300,458**	**306,884**
Non-current assets			
Property, plant and equipment	9	128,693	133,749
Intangible assets	10	29,557	40,823
Deferred tax asset	11	4,878	-
Total non-current assets		**163,128**	**174,572**
Total assets		**463,586**	**481,456**
LIABILITIES			
Current liabilities			
Trade and other payables	12	18,403	28,093
Current tax liabilities	11	-	30,790
Borrowings	13	15,684	13,000
Provisions	14	20,717	12,611
Total current liabilities		**54,804**	**84,494**
Non-current liabilities			
Borrowings	13	17,386	32,847
Provisions	14	844	-
Total non-current liabilities		**18,230**	**32,847**
Total liabilities		**73,034**	**117,341**
Net assets		**390,552**	**364,115**
EQUITY			
Issued capital	15	341,350	341,350
Retained earnings	16	49,202	22,765
Total equity		**390,552**	**364,115**

The accompanying notes form part of these financial statements

Tongala & District Financial Services Limited
Statement of Changes in Equity
for the year ended 30 June 2018

	Notes	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2016		341,350	(68,725)	272,625
Total comprehensive income for the year		-	108,558	108,558
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(17,068)	(17,068)
Balance at 30 June 2017		**341,350**	**22,765**	**364,115**
Balance at 1 July 2017		341,350	22,765	364,115
Total comprehensive income for the year		-	43,505	43,505
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(17,068)	(17,068)
Balance at 30 June 2018		**341,350**	**49,202**	**390,552**

The accompanying notes form part of these financial statements

Tongala & District Financial Services Limited
Statement of Cash Flows
for the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		659,447	625,828
Payments to suppliers and employees		(606,551)	(449,970)
Interest paid		(2,787)	(4,354)
Interest received		4,762	658
Income taxes paid		(62,380)	(25,423)
Net cash provided by/(used in) operating activities	17	**(7,509)**	**146,739**
Cash flows from investing activities			
Payments for property, plant and equipment		-	(2,840)
Net cash used in investing activities		**-**	**(2,840)**
Cash flows from financing activities			
Repayment of borrowings		(12,777)	(13,316)
Dividends paid	20	(17,068)	(17,068)
Net cash used in financing activities		**(29,845)**	**(30,384)**
Net increase/(decrease) in cash held		**(37,354)**	**113,515**
Cash and cash equivalents at the beginning of the financial year		270,715	157,200
Cash and cash equivalents at the end of the financial year	7(a)	**233,361**	**270,715**

The accompanying notes form part of these 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.

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

a) Basis of preparation *(continued)*

Application of new and amended accounting standards (continued)

So far, the new Standard is not expected to have a significant impact as the company has not entered into any operating leases.

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 Tongala, Victoria.

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

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

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

b) Revenue

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

Revenue calculation

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

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

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.

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

b) Revenue *(continued)*

Discretionary financial contributions

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

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

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

Ability to change financial return

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

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.

Ability to change financial return *(continued)*

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).

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

c) Income tax *(continued)*

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.

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.

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

g) Property, plant and equipment

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

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

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

- buildings	40	years
- plant and equipment	2.5 - 40	years
- motor vehicles	3 - 5	years

h) Intangibles

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

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.

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

k) Financial instruments *(continued)*

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) 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.

l) Leases

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

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

m) Provisions

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

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

n) 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.

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

p) Goods and Services Tax

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

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

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

Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

Note 2. Financial risk management *(continued)*

(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.

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.

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

Estimation of useful lives of assets

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

Impairment of assets

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

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

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

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

Note 4. Revenue from ordinary activities

	2018	2017
	$	$
Operating activities:		
- gross margin	480,336	527,480
- services commissions	33,226	-
- fee income	58,110	64,036
- market development fund	37,292	37,500
Total revenue from operating activities	608,964	629,016
Non-operating activities:		
- interest received	6,080	6,783
- sundry income	667	380
Total revenue from non-operating activities	6,747	7,163
Total revenues from ordinary activities	615,711	636,179

Note 5. Expenses

	2018	2017
	$	$
Depreciation of non-current assets:		
- motor vehicle	-	1,742
- buildings	2,409	2,409
- plant and equipment	2,647	2,847
Amortisation of non-current assets:		
- franchise agreement	2,259	2,259
- franchise fee	9,007	9,038
	16,322	18,295
Bad debts	(93)	106

Note 6. Income tax expense

The components of tax expense comprise:		
- Current tax	15,114	40,503
- Movement in deferred tax	(4,878)	-
	10,236	40,503

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

Operating profit	53,741	149,061
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	14,779	40,992
Add tax effect of:		
- non-deductible expenses	245	-
- timing difference expenses	90	(489)
	15,114	40,503
Movement in deferred tax	(4,878)	-
	10,236	40,503

Note 7. Cash and cash equivalents

Cash at bank and on hand	36,904	63,015
Term deposits	196,457	207,700
	233,361	270,715

Note 7.(a) Reconciliation to cash flow statement	2018	2017
	$	$
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	36,904	63,015
Term deposits	196,457	207,700
	233,361	270,715

Note 8. Trade and other receivables

Trade receivables	47,759	36,044
Prepayments	1,419	-
Other receivables and accruals	1,443	125
	50,621	36,169

Note 9. Property, plant and equipment

Land		
At cost	33,155	33,155
Buildings		
At cost	96,358	96,358
Less accumulated depreciation	(6,501)	(4,092)
	89,857	92,266
Plant and equipment		
At cost	126,562	126,562
Less accumulated depreciation	(120,881)	(118,234)
	5,681	8,328
Motor vehicles		
At cost	20,894	20,894
Less accumulated depreciation	(20,894)	(20,894)
	-	-
Total written down amount	128,693	133,749

Movements in carrying amounts:

Land		
Carrying amount at beginning	33,155	33,155
Additions	-	-
Disposals	-	-
Carrying amount at end	33,155	33,155

Note 9. Property, plant and equipment *(continued)*

	2018	2017
	$	$
Movements in carrying amounts ***(continued)***		
Buildings		
Carrying amount at beginning	92,266	94,675
Additions	-	-
Disposals	-	-
Less: depreciation expense	(2,409)	(2,409)
Carrying amount at end	89,857	92,266
Plant and equipment		
Carrying amount at beginning	8,328	8,335
Additions	-	2,840
Disposals	-	-
Less: depreciation expense	(2,647)	(2,847)
Carrying amount at end	5,681	8,328
Motor vehicles		
Carrying amount at beginning	-	1,742
Additions	-	-
Disposals	-	-
Less: depreciation expense	-	(1,742)
Carrying amount at end	-	-
Total written down amount	128,693	133,749

Note 10. Intangible assets

Franchise fee		
At cost	61,297	61,297
Less: accumulated amortisation	(55,385)	(53,126)
	5,912	8,171
Renewal processing fee		
At cost	45,187	45,187
Less: accumulated amortisation	(21,542)	(12,535)
	23,645	32,652
Total written down amount	29,557	40,823

Note 11. Tax

	2018	2017
	$	$
Current:		
Income tax payable/(refundable)	(16,476)	30,790
Non-Current:		
Deferred tax assets		
- accruals	908	-
- employee provisions	5,929	-
	6,837	-
Deferred tax liability		
- accruals	397	-
- property, plant and equipment	1,562	-
	1,959	-
Net deferred tax asset	4,878	-
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	(4,878)	-

Note 12. Trade and other payables

	2018	2017
Current:		
Trade creditors	6,037	11,216
Other creditors and accruals	12,366	16,877
	18,403	28,093

Note 13. Borrowings

	2018	2017
Current:		
Bank loans	15,684	13,000
Non-Current:		
Bank loans	17,386	32,847

The company has a mortgage with monthly repayments. Interest is recognised at an average rate of 7.19% (2017: 7.05%). The loans are secured by a fixed and floating charge over the company's assets.

Note 14. Provisions

	2018	2017
	$	$
Current:		
Provision for annual leave	13,095	2,917
Provision for long service leave	7,622	9,694
	20,717	12,611
Non-Current:		
Provision for long service leave	844	-

Note 15. Issued capital

341,350 ordinary shares fully paid (2017: 341,350)	341,350	341,350

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*.

Note 15. 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").

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.

The National Stock Exchange (NSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not, as a result the base number clause does not operate whilst the company remains listed on the NSX.

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 16. Retained earnings

	2018 $	2017 $
Balance at the beginning of the financial year	22,765	(68,725)
Net profit from ordinary activities after income tax	43,505	108,558
Dividends provided for or paid	(17,068)	(17,068)
Balance at the end of the financial year	49,202	22,765

Note 17. Statement of cash flows	2018	2017
	$	$
Reconciliation of profit from ordinary activities after tax to net cash provided by/(used in) operating activities		
Profit from ordinary activities after income tax	43,505	108,558
Non cash items:		
- depreciation	5,056	6,998
- amortisation	11,266	11,297
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(14,452)	(9,695)
- (increase)/decrease in other assets	(21,354)	-
- increase/(decrease) in payables	(9,690)	14,824
- increase/(decrease) in provisions	8,950	(323)
- increase/(decrease) in current tax liabilities	(30,790)	15,080
Net cash flows used in operating activities	(7,509)	146,739

Note 18. Auditor's remuneration		
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services (AFS)	1,700	-
- non audit services (AFS)	2,365	-
- audit and review services (RSD)	4,400	10,166
- non audit services (RSD)	1,674	10,257
	10,139	20,423

Note 19. Director and related party disclosures

	2018	2017
	$	$

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with Key Management Personnel

	2018	2017
Keneth Chapman received donations to Lions Club for Illusion Park.	-	5,000
Ian Taylor received donations to Lions Club for Illusion Park.	-	5,000
Greg Rossborough received donations for ground refurbishment.	-	20,000
Greg Rossborough received remuneration for bookkeeping services provided.	8,400	-

Key Management Personnel Shareholdings

	2018	2017
Ordinary shares fully paid	19,500	19,500

Detailed shareholding disclosures are provided in the remuneration report, included as part of the directors' report.

Note 20. Dividends provided for or paid

a. *Dividends paid during the year*

	2018	2017
Current year dividend		
Unfranked (2017: 100% franked) dividend - 5 cents (2017: 5 cents) per share	17,068	17,068

The tax rate at which dividends have been franked is nil (2017: 27.5%).

b. *Franking account balance*

	2018	2017
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	105,793	43,414
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(16,476)	15,398
- 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:	89,317	58,812
- 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	89,317	58,812

Note 21. Earnings per share

		2018	2017
		$	$
(a)	Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	43,505	108,558
		Number	Number
(b)	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	341,350	341,350

Note 22. 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 23. Contingent liabilities and contingent assets

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

Note 24. Community Enterprise Foundation

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

The funds contributed are held by the CEF in trust on behalf of the company and are available for distribution as grants to eligible applicants. The balance of funds held by the CEF as at 30 June 2018 is as follows:

	2018	2017
	$	$
Opening balance	-	-
Contributions	84,211	-
Grants paid	-	-
Interest	44	-
Management fees	(4,210)	-
Balance available for distribution	80,045	-

Note 25. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Tongala, Victoria 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	Principal Place of Business
35 Mangan Street Tongala VIC 3621	35 Mangan Street Tongala VIC 3621

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	36,904	63,015	196,457	207,700	-	-	-	-	-	-	2.11	1.73
Receivables	-	-	-	-	-	-	-	-	47,759	36,044	N/A	N/A
Financial liabilities												
Borrowings	-	-	15,684	13,000	17,386	32,847	-	-	-	-	7.19	7.05
Payables	-	-	-	-	-	-	-	-	6,037	11,216	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%	2,334	2,707
Decrease in interest rate by 1%	(2,334)	(2,707)
Change in equity		
Increase in interest rate by 1%	2,334	2,707
Decrease in interest rate by 1%	(2,334)	(2,707)

Tongala & District Financial Services Limited
Directors' Declaration

In accordance with a resolution of the directors of Tongala & District Financial Services Limited, we state that:

In the opinion of the directors:

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

(i) giving a true and fair view of the company's financial position as at 30 June 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.

Michelle Louise Baker, Secretary

Signed on the 21st of September 2018.

Partners in success
Chartered Accountants
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Independent auditor's report to the members of Tongala & District Financial Services Limited

Report on the audit of the financial statements

Our opinion

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

i. giving a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
ii. complying with Australian Accounting Standards.

What we have audited

Tongala & District Financial Services Limited's (the company) financial report comprises the:

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

Basis for opinion

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

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

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

Other information

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

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.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2018. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Tongala & District Financial Services Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

There are no key audit matters to disclose for the 30 June 2018 audit.

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: 21 September 2018

David Hutchings
Lead Auditor

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