Inverloch & District

Financial Enterprises Limited

Financial Statements

as at

30 June 2013

Inverloch & District Financial Enterprises Limited
ABN 13 117 672 590
Directors' Report

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

Directors

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

Alan Keith Gostelow
Chairman/Secretary
Semi Retired
Ex-Army Officer and Senior Manager of various businesses. Graduate Diplomas Business Administration and Health Administration and Company Directors Diploma. Former and/or current Company Secretary for three companies. Current Director Phillip Island Nature Parks and member of the Audit Committee. Former member of several Rotary Clubs and Former Chairman - Power Boat Division, Yachting Victoria.
Interests in shares: 501

Tristan Andrew Creed
Treasurer
Accountant
CA & Tax Agent. Current Director of Feathertop Business Services. Bachelor of Business (Accountancy) and Graduate Diploma (CA).
Interest in shares: Nil

Maxwell Alexander Warlow
Director
Accountant/Consultant
Semi Retired, Tax Agent, FCPA, CA - Former member of CPA Victoria Board, Former member Public Accountants Committee, Former representative of State Taxes Liaison Committee, Former President Athletics Essendon Inc, Former Fitness Adviser to Essendon Football Club. Currently coach Athletic Essendon.
Interests in shares: Nil

Domenic Anthony Brusamarello
Director
Self Employed
Self Employed, Manager and Business Consultant, President Inverloch Tourism Association Inc., Member Inverloch Community Planning Leadership Group, Owner Operator Inverloch Supermarket, Pricing and Marketing Committee Foodway Supermarkets.
Interest in shares: 5,000

David James Grimmond
Director
Operations Manager
Operations Manager with Degremont Thiess Services Joint Venture. General Manager of Burra Foods Australia from 2007-2011. Has a masters degree in Agribusiness, Graduate diploma in Microbiology and Advanced diploma of Dairy Technology. Office Bearer with the Gippsland Yacht Club. Former Vice President of Alaska Milk Corporation.
Interest in shares: Nil

Susan Joy Ruffin
Director
Lawyer
BA (Honours) LLB
Interest in shares: Nil

David Leonard Schultz
Director *(Resigned 2 May 2013)*
Company Director *(Retired)*
A Civil Engineer and holds a Company Director Diploma. He is an independent member of the Bass Coast Shire Council Audit Committee and a Non Executive Director of Life Saving Victoria. Previously held executive roles with GHD Global including Practice Leader of Management Consulting practice and Senior Project Director Middle East.
Interests in shares: 500

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

Company Secretary

The company secretary is Alan Gostelow. Alan was appointed to the position of secretary on 22 December 2005. Alan is an ex-army officer and senior manager of a number of businesses, he holds a Graduate Diploma in Business Administration, Health Administration and a Company Director's Diploma.

Principal Activities

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

There has 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 2013 $	Year ended 30 June 2012 $
	52,830	60,856

Operating and Financial Review

Operations

The Company is a franchisee of Bendigo & Adelaide Bank Limited providing financial products and services to individuals, businesses and organisations throughout the local area via the Inverloch & District **Community Bank®** Branch. While the Branch offers the full suite of Bendigo & Adelaide Bank products and services, margin earnings from firstly loans and then deposits are the predominant contributor to Company results.

The results for the Company for the 2012/13 Financial Year did not achieve business targets established at the beginning of the period. Funds under management at the completion of the period were $1.7M or 2% below budget, in part leading to the year-end earnings before interest and tax (EBIT) result of $75,859 and a margin of 11.87% compared with 13.04% for the previous year, thereby contributing to a result just $974 below budget. The prudent management of Company cash reserves contributed positively to the end of year result. A further matter contributing to lower than anticipated earnings was the second tranche of “restoring the balance” for the trailer commission income shared between the Company and the franchisor. This latter element affected trading results from April 2013 to the extent of $7,427 and if the product mix continues for the forthcoming Financial Year this is anticipated to have a full year effect of approximately $29,706.

In addition to the internal factors described above, business during the year was constrained due to the economic circumstances prevailing throughout the year. As a result, loan activity and enquiries throughout the year were below budget. Furthermore, throughout the year the reduction in the cash rates by the Reserve Bank resulted in a corresponding decline in interest paid on deposit accounts, also leading to lower than anticipated margins for this product group.

The Company’s base business segments of lending and deposits contribute the major proportion of earnings; however, funds under management are not currently balanced with deposits making up 57%, while loans make up the balance at 43%. This imbalance, which grew over the previous twelve months has occurred due to a retraction in loan activity, particularly so in the housing market.

Financial Position

The Financial Position of the Company remains relatively strong. Notwithstanding the reduction in profit for the 2012/2013 Financial Year, the Return on Capital Employed is 8.66% compared with the Market Cost of Capital of 7.6%. For the forthcoming year it is anticipated that there will be a moderate turnaround in the economy, thereby translating into renewed activity in the housing market and general funding for business.

The cash position of the Company improved during the reporting year by $27,683 for a year end balance of $553,295. Net assets at the end of the period were $727,918 or $7,171 less than the corresponding period for the prior year. However, this can be attributed to a decline in the non-cash items of depreciation and amortisation of $10,227 and $13,884 respectively and totalling $24,111.

Operating and Financial Review *(continued)*

Business Strategies

To address the current stage of development of the business and in recognition of the current financial circumstances both in the economy and the observed impact upon the Bendigo profit share model, the Board has determined for the 2011-2016 Financial Years, the Company will focus upon six broad directions:

1. Retention and Business Growth – Implement strategies and activities to improve upon the current level of business and returns for the business, to achieve $100M of funds under management in five years.
2. Pursue additional business through increased products and services, and other service delivery options including support & monitoring of the Tarwin Lower Agency.
3. Margin Growth – Focus upon products and services that will provide sustainable margin growth.
4. Community Capacity – Facilitate support activities through community leadership and targeted, responsible financial support.
5. Increase Community Awareness / Perception – Undertake process to reinforce knowledge and adoption of the community banking model to achieve tangible benefits.
6. Sub-regional Collaboration – Establish collaboration arrangements with sub-regional **Community Banks®**.

Future Prospects

The Company is cognisant that there are few options to expand operations to other locations due to the nature of population disaggregation in our rural area. However, the Company believes that there are opportunities to develop additional revenue through:

1. Acquiring additional customers through community links and a focus on local businesses.
2. Improving the range and number of products and services for each customer.
3. Developing and implementing strategies to improve customer uptake for the Agency.

The Company also anticipates that the current constrained market conditions are likely to improve during the forthcoming financial year, thereby increasing the number of customers, improving revenue and profitability.

Remuneration Report

All Directors perform their duties solely in a voluntary capacity and do not receive or expect any form of remuneration.

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity. Therefore no specified Executives remuneration requires disclosure.

Dividends

	Year Ended 30 June 2013	
	Cents	$
Dividends paid in the year:		
Declared and paid during the period (fully-franked)	8	60,000

Significant Changes in the State of Affairs

Effective 1st April 2013 Bendigo Bank applied a 1/3 reduction to shared trailer commissions it pays to the company on fixed rate home loans and term deposits greater than 90 days. This will reduce the company's income stream and is anticipated to affect trading results for the forthcoming Financial Year by approximately $29,706.

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

Matters Subsequent to the End of the Financial Year

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

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

Tristan Andrew Creed, proprietor of Feathertop Business Services, provided accounting services to the company. The fees amounted to $15,089 (2012: $12,500).

No other Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made

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**			
			Audit		**Marketing**	
	Eligible	*Attended*	*Eligible*	*Attended*	*Eligible*	*Attended*
Alan Keith Gostelow	11	11	3	3	10	9
Tristan Andrew Creed	11	11	3	3	10	8
Maxwell Alexander Warlow	11	9	3	3	-	-
Domenic Anthony Brusamarello	11	9	-	-	10	8
Susan Joy Ruffin	11	9	3	2	-	-
David James Grimmond	11	6	-	-	10	8
David Leonard Schultz *(Resigned 2 May 2013)*	10	7	-	-	8	8

Non Audit Services

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

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

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

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

Auditors' Independence Declaration

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

Signed in accordance with a resolution of the board of directors at Inverloch, Victoria on 18 September 2013.

Alan Keith Gostelow, Chairman

AFS
Partners in success
Chartered Accountants

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

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

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

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

Dated: 18 September 2013

Inverloch & District Financial Enterprises Limited
ABN 13 117 672 590
Statement of Comprehensive Income
for the Year Ended 30 June 2013

	Notes	2013 $	2012 $
Revenues from ordinary activities	4	639,073	665,273
Employee benefits expense		(305,740)	(307,419)
Charitable donations, sponsorship, advertising and promotion		(46,423)	(66,264)
Occupancy and associated costs		(61,272)	(57,972)
Systems costs		(20,354)	(20,465)
Depreciation and amortisation expense	5	(24,112)	(25,155)
General administration expenses		(105,313)	(102,548)
Profit before income tax expense		**75,859**	**85,450**
Income tax expense	6	(23,029)	(24,594)
Profit after income tax expense		52,830	60,856
Total comprehensive income for the year		**52,830**	**60,856**
Earnings per share (cents per share)		c	c
- basic for profit for the year	21	7.04	8.11

Inverloch & District Financial Enterprises Limited
ABN 13 117 672 590
Balance Sheet
as at 30 June 2013

	Notes	2013 $	2012 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	553,295	525,613
Trade and other receivables	8	25,616	36,104
Current tax asset	11	56	6,050
Total Current Assets		**578,967**	**567,767**
Non-Current Assets			
Property, plant and equipment	9	89,613	95,710
Intangible assets	10	73,683	87,567
Total Non-Current Assets		**163,296**	**183,277**
Total Assets		**742,263**	**751,044**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	11,760	12,455
Total Current Liabilities		**11,760**	**12,455**
Non-Current Liabilities			
Deferred tax liabilities	11	2,585	3,500
Total Non-Current Liabilities		**2,585**	**3,500**
Total Liabilities		**14,345**	**15,955**
Net Assets		**727,918**	**735,089**
Equity			
Issued capital	13	729,547	729,547
Retained earnings/(Accumulated losses)	14	(1,629)	5,542
Total Equity		**727,918**	**735,089**

Inverloch & District Financial Enterprises Limited
ABN 13 117 672 590
Statement of Changes in Equity
for the Year Ended 30 June 2013

	Issued Capital $	Accumulated Losses $	Total Equity $
Balance at 1 July 2011	729,547	4,687	734,234
Total comprehensive income for the year	-	60,856	60,856
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(60,001)	(60,001)
Balance at 30 June 2012	729,547	5,542	735,088
Balance at 1 July 2012	729,547	5,542	735,089
Total comprehensive income for the year	-	52,830	52,830
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(60,001)	(60,001)
Balance at 30 June 2013	729,547	(1,629)	727,918

The accompanying notes form part of these financial statements

Inverloch & District Financial Enterprises Limited
ABN 13 117 672 590
Statement of Cashflows
for the Year Ended 30 June 2013

	Notes	2013 $	2012 $
Cash Flows From Operating Activities			
Receipts from customers		683,369	697,522
Payments to suppliers and employees		(607,194)	(617,004)
Interest received		27,588	28,125
Income taxes paid		(11,950)	(20,782)
Net cash provided by operating activities	15	91,813	87,861
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(4,130)	(943)
Net cash used in investing activities		(4,130)	(943)
Cash Flows From Financing Activities			
Dividends paid		(60,001)	(60,001)
Net cash used in financing activities		(60,001)	(60,001)
Net increase in cash held		27,682	26,917
Cash and cash equivalents at the beginning of the financial year		525,613	498,696
Cash and cash equivalents at the end of the financial year	7(a)	553,295	525,613

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

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

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 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.

Adoption of new and revised Accounting Standards

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

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

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 Inverloch, Victoria.

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

Note 1. Summary of Significant Accounting Policies *(continued)*

Economic dependency - Bendigo and Adelaide Bank Limited *(continued)*

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

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

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

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

Revenue calculation

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

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

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

Note 1. Summary of Significant Accounting Policies *(continued)*

c) Income Tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee Entitlements

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

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

e) Cash and Cash Equivalents

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

Note 1. Summary of Significant Accounting Policies *(continued)*

f) Trade Receivables and Payables

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

g) Property, Plant and Equipment

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

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

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

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

h) Intangibles

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

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

Recognition and initial measurement

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

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

Derecognition

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

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*
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 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) Contributed Equity

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

o) Earnings Per Share

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

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.

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

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

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

Note 3. Critical Accounting Estimates and Judgements

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

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

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

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

<u>Taxation</u>

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

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

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

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.

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 consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

Note 4. Revenue from Ordinary Activities	**2013 $**	**2012 $**
Operating activities:		
- services commissions	612,537	637,148
Total revenue from operating activities	612,537	637,148
Non-operating activities:		
- interest received	26,536	28,125
Total revenue from non-operating activities	26,536	28,125
Total revenues from ordinary activities	639,073	665,273

Note 5. Expenses

		2013 $	2012 $
Bad debts written off		(129)	155
Depreciation of non-current assets:			
- plant and equipment		3,468	3,564
- leasehold improvements		6,759	7,706
Amortisation of non-current assets:			
- franchise agreement		2,314	2,314
- franchise renewal fee		11,571	11,571
		24,112	25,155

Note 6. Income Tax Expense

The components of tax expense comprise:			
- Current tax		23,944	24,539
- Movement in deferred tax		(915)	1,096
- Adjustment to tax expense of prior periods		-	(1,041)
		23,029	24,594
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		75,859	85,450
Prima facie tax on profit from ordinary activities at 30%		22,758	25,635
Add tax effect of:			
- timing difference expenses		915	(1,096)
		23,673	24,539
Movement in deferred tax	**11**	(915)	1,096
Adjustment to tax expense of prior periods		-	(1,041)
		22,758	24,594

Note 7. Cash and Cash Equivalents

Cash at bank and on hand		3,295	8,913
Term deposits		550,000	516,700
		553,295	525,613

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

Note 7.(a) Reconciliation of cash

Cash at bank and on hand		3,295	8,913
Term deposits		550,000	516,700
		553,295	525,613

Note 8. Trade and Other Receivables

Trade receivables		15,001	23,108
Other receivables and accruals		10,615	12,996
		25,616	36,104

Note 9. Property, Plant and Equipment	**2013** **$**	**2012** **$**
Plant and equipment		
At cost	49,084	45,954
Less accumulated depreciation	(24,701)	(21,233)
	24,383	24,721
Leasehold improvements		
At cost	114,583	113,583
Less accumulated depreciation	(49,353)	(42,594)
	65,230	70,989
Total written down amount	89,613	95,710
Movements in carrying amounts:		
Plant and equipment		
Carrying amount at beginning	24,721	28,077
Additions	3,130	208
Less: depreciation expense	(3,468)	(3,564)
Carrying amount at end	24,383	24,721
Leasehold improvements		
Carrying amount at beginning	70,989	77,960
Additions	1,000	735
Less: depreciation expense	(6,759)	(7,706)
Carrying amount at end	65,230	70,989
Total written down amount	89,613	95,710

Note 10. Intangible Assets

Franchise fee		
At cost	21,570	21,570
Less: accumulated amortisation	(15,206)	(12,893)
	6,364	8,677
Renewal processing fee		
At cost	57,853	57,853
Less: accumulated amortisation	(26,034)	(14,463)
	31,819	43,390
Goodwill		
At cost	35,500	35,500
Total written down amount	73,683	87,567

	2013 $	2012 $
Note 11. Tax		
Current:		
Income tax refundable	56	6,050
Non-Current:		
Deferred tax asset		
- accruals	599	-
	599	-
Deferred tax liability		
- accruals	1,664	1,980
- deductible prepayments	1,520	1,520
	3,184	3,500
Net deferred tax liability	(2,585)	(3,500)
Movement in deferred tax charged to statement of comprehensive income	(915)	1,096

Note 12. Trade and Other Payables

	2013 $	2012 $
Trade creditors	-	9,155
Other creditors and accruals	11,760	3,300
	11,760	12,455

Note 13. Contributed Equity

	2013 $	2012 $
750,010 Ordinary shares fully paid (2012: 750,010)	750,010	750,010
Less: equity raising expenses	(20,463)	(20,463)
	729,547	729,547

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®** 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).

Note 13. Contributed Equity *(continued)*

Rights attached to shares *(continued)*

(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.

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 187. As at the date of this report, the company had 209 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.

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 14. Retained Earnings/(Accumulated Losses)

	2013 $	2012 $
Balance at the beginning of the financial year	5,542	4,687
Net profit from ordinary activities after income tax	52,830	60,856
Dividends paid or provided for	(60,001)	(60,001)
Balance at the end of the financial year	(1,629)	5,542

Note 15. Statement of Cashflows

	2013 $	2012 $
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	52,830	60,856
Non cash items:		
- depreciation	10,227	11,270
- amortisation	13,885	13,885
Changes in assets and liabilities:		
- (increase)/decrease in receivables	10,488	(8,887)
- decrease in other assets	5,994	2,716
- (increase)/decrease in payables	(696)	6,925
-increase/(decrease) in current tax liabilities	(915)	1,096
Net cashflows provided by operating activities	91,813	87,861

Note 16. Leases

	2013 $	2012 $
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	38,044	37,116
- between 12 months and 5 years	66,577	102,069
	104,621	139,185

The branch premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease expires on 25 March 2016, with options for two future terms of five years each, to be exercised three months prior to the expiry date.

Note 17. Auditor's Remuneration

	2013 $	2012 $
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,700	4,500
- share registry services	2,493	2,158
- non audit services	2,367	2,742
	9,560	9,400

Note 18. Director and Related Party Disclosures

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

Alan Keith Gostelow

Tristan Andrew Creed

Maxwell Alexander Warlow

Domenic Anthony Brusamarello

Susan Joy Ruffin

David James Grimmond

David Leonard Schultz *(Resigned 2 May 2013)*

Tristan Andrew Creed, proprietor of Feathertop Business Services, provided accounting services to the company. The fees amounted to $15,089 (2012: $12,500).

No other 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	**2013**	**2012**
Alan Keith Gostelow	501	501
Tristan Andrew Creed	-	-
Maxwell Alexander Warlow	-	-
Domenic Anthony Brusamarello	5,000	5,000
Susan Joy Ruffin	-	-
David James Grimmond	-	-
David Leonard Schultz (Resigned 2 May 2013)	500	500

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

Note 19. Dividends Paid or Provided

	2013 $	2012 $
a. Dividends paid during the year		
Prior year proposed final 100% (2012: 100%) franked dividend - 8 cents (2012: 8 cents) per share	60,001	60,001
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	6,079	19,843
- franking credits/(debits) that will arise from income tax payable/(refundable) as at the end of the financial year	5,673	(6,050)
- 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:	11,752	13,793
- 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	11,752	13,793

Note 20. Key Management Personnel Disclosures

No director of the company receives remuneration for services as a company director or committee member.

There are no executives within the company whose remuneration is required to be disclosed.

Note 21. Earnings Per Share

	2013	2012
	$	$
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	52,830	60,856
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	750,010	750,010

Note 22. Events Occurring After the Balance Sheet Date

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

Note 23. Contingent Liabilities

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

Note 24. Segment Reporting

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

Note 25. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office	Principal Place of Business
16C Williams Street Inverloch Vic 3996	16C Williams Street Inverloch Vic 3996

Note 26. Financial Instruments

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Over 5 years		Non interest bearing		Weighted average effective interest rate	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 %	2012 %
Financial Assets												
Cash and cash equivalents	3,295	8,912	550,000	516,700	-	-	-	-	-	-	4.88	5.67
Receivables	-	-	-	-	-	-	-	-	25,616	36,104	N/A	N/A
Financial Liabilities												
Payables	-	-	-	-	-	-	-	-	11,759	12,455	N/A	N/A

Directors' Declaration

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

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

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

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

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

Alan Keith Gostelow, Chairman

Signed on the 18th of September 2013.

Independent auditor's report to the members of Inverloch & District Financial Enterprises Limited

Report on the financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

Independence

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

Auditor's opinion on the financial report

In our opinion:

1) The financial report of Inverloch & District Financial Enterprises Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2013 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.

2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the remuneration report

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

Auditor's opinion

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

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 18 September 2013