
Heidelberg District Community Enterprise Limited

ABN: 62 095 312 744

Financial Report

For the year ended

30 June 2020

Heidelberg District Community Enterprise Limited

Directors' Report

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

Directors

The Directors of the Company who held office during or since the end of the financial year are:

Nancy Louise Caple

Chair and Independent Non-executive Director

Self employed

Nancy established and operated So Swish (retail business) from 1989 – 2016. She was instrumental in establishing the East Ivanhoe Community branch in 2000. She holds a Bachelor of Education and taught in Secondary Physical Education – Outdoor Education prior to 1989. She currently holds the elected position of Chair on the Community Bank National Council. She is also the Company Secretary for the family management consulting business and Chair of the Sycamore Tree Uniting Church Coffee Shop management committee.

Committee member: Marketing and Business Development (Chair), Human Resources

Interest in shares: 22,077

Russell James Hutchins

Company Secretary and Independent Non-executive Director

Retired IT Consultant

Prior to retiring in 2018, Russell had over 30 years experience in banking and information technology and has worked in a variety of technical and commercial roles. He holds degrees in Science and Business. He is committed to ensuring that the Company operates as a well-managed, ethical, high functioning and profitable business to enable it to continue supporting local community initiatives and organisations to the fullest extent possible.

Committee member: Audit and Governance (Chair), Human Resources

Interest in shares: 13,000

Brian Thomas Simpson

Independent Non-executive Director

Retired Bank Executive

Brian has had a highly successful career in the banking sector spanning four decades. He has a particular interest in sporting organisations and lives locally in Ivanhoe.

Committee member: Human Resources, Audit and Governance

Interest in shares: 10,000

John Kenneth Nelson

Independent Non-executive Director

Retired Accountant

John served on the Board from 2007 to 2012, and after a break returned in December 2015. John is a qualified Chartered Accountant, and has over 35 years experience in industry as an accountant. He retired from full-time work 13 years ago. He has extensive corporate secretariat knowledge including previously performing the role of Company Secretary for an ASX listed Company. John has lived in the local area all of his life.

Committee member: Audit and Governance, Human Resources

Interest in shares: 1,533

Heidelberg District Community Enterprise Limited

Directors' Report

Directors (*continued*)

Jason Gerard Dwyer

Treasurer and Independent Non-executive Director

Business Banking Leader

Jason has worked for Bendigo Bank across many roles in business finance in key leadership roles across debtor finance, customer experience and equipment finance. He is currently the Small Business regional leader for Eastern Victoria, including Metro and Regional areas. He has held executive IT leadership roles, and is a CPA qualified accountant with 10 years in public practice and a strong background in information systems. Jason holds Bachelor degrees in Arts and Commerce from La Trobe University, and a Graduate Diploma in Information Systems. He has lived in Heidelberg for 17 years and has recently moved to Northcote.

Committee member: Audit and Governance, Marketing and Business Development

Interest in shares: 5,000

Peter Richard Drapac

Independent Non-executive Director

Director

Peter has lived in the Heidelberg/Ivanhoe area for most of his life and started his career as a PE and Maths teacher. He has owned several businesses in health, retail, manufacturing, financial services and education. Peter holds a Bachelor of Applied Science, Bachelor of Business (Distinction), Diploma of Auditing, Advanced Diploma of Conveyancing and a Diploma of Education.

Committee member: Audit and Governance as Property Specialist

Interest in shares: 500

Anne Marie Rogan

Deputy Chair and Independent Non-executive Director

Education Manager

Anne is a Senior Manager at Education Services Australia, managing large national education projects across government, independent and catholic schools and states. Prior to this, Anne worked as a lecturer at the University of Melbourne for 18 years. Anne lives locally.

Committee member: Human Resources

Interest in shares: nil

Amy Louise Coote

Independent Non-executive Director

National Fundraising & Engagement Manager

Amy is a senior leader in the not-for-profit sector with experience in development, partnerships, fundraising, marketing, philanthropy and strategy. Amy is currently the National Fundraising & Engagement Manager with Ardoch and has had roles with Austin Health & the Olivia Newton-John Cancer Centre, Redkite and Mission Australia. She is also on the Founding Executive Committee of the Melbourne Women's Fund, one of Australia's leading Giving Circles. Prior to this, Amy held senior business development and project leadership roles in the professional conference and events sector and hotel industry. Amy was awarded a Bachelor of Applied Science with distinction from R.M.I.T and more recently achieved First Class Honours in her Specialist Certificate in Executive Leadership from the University of Melbourne.

Committee member: Human Resources (Chair), Marketing and Business Development

Interest in shares: nil

Heidelberg District Community Enterprise Limited

Directors' Report

Directors (*continued*)

Jeremy McAuliffe

Independent Non-executive director (appointed 31 October 2019)

Consultant

Jeremy has over 30 years experience in Community sector organisations in operational and executive roles. He currently operates a consulting business that provides governance, compliance and operational support to Aged Care providers. Jeremy has lived in Ivanhoe and Heidelberg for 25 years and is a life member of two local sporting clubs.

Committee member: Marketing and Business Development

Interest in shares: nil

Tara O'Brien

Independent Non-executive director (appointed 21 January 2020)

Student

Tara was involved in the Bendigo Bank Future Director program for two years. She is currently completing her Bachelor of Laws and Bachelor of Commerce, majoring in Accounting. She grew up and continues to live locally. She previously acted as student representative on her Secondary School's Board.

Special responsibilities: Audit and Governance, Marketing and Business Development.

Interest in shares: nil

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

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

Company Secretary

The Company secretary is Russell James Hutchins. Russell was appointed to the position of secretary on 13 November 2012.

Russell has more than 30 years commercial experience in the banking and information technology industries and holds degrees in both Science and Business.

Principal activity

The principal activity of the Company during the financial year was facilitating Community Bank services under management rights to operate franchised branches of Bendigo and Adelaide Bank Limited (Bendigo Bank).

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

Operating results

Operations of the Company have performed slightly below expectations, in what continues to be subdued economic conditions. The profit of the Company for the financial year after provision for income tax was:

| Year ended 30 June 2020 | Year ended 30 June 2019 |
|----------------------------|----------------------------|
| \$ | \$ |
| 237,705 | 236,792 |

Heidelberg District Community Enterprise Limited

Directors' Report

Operating and financial review

Overview of the Company

The Company is a franchisee of Bendigo Bank providing financial products and services to individuals, businesses and organisations throughout the local area via the East Ivanhoe and Heidelberg Community Bank branches and a mobile presence. The branches offer the full suite of Bendigo Bank products and services, however margin earnings from firstly loans and then deposits are the predominant contributors to Company results.

The general nature of the business market for the Company remains challenging and issues commented upon for the prior three financial years continue to persist. The Company continues to operate under historically low cash rates set by the Reserve Bank of Australia that have resulted in a corresponding decline in interest paid on deposit accounts, continuing the trend of lower than anticipated margins for this product group. Moreover, the market competition for home and other loans has made it difficult to achieve budgeted targets. The Company continues to actively pursue new customers and promote product offerings to offset the intense competition from major financial service providers in the marketplace.

Key metrics

| Five year summary of performance | Unit | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|------|-------------|-------------|-------------|-------------|-------------|
| Operating revenue | \$ | 2,183,655 | 2,519,346 | 2,494,759 | 2,342,173 | 2,200,696 |
| Earnings before interest, tax, depreciation, and amortisation | \$ | 606,616 | 402,164 | 509,634 | 482,578 | 175,508 |
| Earnings before interest and tax | \$ | 375,596 | 329,723 | 440,986 | 415,724 | 103,764 |
| Net profit after tax | \$ | 237,705 | 236,792 | 319,675 | 301,632 | 70,236 |
| Total assets | \$ | 3,537,408 | 3,124,437 | 2,948,223 | 2,476,130 | 2,211,095 |
| Total liabilities | \$ | 1,096,758 | 414,739 | 314,430 | 247,350 | 168,758 |
| Total equity | \$ | 2,440,650 | 2,709,698 | 2,633,793 | 2,228,780 | 2,042,337 |
| Net cash flow from operating activities | \$ | 575,164 | 258,343 | 338,435 | 455,560 | 96,473 |
| Business footings ^{1 and 2} | \$ | 365 million | 401 million | 386 million | 357 million | 340 million |

Shareholder returns

| | | | | | | |
|--|----|------------|------------|------------|------------|------------|
| Profit attributable to owners of the Company | \$ | 237,705 | 236,792 | 319,675 | 301,362 | 70,236 |
| Basic earnings per share | ¢ | 10.34 | 10.30 | 13.91 | 13.11 | 3.06 |
| Dividends paid | ¢ | 172,379.00 | 160,887.00 | 137,903.00 | 114,919.00 | 114,919.00 |
| Dividends per share | ¢ | 7.50 | 7.00 | 6.00 | 5.00 | 5.00 |
| Net tangible assets per share | ¢ | 101.00 | 107.00 | 109.00 | 94.00 | 84.00 |
| Price earnings ratio | ¢ | 10.34 | 10.30 | 13.91 | 13.11 | 3.06 |
| Share price | ¢ | 75.00 | 75.00 | 75.00 | 85.00 | 85.00 |

1 This is a non-IFRS measure of the business domiciled to the Company from the franchisor. The footings is the underlying business which generates revenue under the franchise agreement. Business footings include loans, deposits, wealth products (up until 2019), and other business.

2 The sale of Bendigo Bank's Wealth business during the financial year resulted in a \$9m reduction in the Company's footings in 2020.

Returns to shareholders increased through payment of higher dividends. Dividends for 2020 were fully franked and it is expected that dividends in the future years will continue to be fully franked.

Heidelberg District Community Enterprise Limited

Directors' Report

Operating and financial review *(continued)*

Financial position

The Company marginally improved profitability for the financial year ended 30 June 2020 despite lower revenues. The financial position of the Company remains strong. Business development and containment of costs during a period of lower margins remains a strong focus.

The cash and cash equivalents position of the Company improved for the reporting year from \$1,115,999 for a year-end balance of \$1,316,282.

The Company maintains a resilient balance sheet, ending June 2020 with net assets of \$2,440,650 and net debt (including leases) of just \$1,384.

The Company does not actively gear its operations, however, as a result of adopting AASB 16 Leases from 1 July 2019, lease liabilities of \$533,850 are now reported on the balance sheet.

Drivers of business performance

The results for the 2019/20 financial year reflect a decline in mortgage lending. Net interest margin returns under the revenue share arrangement have decreased following four official cash rate cuts by the Reserve Bank of Australia.

In addition, COVID-19 resulted in mandatory quarantine in the second half of the financial year. The immediate impact is not significant in the current reporting results. Future reporting periods may see an increase in bad debt charges and further subdued economic conditions generally.

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 Bank profit share model, the Board has determined to continue the focus upon five broad directions:

1. Strengthening the connection and level of engagement between important stakeholders and partners.
2. Strengthening the Directors' role in the business structure and key customer and community segments.
3. Defining the future Board skill and diversity mix and a structure that will deliver our Strategic Plan.
4. Focussing the business on the most profitable growth opportunities using the Company's own local marketing plans.
5. Leveraging Bendigo Bank's trusted brand and the goodwill generated by the Community Bank model.

Future outlook

The Company believes there are opportunities to develop additional revenue through:

1. Acquiring additional customers through greater community based events and a focus on local businesses.
2. Improving the range and number of products and services for each customer.

The Company anticipates that current market conditions will remain challenging during the forthcoming financial year. In this environment the Company will focus upon increasing the number of customers and the uptake of products and services, thereby further improving revenue flow and profitability.

Heidelberg District Community Enterprise Limited

Directors' Report

Remuneration report

Remuneration policy

The remuneration policy of Heidelberg District Community Enterprise Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific incentives based on key performance areas affecting the Company's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain key management personnel to run and manage the Company, as well as create alignment between Directors, Managers and shareholders.

Key management personnel remuneration policy

Key management personnel receive a base salary (which is based on factors such as experience), superannuation and performance incentives.

The performance of key management personnel is measured against criteria agreed annually with each Manager and is based predominantly on the forecast growth of the Company's financial indicators and the contribution of each Manager towards achieving these targets. The Board may exercise its discretion in relation to approving incentives and bonuses. The policy is designed to attract high calibre managers and reward them for performance results.

Key management personnel also receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

Employment agreements have been entered into with key management personnel, the terms of which are not expected to change in the immediate future. Key management personnel are paid employee benefit entitlements accrued to date of leaving the employment of the Company.

Remuneration structure

All Directors are independent non-executive Directors and are eligible to be paid directors' fees.

Non-executive Director remuneration policy:

The Board's policy is to remunerate non-executive Directors for their time, commitment and responsibilities. The amount paid is determined by the Board.

Fees for non-executive Directors are not linked to the performance of the Company.

Key management performance based remuneration

The key performance indicators (KPIs) are set annually in consultation with key management personnel to ensure commitment. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for lending and deposit growth and profit. The level set for each KPI is based on budgeted figures for the Company and respective industry standards.

Performance in relation to the KPIs is reviewed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in consultation with regional management of Bendigo and Adelaide Bank Limited.

Company performance.

The key metrics table above shows the gross revenue, profits and dividends for the last 5 years for the Company, as well as the share prices at the end of the respective financial years. Whilst revenue (other than in 2020) has generally increased year on year, the net profit in any year has not necessarily risen in line with revenue growth. This is because the Company has prioritised grants and sponsorships to community groups in preference to reporting profit growth. The Company's performance over the last 5 years has not been reflected in the Company's share price, albeit that in recent years dividends have been maintained or increased. In 2020, the Company decided not to maintain the same level of contributions to the Community Enterprise Foundation, as the Company already had sufficient funds in the Community Enterprise Foundation to cover its grants program.

Heidelberg District Community Enterprise Limited

Directors' Report

Remuneration report *(continued)*

Remuneration including compulsory superannuation for the financial year ended 30 June 2020. Fees paid to Directors recognise the demands placed on, and the responsibilities of, Directors. Directors' fees are determined by the Board. The fees for the Chairman, Secretary and Treasurer are determined separately to the other Directors.

| | 2020 |
|---|---------------|
| | \$ |
| <u>Non-executive director remuneration</u> | |
| Nancy Louise Caple | 4,380 |
| Russell James Hutchins | 5,475 |
| Brian Thomas Simpson | 3,285 |
| John Kenneth Nelson | 3,285 |
| Jason Gerard Dwyer | 5,475 |
| Peter Richard Drapac | 3,285 |
| Anne Marie Rogan | 3,285 |
| Amy Louise Coote | 3,285 |
| Jeremy McAuliffe (<i>appointed 31 October 2019</i>) | 1,643 |
| Tara O'Brien (<i>appointed 21 January 2020</i>) | 1,643 |
| | <u>35,041</u> |

Directors' shareholdings

| | Fully paid ordinary shares | | |
|------------------------|------------------------------|-------------------------|----------------------------|
| | Balance at start of the year | Changes during the year | Balance at end of the year |
| Nancy Louise Caple | 22,077 | - | 22,077 |
| Russell James Hutchins | 13,000 | - | 13,000 |
| Brian Thomas Simpson | 10,000 | - | 10,000 |
| John Kenneth Nelson | 1,533 | - | 1,533 |
| Jason Gerard Dwyer | 5,000 | - | 5,000 |
| Peter Richard Drapac | - | 500 | 500 |
| Anne Marie Rogan | - | - | - |
| Amy Louise Coote | - | - | - |
| Jeremy McAuliffe | - | - | - |
| Tara O'Brien | - | - | - |

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

Dividends

During the financial year, the following dividends were provided for and paid. The dividends have been provided for in the financial statements.

| | Cents per share | Total amount \$ |
|------------------------------|-----------------|-----------------|
| Final fully franked dividend | 7.5 | 172,379 |
| Total amount | <u>7.5</u> | <u>172,379</u> |

Heidelberg District Community Enterprise Limited

Directors' Report

New Accounting Standards implemented

The Company has implemented a new accounting standard which has come into effect and is included in the results. AASB 16: Leases (AASB 16) has been applied retrospectively without restatement of comparatives by recognising the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of equity at 1 July 2019. Therefore, the comparative information has not been restated and continues to be reported under AASB 117: Leases. See note 4 for further details.

Significant changes in the state of affairs

During the financial year, the Australian economy was greatly impacted by COVID-19. Bendigo Bank, as franchisor, announced a suite of measures aimed at providing relief to customers affected by the COVID-19 pandemic. The relief support and uncertain economic conditions has not materially impacted the company's earnings for the financial year. As the pandemic continues to affect the economic environment, uncertainty remains on the future impact of COVID 19 to the Company's operations.

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.

Events since the end of the financial year

Since the end of the financial year, Melbourne has entered into Stage 4 COVID-19 restrictions, significantly suppressing the general economy and expected to detrimentally impact the 2021 results. There are no other 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 Officers in respect of liabilities to other persons (other than the Company or related body corporate) that may arise from their position as Directors or Officers 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.

Heidelberg District Community Enterprise Limited

Directors' Report

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) attended by each of the Directors of the Company during the financial year were:

| | Board Meetings Attended | | Committee Meetings Attended | | | | | |
|------------------------|-------------------------|----------|-----------------------------|----------|-----------------|----------|----------------------------------|----------|
| | | | Audit & Governance | | Human Resources | | Marketing & Business Development | |
| | <u>E</u> | <u>A</u> | <u>E</u> | <u>A</u> | <u>E</u> | <u>A</u> | <u>E</u> | <u>A</u> |
| Nancy Louise Caple | 11 | 10 | - | - | 6 | 5 | 10 | 9 |
| Russell James Hutchins | 11 | 10 | 7 | 7 | 16 | 13 | - | - |
| Brian Thomas Simpson | 11 | 9 | 7 | 6 | 16 | 12 | - | - |
| John Kenneth Nelson | 11 | 9 | 7 | 4 | 6 | 5 | - | - |
| Jason Gerard Dwyer | 11 | 8 | 7 | 6 | - | - | 2 | 1 |
| Peter Richard Drapac | 11 | 10 | - | - | - | - | - | - |
| Anne Marie Rogan | 11 | 10 | - | - | 16 | 11 | - | - |
| Amy Louise Coote | 11 | 8 | - | - | 16 | 14 | 2 | 1 |
| Jeremy McAuliffe | 7 | 6 | - | - | - | - | 5 | 3 |
| Tara O'Brien | 5 | 5 | 3 | 3 | - | - | 5 | 4 |

E - eligible to attend

A - number attended

Proceedings on behalf of the Company

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

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

Non audit services

The Company may decide to employ the Auditor on assignments additional to their statutory duties where the Auditor's expertise and experience with the Company are important. Details of the amounts paid or payable to the Auditor (Andrew Frewin Stewart) for audit and non audit services provided during the year are set out in note 29 to the accounts.

The Board of Directors has considered the non-audit services provided during the year by the Auditor and, in accordance with the advice received from the Audit and Governance Committee, is satisfied that the provision of the non-audit services is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the

- all non-audit services have been reviewed by the Audit and Governance Committee to ensure they do not impact on the impartiality, integrity and objectivity of the Auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the Auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Heidelberg District Community Enterprise Limited

Directors' Report

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 11.

Signed in accordance with a resolution of the Board of Directors at Ivanhoe, Victoria.



Russell James Hutchins, Director

Dated this 24th day of September 2020

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Heidelberg District Community Enterprise Limited

As lead auditor for the audit of Heidelberg District Community Enterprise Limited for the year ended 30 June 2020, 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: 24 September 2020



Graeme Stewart
Lead Auditor

Heidelberg District Community Enterprise Limited

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020

| | Notes | 2020 \$ | 2019 \$ |
|--|-------|----------------|----------------|
| Revenue from contracts with customers | 8 | 2,183,655 | 2,419,872 |
| Other revenue | 9 | 142,820 | 76,477 |
| Finance income | 10 | 17,973 | 22,997 |
| Employee benefit expenses | 11c) | (991,829) | (967,911) |
| Advertising and marketing expenses | | (159,366) | (155,394) |
| Occupancy and associated costs | | (86,031) | (304,675) |
| Systems costs | | (104,037) | (106,041) |
| Depreciation and amortisation expense | 11a) | (231,020) | (72,441) |
| Finance costs | 11b) | (64,654) | (154) |
| General administration expenses | | (233,655) | (238,666) |
| Profit before grants and sponsorships | | 473,856 | 674,064 |
| Grants and sponsorships | | (162,914) | (344,495) |
| Profit before income tax expense | | 310,942 | 329,569 |
| Income tax expense | 12a) | (73,237) | (92,777) |
| Profit after income tax expense | | 237,705 | 236,792 |
| Total comprehensive income for the year attributable to the ordinary shareholders of the company: | | 237,705 | 236,792 |
| Earnings per share | | ¢ | ¢ |
| - Basic and diluted earnings per share: | 32a) | 10.34 | 10.30 |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited

Statement of Financial Position

as at 30 June 2020

| | Notes | 2020 \$ | 2019 \$ |
|--------------------------------------|-------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 13a) | 1,316,282 | 1,115,999 |
| Trade and other receivables | 14a) | 180,100 | 237,068 |
| Current tax assets | 18a) | - | 14,140 |
| Total current assets | | 1,496,382 | 1,367,207 |
| Non-current assets | | | |
| Property, plant and equipment | 15a) | 1,550,877 | 1,622,301 |
| Right-of-use assets | 16a) | 369,549 | - |
| Intangible assets | 17a) | 101,239 | 134,929 |
| Deferred tax asset | 18b) | 19,361 | - |
| Total non-current assets | | 2,041,026 | 1,757,230 |
| Total assets | | 3,537,408 | 3,124,437 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 19a) | 115,065 | 103,047 |
| Current tax liabilities | 18a) | 18,506 | - |
| Loans and borrowings | 20a) | 1,384 | 1,320 |
| Lease liabilities | 21b) | 180,252 | - |
| Employee benefits | 23a) | 81,233 | 62,835 |
| Total current liabilities | | 396,440 | 167,202 |
| Non-current liabilities | | | |
| Trade and other payables | 19b) | 86,295 | 124,729 |
| Lease liabilities | 21c) | 533,850 | - |
| Employee benefits | 23b) | 186 | 8,927 |
| Provisions | 22a) | 79,987 | - |
| Deferred tax liability | 18b) | - | 113,881 |
| Total non-current liabilities | | 700,318 | 247,537 |
| Total liabilities | | 1,096,758 | 414,739 |
| Net assets | | 2,440,650 | 2,709,698 |
| EQUITY | | | |
| Issued capital | 24a) | 1,641,165 | 1,641,165 |
| Reserves | 25b) | 295,301 | 295,301 |
| Retained earnings | 26 | 504,184 | 773,232 |
| Total equity | | 2,440,650 | 2,709,698 |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited

Statement of Changes in Equity

for the year ended 30 June 2020

| | Notes | Issued capital \$ | Revaluation reserve \$ | Retained earnings \$ | Total equity \$ |
|--|-------|-------------------------|------------------------------|----------------------------|-----------------------|
| Balance at 1 July 2018 | | 1,641,165 | 295,301 | 697,327 | 2,633,793 |
| Total comprehensive income for the year | | - | - | 236,792 | 236,792 |
| Transactions with owners in their capacity as owners: | | | | | |
| Dividends provided for or paid | 31a) | - | - | (160,887) | (160,887) |
| Balance at 30 June 2019 | | 1,641,165 | 295,301 | 773,232 | 2,709,698 |
| Balance at 1 July 2019 | | 1,641,165 | 295,301 | 773,232 | 2,709,698 |
| Effect of AASB 16: Leases | 3d) | - | - | (334,374) | (334,374) |
| Restated balance at 1 July 2019 | | 1,641,165 | 295,301 | 438,858 | 2,375,324 |
| Total comprehensive income for the year | | - | - | 237,705 | 237,705 |
| Transactions with owners in their capacity as owners: | | | | | |
| Dividends provided for or paid | 31a) | - | - | (172,379) | (172,379) |
| Balance at 30 June 2020 | | 1,641,165 | 295,301 | 504,184 | 2,440,650 |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited

Statement of Cash Flows

for the year ended 30 June 2020

| | Notes | 2020 \$ | 2019 \$ |
|---|-------------|------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 2,598,365 | 2,766,293 |
| Payments to suppliers and employees | | (1,881,439) | (2,408,287) |
| Interest received | | 18,315 | 23,970 |
| Interest paid | | (14,230) | (154) |
| Lease payments (interest component) | 11b) | (47,629) | - |
| Lease payments not included in the measurement of lease liabilities | 11d) | (51,218) | - |
| Income taxes paid | | (47,000) | (123,479) |
| Net cash provided by operating activities | 27 | 575,164 | 258,343 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | - | (17,634) |
| Payments for intangible assets | | (26,150) | - |
| Net cash used in investing activities | | (26,150) | (17,634) |
| Cash flows from financing activities | | | |
| Lease payments (principal component) | 21a) | (176,352) | - |
| Dividends paid | 31a) | (172,379) | (160,887) |
| Net cash used in financing activities | | (348,731) | (160,887) |
| Net cash increase in cash held | | 200,283 | 79,822 |
| Cash and cash equivalents at the beginning of the financial year | | 1,115,999 | 1,036,177 |
| Cash and cash equivalents at the end of the financial year | 13a) | 1,316,282 | 1,115,999 |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1 Reporting entity

This is the Financial Report for Heidelberg District Community Enterprise Limited (the Company). The Company is a for profit entity limited by shares, and incorporated and domiciled in Australia. The registered office and principal place of business are:

| Registered Office | Principal Places of Business |
|--|--|
| 233-235 Lower Heidelberg Road Ivanhoe East VIC 3079 | 233-235 Lower Heidelberg Road Ivanhoe East VIC 3079 |
| | 164 Burgundy Street Heidelberg VIC 3084 |

Further information on the nature of the operations and principal activity of the Company is provided in the Directors' Report. Information on the company's related party relationships is provided in Note 30.

Note 2 Basis of preparation and statement of compliance

Basis of preparation and statement of compliance

The Financial Statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Financial Statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The Financial Statements have been prepared on an accrual and historical cost basis, except for certain properties, financial instruments, and equity financial assets that are measured at revalued amounts or fair values at the end of each reporting period.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar, unless otherwise stated.

These Financial Statements for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 24 September 2020.

Note 3 Changes in accounting policies, standards and interpretations

The Company initially applied AASB 16 *Leases* from 1 July 2019. AASB Interpretation 23 *Uncertainty over Income Tax Treatments* is also effective from 1 July 2019 but is not expected to have a material impact on the Company's Financial Statements. The Company's existing policy for uncertain income tax treatments is consistent with the requirements in Interpretation 23.

The Company has implemented a new Accounting Standard which has come into effect and is included in the results. AASB 16: *Leases* (AASB 16) has been applied retrospectively without restatement of comparatives by recognising the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of equity at 1 July 2019. Therefore, the comparative information has not been restated and continues to be reported under AASB 117: *Leases*.

a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under Interpretation 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4.

On transition to AASB 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease under AASB 16. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3 Changes in accounting policies, standards and interpretations (continued)

b) As a lessee

As a lessee, the Company leases assets including property and IT equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset to the Company. Under AASB 16, the Company recognises right-of-use assets and lease liabilities for most of these leases (i.e. these leases are on balance sheet).

Leases classified as operating leases under AASB 117

Previously, the Company classified property and IT equipment leases as operating leases under AASB 117. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 July 2019.

Right-of-use assets are measured at either:

- their carrying amount as if AASB 16 had been applied since the lease commencement date, discounted using the Company's incremental borrowing rate at the date of initial application: the Company applied this approach to its property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company has used a number of practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117. The practical expedients include that the Company:

- did not recognise right-of-use assets and liabilities for leases which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. office equipment and IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term on contracts that have options to extend or terminate.

c) As a lessor

The Company leases out its owned property. The Company is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3 Changes in accounting policies, standards and interpretations *(continued)*

d) Impact on financial statements

On transition to AASB 16, the Company recognised additional right-of-use assets, including investment property, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

| | | 1 July 2019 |
|---|------|------------------|
| | Note | \$ |
| <i>Impact on equity presented as decrease</i> | | |
| Asset | | |
| Right-of-use assets - land and buildings | 16b) | 849,487 |
| Deferred tax asset | 18b) | 126,832 |
| Liability | | |
| Lease liabilities | 21a) | (1,242,090) |
| Provision for make-good | 22b) | (68,603) |
| Equity | | |
| Retained earnings | | <u>(334,374)</u> |

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 4.00%.

Lease liabilities reconciliation on transition

| | |
|--|------------------|
| Operating lease disclosure as at June 2019 | 560,207 |
| Add: additional options now expected to be exercised | 837,835 |
| Add: variable market review / index based increase | 13,675 |
| Less: present value discounting | (169,627) |
| Lease liability as at 1 July 2019 | <u>1,242,090</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these Financial Statements, except if mentioned otherwise (see also Note 3).

a) Revenue from contracts with customers

The Company has entered into a franchise agreement with Bendigo Bank. The Company delivers banking and financial services of Bendigo Bank to its community. The franchise agreement provides for a share of interest, fee, and commission revenue earned by the Company. Interest margin share is based on a funds transfer pricing methodology which recognises that income is derived from deposits held, and that loans granted incur a funding cost. Fees are based on the Company's current fee schedule and commissions are based on the agreements in place. All margin revenue is recorded as non-interest income when the Company's right to receive the payment is established.

The Company acts as an agent under the franchise agreement and revenue arises from the rendering of services through its franchise agreement.

Revenue is recognised on an accruals basis, at the fair value of consideration specified in the franchise agreement. Under AASB 15 Revenue from Contracts with Customers (AASB 15), revenue recognition for the Company's revenue stream is as follows:

| <u>Revenue</u> | <u>Includes</u> | <u>Performance obligation</u> | <u>Timing of recognition</u> |
|----------------------------------|------------------------------------|--|--|
| Franchise agreement profit share | Margin, commission, and fee income | When the Company satisfies its obligation to arrange for the services to be provided to the customer by the supplier (Bendigo Bank as franchisor). | On completion of the provision of the relevant service. Revenue is accrued monthly and paid within 10 business days after the end of each month. |

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 Bank 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.

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 Bank for a deposit,
- *minus* any costs of funds i.e. interest applied to fund a loan.

The Company is entitled to a share of the margin earned by Bendigo Bank. If this reflects a loss, the Company incurs a share of that loss.

Commission

Commission revenue is in the form of commission generated for products and services sold. This commission is recognised at a point in time which reflects when the Company has fulfilled its performance obligation.

The Company receives trailing commission for products and services sold. Ongoing trailing commission payments are recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of significant reversal in a subsequent reporting period. The receipt of ongoing trailing commission income is outside the control of the Company, and is a significant judgement area.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

a) Revenue from contracts with customers (*continued*)

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.

Core banking products

Bendigo Bank has identified some 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.

Ability to change financial return

Under the franchise agreement, Bendigo Bank 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 Bank 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.

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

b) Other revenue

The Company's activities include the generation of income from sources other than the core products under the franchise agreement. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and can be reliably measured.

Revenue stream

Revenue recognition policy

Rental income

Rental income from investment properties, including property owned and right-of-use assets leased, is accounted for on a straight-line basis over the lease term. If not received at balance date, revenue is reflected on the balance sheet as a receivable and carried at its recoverable amount.

Sale of property, plant and equipment

Revenue from the sale of property, plant and equipment is recognised when the buyer obtains control of the asset. Control is transferred when the buyer has the ability to direct the use of and substantially obtain the economic benefits from the asset.

Discretionary financial contributions (also "Market Development Fund" or "MDF" income)

MDF income is recognised when the right to receive the payment is established. MDF income is discretionary and provided and receivable at month-end and paid within 14 days after month-end.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

b) Other revenue (*continued*)

| <u>Revenue stream</u> | <u>Revenue recognition policy</u> |
|-----------------------|--|
| Cash flow boost | Cash flow boost income is recognised when the right to the payment is established (e.g. monthly or quarterly in the activity statement). |
| Other income | All other revenues that did not contain contracts with customers are recognised as goods and services are provided. |

All revenue is stated net of the amount of Goods and Services Tax (GST).

Discretionary financial contributions

In addition to margin, commission and fee income, and separate from the franchise agreement, Bendigo Bank has also made MDF payments to the Company.

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 grants. It is for the Board to decide how to use the MDF.

The payments from Bendigo Bank are discretionary and it may change the amount or stop making them at any time. The Company retains control over the funds, the funds are not refundable to Bendigo Bank.

Cash flow boost

During the financial year, in response to the COVID-19 outbreak, *Boosting Cash Flow for Employers (Coronavirus Economic Response Package) Act 2020* (CFB Act) was enacted. The purpose was to provide temporary cash flow to small and medium businesses that employ staff and have been affected by the economic downturn associated with COVID-19.

The amounts received or receivable is in relation to amounts withheld as withholding tax reported in the activity statement. This essentially subsidises the Company's obligation to remit withholding tax to the Australian Taxation Office. For reporting purposes, the amounts subsidised are recognised as revenue.

The amounts are not assessable for tax purposes and there is no obligation to repay the amounts when the cash flow of the Company improves.

c) Economic dependency - Bendigo Bank

The Company has entered into a franchise agreement with Bendigo Bank that governs the management of the Community Bank.

The Company is economically dependent on the ongoing receipt of income under the franchise agreement with Bendigo Bank. The Directors have no reason to believe a new franchise arrangement under mutually acceptable terms will not be forthcoming following expiry.

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

All deposits are made with Bendigo Bank, and all personal and investment products are products of Bendigo Bank, 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 Bank, must be approved by Bendigo Bank. All credit transactions are made with Bendigo Bank, and all credit products are products of Bendigo Bank.

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

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

c) Economic dependency - Bendigo Bank (*continued*)

The credit risk (i.e. the risk that a customer will not make repayments) is for the relevant Bendigo Bank 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 Bank provides significant assistance in establishing and maintaining the Community Bank 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 premises
- training for the branch manager and other employees in banking, management systems and protocols
- 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.

d) Employee benefits*Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for salary and wages (including non-monetary benefits), annual leave, and sick leave which are expected to be wholly settled within 12 months of the reporting date. They are measured at amounts expected to be paid when the liabilities are settled, plus related on-costs. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

An annual leave liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Defined superannuation contribution plans

The Company contributes to a defined contribution plan. Obligations for superannuation contributions to defined contribution plans are expensed as the related service is provided.

Contributions to a defined contribution plan are expected to be settled wholly before 12 months after the end of the financial year in which the employees render the related service.

Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior reporting periods.

That benefit is discounted to determine its present value. Consideration is given to expected future wage and salary levels plus related on-costs, experience of employee departures, and years of service achieved. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimate future cash outflows.

Remeasurements are recognised in profit or loss in the period in which they arise.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

e) Taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore recognises them under AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

Current income tax

Current tax assets and liabilities are measured at amounts expected to be recovered from or paid to the taxation authorities. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for all deductible temporary differences, carried-forward tax losses, and unused tax credits to the extent that it is probable that future taxable profits will be available against which they can be used.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

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.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except:

- when the amount of GST incurred on a sale or purchase of assets or services is not payable to or 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 revenue or expense item.
- when 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 statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

f) Cash and cash equivalents

For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash and cash equivalents comprise: cash on hand, deposits held with banks, and short-term, highly liquid investments (mainly money market funds) that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

g) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost or fair value as applicable, which includes capitalised borrowings costs, less accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using straight-line or diminishing value method over their estimated useful lives, and is recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

| <u>Asset class</u> | <u>Method</u> | <u>Useful life</u> |
|------------------------|---------------|--------------------|
| Building | Straight-line | 40 years |
| Leasehold improvements | Straight-line | 5 to 15 years |
| Plant and equipment | Straight-line | 2 to 10 years |
| Motor vehicles | Straight-line | 3 to 8 years |

Depreciation methods, useful life, and residual values are reviewed at each reporting date and adjusted if appropriate.

h) Intangible assets

Intangible assets of the Company include the franchise fees paid to Bendigo Bank conveying the right to operate the Community Bank franchise.

Recognition and measurement

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed as either finite or indefinite.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognised in profit or loss as incurred.

Amortisation

Intangible assets with finite lives are amortised over their useful life and assessed for impairment whenever impairment indicators are present. Intangible assets assessed as having indefinite useful lives are tested for impairment at each reporting period and whenever impairment indicators are present. The indefinite useful life is also reassessed annually.

The estimated useful life and amortisation method for the current and comparative periods are as follows:

| <u>Asset class</u> | <u>Method</u> | <u>Useful life</u> |
|-------------------------------|---------------|-------------------------|
| Franchise establishment fee | Straight-line | Over the franchise term |
| Franchise fee | Straight-line | Over the franchise term |
| Franchise renewal process fee | Straight-line | Over the franchise term |

Amortisation methods, useful life, and residual values are reviewed at each reporting date and adjusted if appropriate.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset or one entity and a financial liability or equity instrument of another entity. The Company's financial instruments include trade debtors and creditors, cash and cash equivalents, borrowings, leases.

Sub-note i) and j) refer to the following acronyms:

| <u>Acronym</u> | <u>Meaning</u> |
|----------------|---|
| FVTPL | Fair value through profit or loss |
| FVTOCI | Fair value through other comprehensive income |
| SPPI | Solely payments of principal and interest |
| ECL | Expected credit loss |
| CGU | Cash-generating unit |

Recognition and initial measurement

Trade receivables are initially recognised when they originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to the acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVTOCI - debt investment; FVTOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed.

Financial assets - subsequent measurement and gains and losses

- Financial assets at amortised cost These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 **Summary of significant accounting policies (*continued*)**

i) Financial instruments (*continued*)

Financial liabilities - classification, subsequent measurement and gains and losses

Borrowings and other financial liabilities (including trade payables) are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Where the Company enters into transactions where it transfers assets recognised in the Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred asset, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company currently has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

j) Impairment

Non-derivative financial assets

The Company recognises a loss allowance for ECL on its trade receivables.

ECL's are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received.

In measuring the ECL, a provision matrix for trade receivables is used, taking into consideration various data to get to an ECL, (ie diversity of customer base, appropriate groupings of its historical loss experience etc.).

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

j) Impairment (*continued*)

Non-derivative financial assets (continued)

Recognition of expected credit losses in financial statements

At each reporting date, the entity recognises the movement in the loss allowance as an impairment gain or loss in the Statement of Profit or Loss and Other Comprehensive Income.

The Company's trade receivables are limited to the monthly profit share distribution from Bendigo Bank, which is received 14 days post month end. Due to the reliance on Bendigo Bank the Company has reviewed credit ratings provided by Standard & Poors, Moody's and Fitch Ratings to determine the level of credit exposure to the Company. The Company also performed a historical assessment of receivables from Bendigo Bank and found no instances of default. As a result no impairment loss allowance has been made in relation to trade receivables as at 30 June 2020.

Non-financial assets

At each reporting date, the Company reviews the carrying amount of its non-financial assets (other than investment property, contracts assets, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The Company has assessed for impairment indicators and noted no material impacts on the carrying amount of non-financial assets.

k) Issued capital

Ordinary shares

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.

l) Provisions

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

The estimated provisions for the current and comparative periods are to restore the premises under a 'make-good' clause.

The Company is required to restore the leased premises to their original condition before the end of the lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements, ATM installed at the branch, and incidental damage caused from the removal of assets.

m) Leases

The Company has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 and Interpretation 4. The details of accounting policies under AASB 117 and Interpretation 4 are disclosed separately.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

m) Leases (*continued*)

Policy applicable from 1 July 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in AASB 16.

This policy is applied to contracts entered into, on or after 1 July 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property the Company has elected not to separate lease and non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the costs of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company determines its incremental borrowing rate by obtaining interest rates from funding sources and where necessary makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual guarantee; and
- the exercise price under a purchase option the Company is reasonably certain to exercise, lease payments in an option renewal period if the Company is reasonably certain to exercise that option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

m) Leases (*continued*)

Policy applicable from 1 July 2019 (continued)

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of short-term leases and low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

A short-term lease is lease that, at commencement date, has a lease term of 12 months or less.

As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Policy applicable before 1 July 2019

For contracts entered into before 1 July 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed the right to use an asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's Statement of Financial Position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance or operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4 Summary of significant accounting policies (*continued*)

n) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

If there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and maximise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a property on initial recognition is the transaction price - i.e. the fair value of the consideration given or received.

o) Standards issued but not yet effective

A number of new standards are effective for annual reporting periods beginning after 1 January 2019, however the changes are not expected to have a significant impact on the Company's Financial Statements.

Note 5 Significant accounting judgements, estimates, and assumptions

In preparing these Financial Statements, management has made judgements and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

| <u>Note</u> | <u>Judgement</u> |
|--------------------------------|--|
| - Note 8 - revenue recognition | whether revenue is recognised over time or at a point in time; |
| - Note 21 - leases: | |
| a) control | a) whether a contract is or contains a lease at inception by assessing whether the Company has the right to direct the use of the identified asset and obtain substantially all the economic benefits from the use of that asset; |
| b) lease term | b) whether the Company is reasonably certain to exercise extension options, termination periods, and purchase options; |
| c) discount rates | c) judgement is required to determine the discount rate, where the discount rate is the Company's incremental borrowing rate if the rate implicit in the lease cannot be readily determined. The incremental borrowing rate is determined with reference to factors specific to the Company and underlying asset including: <ul style="list-style-type: none"> - the amount; - the lease term; - economic environment; and - other relevant factors. |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5 Significant accounting judgements, estimates, and assumptions (*continued*)

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 30 June 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

| <u>Note</u> | <u>Assumptions</u> |
|--|--|
| - Note 8 - revenue recognition | estimate of expected returns; |
| - Note 18 - recognition of deferred tax assets | availability of future taxable profit against which deductible temporary differences and carried-forward tax losses can be utilised; |
| - Note 15 - estimation of useful lives of assets | key assumptions on historical experience and the condition of the asset; |
| - Note 23 - long service leave provision | key assumptions on attrition rate and pay increases through promotion and inflation; |
| - Note 22 - make-good provision | key assumptions on future cost estimates in restoring the leased premises in accordance with the lease agreement; |

c) Measurement of fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of each reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 15 - Property, plant and equipment;
- Note 28 - Financial instruments

Note 6 Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including currency, price, cash flow and fair value interest rate).

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 Company. The Company does not use derivative instruments.

Risk management is carried out directly by the Board of Directors.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6 Financial risk management (continued)

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

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 Bank.

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company believes that its sound relationship with Bendigo Bank mitigates this risk significantly.

The following are the remaining contractual maturities of financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

30 June 2020

| <u>Non-derivative financial liability</u> | <u>Carrying amount</u> | <u>Contractual cash flows</u> | | |
|---|------------------------|---------------------------------|---|--------------------------------|
| | | <u>Not later than 12 months</u> | <u>Between 12 months and five years</u> | <u>Greater than five years</u> |
| Bank loans | 1,384 | 1,384 | - | - |
| Lease liabilities | 714,102 | 205,071 | 547,200 | 34,200 |
| Trade payables | 9,678 | 9,678 | - | - |
| | <u>725,164</u> | <u>216,133</u> | <u>547,200</u> | <u>34,200</u> |

30 June 2019

| <u>Non-derivative financial liability</u> | <u>Carrying amount</u> | <u>Contractual cash flows</u> | | |
|---|------------------------|---------------------------------|---|--------------------------------|
| | | <u>Not later than 12 months</u> | <u>Between 12 months and five years</u> | <u>Greater than five years</u> |
| Bank loans | 1,320 | 1,320 | - | - |
| Trade payables | 8,425 | 8,425 | - | - |
| | <u>9,745</u> | <u>9,745</u> | <u>-</u> | <u>-</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6 Financial risk management (*continued*)

c) Market risk

Market risk

Market risk is the risk that changes in market prices - e.g. foreign exchange rates, interest rates, and equity prices - will affect the Company's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

Price risk

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

Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo Bank 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 Bank mitigates this risk significantly.

The Company held cash and cash equivalents of \$1,316,282 at 30 June 2020 (2019: \$1,115,999). The cash and cash equivalents are held with Bendigo Bank, which are rated BBB on Standard & Poor's credit ratings.

Note 7 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 distributions to shareholders. Capital is represented by total equity as recorded in the Statement of Financial Position.

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

The distribution limit is the greater of:

- (a) 20% of the profit or funds of the Company otherwise available for distribution to shareholders in that 12 month period; and
- (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the Company 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 grants and sponsorship. Grants and sponsorship paid for the year ended 30 June 2020 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.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8 Revenue from contracts with customers

The Company generates revenue primarily from facilitating community banking services under a franchise agreement with Bendigo Bank. The Company is entitled to a share of the margin earned by Bendigo Bank.

| <i>Revenue from contracts with customers</i> | 2020 | 2019 |
|--|------------------|------------------|
| | \$ | \$ |
| Revenue: | | |
| - Revenue from contracts with customers | 2,183,655 | 2,419,872 |
| | <u>2,183,655</u> | <u>2,419,872</u> |

Disaggregation of revenue from contracts with customers

At a point in time:

| | | |
|---------------------|------------------|------------------|
| - Margin income | 1,933,936 | 2,159,752 |
| - Fee income | 127,603 | 126,480 |
| - Commission income | 122,116 | 133,640 |
| | <u>2,183,655</u> | <u>2,419,872</u> |

There was no revenue from contracts with customers recognised over time during the financial year.

Note 9 Other revenue

The Company generates other sources of revenue from rental income from owned properties, cash flow boost from the Australian Government and discretionary contributions received from the franchisor.

| <i>Other revenue</i> | 2020 | 2019 |
|----------------------------------|----------------|---------------|
| | \$ | \$ |
| Revenue: | | |
| - Rental income | 58,720 | 56,477 |
| - Market development fund income | 20,000 | 20,000 |
| - Cash flow boost | 62,500 | - |
| - Other income | 1,600 | - |
| | <u>142,820</u> | <u>76,477</u> |

Note 10 Finance income

The Company holds financial instruments measured at amortised cost. Interest income is recognised at the effective interest rate.

Term deposits which can be readily converted to a known amount of cash and subject to an insignificant risk of change may qualify as a cash equivalent.

| <i>Finance income</i> | 2020 | 2019 |
|-----------------------|---------------|---------------|
| | \$ | \$ |
| At amortised cost: | | |
| - Term deposits | 17,973 | 22,997 |
| | <u>17,973</u> | <u>22,997</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11 Expenses

| a) Depreciation and amortisation expense | 2020 \$ | 2019 \$ |
|---|----------------|---------------|
| <i>Depreciation of non-current assets:</i> | | |
| - Buildings | 18,563 | 18,563 |
| - Leasehold improvements | 37,486 | 13,722 |
| - Plant and equipment | 7,385 | 6,859 |
| - Motor vehicles | 7,990 | 7,990 |
| | <u>71,424</u> | <u>47,134</u> |
| <i>Depreciation of right-of-use assets</i> | | |
| - Leased land and buildings | 136,894 | - |
| | <u>136,894</u> | <u>-</u> |
| <i>Amortisation of intangible assets:</i> | | |
| - Franchise fee | 4,031 | 4,599 |
| - Franchise renewal process fee | 18,671 | 20,708 |
| | <u>22,702</u> | <u>25,307</u> |
| Total depreciation and amortisation expense | <u>231,020</u> | <u>72,441</u> |

The non-current tangible and intangible assets listed above are depreciated and amortised in accordance with the Company's accounting policy (see Note 4g and 4h).

| b) Finance costs | Note | 2020 \$ | 2019 \$ |
|--------------------------------------|------|---------------|------------|
| <i>Finance costs:</i> | | | |
| - Bank loan interest paid or accrued | | 14,230 | 154 |
| - Lease interest expense | 21a) | 47,629 | - |
| - Unwinding of make-good provision | | 2,795 | - |
| | | <u>64,654</u> | <u>154</u> |

Finance costs are recognised as expenses when incurred using the effective interest rate.

| c) Employee benefit expenses | 2020 \$ | 2019 \$ |
|--|----------------|----------------|
| Wages and salaries | 799,633 | 812,307 |
| Non-cash benefits | 7,854 | 3,303 |
| Contributions to defined contribution plans* | 103,279 | 82,054 |
| Expenses related to long service leave | (7,655) | (32,549) |
| Other expenses | 88,718 | 102,796 |
| | <u>991,829</u> | <u>967,911</u> |

*During the financial year the Company undertook a review of historical superannuation obligations on director fees paid. Upon assessment it was found that unpaid superannuation on director fees from 2010 to 2019 amassed to \$41,067.35 including \$14,150.96 interest. The amount has been recognised as an accrued liability as at 30 June 2020.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11 Expenses (*continued*)

d) Recognition exemption

The Company has elected to exempt leases from recognition where the underlying asset is assessed as low-value or the lease term is 12 months or less.

| | 2020 \$ | 2019 \$ |
|---------------------------------------|---------------|------------|
| Expenses relating to low-value leases | 51,218 | - |
| | <u>51,218</u> | <u>-</u> |

Expenses relating to leases exempt from recognition are included in systems costs.

The Company pays for the right to use information technology equipment. The underlying assets have been assessed as low value and exempted from recognition.

Note 12 Income tax expense

Income tax expense comprises current and deferred tax. Attributable current and deferred tax expense is recognised in the other comprehensive income or directly in equity as appropriate.

a) Amounts recognised in profit or loss

| | 2020 \$ | 2019 \$ |
|---|---------------|---------------|
| <i>Current tax expense</i> | | |
| - Current tax | 79,646 | 77,640 |
| - Movement in deferred tax | (134,358) | 15,137 |
| - Adjustment to deferred tax on AASB 16 retrospective application | 126,832 | - |
| - Adjustment to deferred tax to reflect reduction in tax rate in future periods | 1,117 | - |
| | <u>73,237</u> | <u>92,777</u> |

Progressive changes to the Company tax rate have been enacted. Consequently, as of 1 July 2020, the Company tax rate will be reduced from 27.5% to 26%. This change resulted in a loss of \$1,117 related to the remeasurement of deferred tax assets and liabilities of the Company.

b) *Prima facie* income tax reconciliation

| | 2020 \$ | 2019 \$ |
|---|---------------|---------------|
| Operating profit before taxation | 310,942 | 329,569 |
| Prima facie tax on profit from ordinary activities at 27.5% (2019: 27.5%) | 85,509 | 90,631 |
| Tax effect of: | | |
| - Non-deductible expenses | 3,798 | 2,146 |
| - Temporary differences | 7,527 | (15,137) |
| - Other assessable income | (17,188) | - |
| - Movement in deferred tax | (134,358) | 15,137 |
| - Leases initial recognition | 126,832 | - |
| - Adjustment to deferred tax to reflect reduction of tax rate in future periods | 1,117 | - |
| | <u>73,237</u> | <u>92,777</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13 Cash and cash equivalents

a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and in banks. Term deposits which can be readily converted to a known amount of cash and subject to an insignificant risk of change may qualify as a cash equivalent.

| | 2020 \$ | 2019 \$ |
|----------------------------|------------------|------------------|
| - Cash at bank and on hand | 386,032 | 55,749 |
| - Term deposits | 930,250 | 1,060,250 |
| | <u>1,316,282</u> | <u>1,115,999</u> |

Note 14 Trade and other receivables

a) Current assets

| | 2020 \$ | 2019 \$ |
|--------------------------------|----------------|----------------|
| Trade receivables | 141,402 | 181,050 |
| Prepayments | 26,157 | 43,136 |
| Other receivables and accruals | 12,541 | 12,882 |
| | <u>180,100</u> | <u>237,068</u> |

Note 15 Property, plant and equipment

a) Carrying amounts

| | 2020 \$ | 2019 \$ |
|-------------------------------|----------------|----------------|
| <i>Land</i> | | |
| At fair value | 607,500 | 607,500 |
| | <u>607,500</u> | <u>607,500</u> |
| <i>Buildings</i> | | |
| At fair value | 742,500 | 742,500 |
| Less accumulated depreciation | (37,126) | (18,563) |
| | <u>705,374</u> | <u>723,937</u> |
| <i>Leasehold improvements</i> | | |
| At cost | 506,537 | 506,537 |
| Less accumulated depreciation | (308,862) | (271,376) |
| | <u>197,675</u> | <u>235,161</u> |
| <i>Plant and equipment</i> | | |
| At cost | 113,328 | 113,328 |
| Less accumulated depreciation | (94,452) | (87,067) |
| | <u>18,876</u> | <u>26,261</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15 Property, plant and equipment (*continued*)

| a) Carrying amounts (<i>continued</i>) | 2020 | 2019 |
|---|------------------|------------------|
| | \$ | \$ |
| <i>Motor vehicles</i> | | |
| At cost | 39,950 | 39,950 |
| Less accumulated depreciation | (18,498) | (10,508) |
| | <u>21,452</u> | <u>29,442</u> |
| Total written down amount | <u>1,550,877</u> | <u>1,622,301</u> |
| The Directors do not believe the carrying amount exceeds the recoverable amount of the above assets. The Directors therefore believe the carrying amount is not impaired. | | |
| b) Reconciliation of carrying amounts | 2020 | 2019 |
| | \$ | \$ |
| <i>Land</i> | | |
| Carrying amount at beginning | 607,500 | 607,500 |
| Carrying amount at end | <u>607,500</u> | <u>607,500</u> |
| <i>Buildings</i> | | |
| Carrying amount at beginning | 723,937 | 742,500 |
| Depreciation | (18,563) | (18,563) |
| Carrying amount at end | <u>705,374</u> | <u>723,937</u> |
| <i>Leasehold improvements</i> | | |
| Carrying amount at beginning | 235,161 | 248,883 |
| Depreciation | (37,486) | (13,722) |
| Carrying amount at end | <u>197,675</u> | <u>235,161</u> |
| <i>Plant and equipment</i> | | |
| Carrying amount at beginning | 26,261 | 15,486 |
| Additions | - | 17,634 |
| Depreciation | (7,385) | (6,859) |
| Carrying amount at end | <u>18,876</u> | <u>26,261</u> |
| <i>Motor vehicles</i> | | |
| Carrying amount at beginning | 29,442 | 37,432 |
| Depreciation | (7,990) | (7,990) |
| Carrying amount at end | <u>21,452</u> | <u>29,442</u> |
| Total written down amount | <u>1,550,877</u> | <u>1,622,301</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15 Property, plant and equipment (*continued*)

c) Changes in estimates

During the financial year, the Company assessed estimates used for property, plant and equipment including useful lives, residual values, and depreciation methods.

The Company's review resulted in changes in the useful life of leasehold improvements.

d) Fair value hierarchy

The freehold land and buildings were independently valued at 15 June 2018 by Miles Real Estate, a member of the Real Estate Institute of Victoria (REIV). Members of REIV are governed by a code of conduct and are constantly updated on the latest legislative changes.

The Directors do not believe there has been a significant change in the assumptions as at balance date. The Directors therefore believe the carrying amount of the land and buildings reflects its fair value as at 30 June 2020.

The fair value measurement has been categorised as a Level 2 fair value based on the valuation technique used. The Directors have reviewed the values and noted the carrying amount is not materially different.

Note 16 Right-of-use assets

Right-of-use assets are measured at amounts equal to the present value of enforceable future payments on the adoption date, adjusted for lease incentives, make-good provisions, and initial direct costs.

The Company derecognises right-of-use assets at the termination of the lease period or when no future economic benefits are expected to be derived from the use of the underlying asset.

a) Carrying amounts

| | Note | 2020 \$ | 2019 \$ |
|----------------------------------|------|----------------|------------|
| <i>Leased land and buildings</i> | | | |
| At cost | | 2,221,632 | - |
| Less accumulated depreciation | | (1,852,083) | - |
| Total written down amount | | <u>369,549</u> | <u>-</u> |

b) Reconciliation of carrying amounts

Leased land and buildings

| | | | |
|-----------------------------------|-----|----------------|----------|
| Initial recognition on transition | 3d) | 849,487 | - |
| Remeasurement adjustments | | (343,044) | - |
| Depreciation | | (136,894) | - |
| Carrying amount at end | | <u>369,549</u> | <u>-</u> |
| Total written down amount | | <u>369,549</u> | <u>-</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17 Intangible assets

| a) Carrying amounts | 2020 \$ | 2019 \$ |
|--|----------------|----------------|
| <i>Franchise fee</i> | | |
| At cost | 72,241 | 72,241 |
| Less accumulated amortisation | (53,746) | (49,715) |
| | <u>18,495</u> | <u>22,526</u> |
| <i>Franchise establishment fee</i> | | |
| At cost | 70,000 | 70,000 |
| Less accumulated amortisation | (70,000) | (70,000) |
| | <u>-</u> | <u>-</u> |
| <i>Franchise renewal process fee</i> | | |
| At cost | 231,389 | 242,377 |
| Less accumulated amortisation | (148,645) | (129,974) |
| | <u>82,744</u> | <u>112,403</u> |
| Total written down amount | <u>101,239</u> | <u>134,929</u> |
| b) Reconciliation of carrying amounts | | |
| <i>Franchise fee</i> | | |
| Carrying amount at beginning | 22,526 | 5,151 |
| Additions | - | 21,974 |
| Amortisation | (4,031) | (4,599) |
| Carrying amount at end | <u>18,495</u> | <u>22,526</u> |
| <i>Franchise renewal process fee</i> | | |
| Carrying amount at beginning | 112,403 | 23,247 |
| Additions | - | 109,864 |
| Disposals | (10,988) | - |
| Amortisation | (18,671) | (20,708) |
| Carrying amount at end | <u>82,744</u> | <u>112,403</u> |
| Total written down amount | <u>101,239</u> | <u>134,929</u> |

c) Changes in estimates

During the financial year, the Company assessed estimates used for intangible assets including useful lives, residual values, and amortisation methods.

There were no changes in estimates for the current reporting period.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18 Tax assets and liabilities

| a) Current tax | 2020 \$ | 2019 \$ |
|---------------------------------|------------|------------|
| Income tax payable/(refundable) | 18,506 | (14,140) |

b) Deferred tax

Movement in the Company's deferred tax balances for the year ended 30 June 2020:

| | 30 June 2019 | Recognised in profit or loss | Recognised in equity | 30 June 2020 |
|---------------------------------------|--------------|---------------------------------|-------------------------|--------------|
| | \$ | \$ | \$ | \$ |
| <i>Deferred tax assets</i> | | | | |
| - expense accruals | 1,622 | (582) | - | 1,040 |
| - employee provisions | 19,735 | 12,111 | - | 31,846 |
| - make-good provision | - | 1,931 | 18,866 | 20,797 |
| - lease liability | - | (155,908) | 341,575 | 185,667 |
| Total deferred tax assets | 21,357 | (142,448) | 360,441 | 239,350 |
| <i>Deferred tax liabilities</i> | | | | |
| - income accruals | 1,206 | (155) | - | 1,051 |
| - property, plant and equipment | 134,032 | (11,176) | - | 122,856 |
| - right-of-use assets | - | (137,527) | 233,609 | 96,082 |
| Total deferred tax liabilities | 135,238 | (148,858) | 233,609 | 219,989 |
| Net deferred tax assets (liabilities) | (113,881) | 6,410 | 126,832 | 19,361 |

Movement in the Company's deferred tax balances for the year ended 30 June 2019:

| | 30 June 2018 | Recognised in profit or loss | Recognised in equity | 30 June 2019 |
|---------------------------------------|--------------|---------------------------------|-------------------------|--------------|
| | \$ | \$ | \$ | \$ |
| <i>Deferred tax assets</i> | | | | |
| - expense accruals | 1,017 | 605 | - | 1,622 |
| - employee provisions | 33,279 | (13,544) | - | 19,735 |
| Total deferred tax assets | 34,296 | (12,939) | - | 21,357 |
| <i>Deferred tax liabilities</i> | | | | |
| - income accruals | 1,474 | (268) | - | 1,206 |
| - property, plant and equipment | 131,566 | 2,466 | - | 134,032 |
| Total deferred tax liabilities | 133,040 | 2,198 | - | 135,238 |
| Net deferred tax assets (liabilities) | (98,744) | (15,137) | - | (113,881) |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18 Tax assets and liabilities (continued)

c) Uncertainty over income tax treatments

As at balance date, there are no tax rulings, or interpretations of tax law, which may result in tax treatments being over-ruled by the taxation authorities.

The Company believes that its accrual for income taxes is adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Note 19 Trade creditors and other payables

Where the Company is liable to settle an amount within 12 months of reporting date, the liability is classified as current. All other obligations are classified as non-current.

| a) Current liabilities | 2020 \$ | 2019 \$ |
|------------------------------|----------------|----------------|
| Trade creditors | 9,678 | 8,425 |
| Other creditors and accruals | 105,387 | 94,622 |
| | <u>115,065</u> | <u>103,047</u> |
| b) Non-current liabilities | | |
| Other creditors and accruals | 86,295 | 124,729 |
| | <u>86,295</u> | <u>124,729</u> |

Note 20 Loans and borrowings

| a) Current liabilities | 2020 \$ | 2019 \$ |
|------------------------|--------------|--------------|
| Secured bank loans | 1,384 | 1,320 |
| | <u>1,384</u> | <u>1,320</u> |

b) Terms and repayment schedule

| | Nominal interest rate | Year of maturity | 30 June 2020 | | 30 June 2019 | |
|--------------------|--------------------------|---------------------|--------------|----------------|--------------|----------------|
| | | | Face value | Carrying value | Face value | Carrying value |
| Secured bank loans | 3.9% | 2023 | 1,384 | 1,384 | 1,320 | 1,320 |

Note 21 Lease liabilities

Lease liabilities were measured at amounts equal to the present value of enforceable future payments of the term reasonably expected to be exercised, discounted at the appropriate incremental borrowing rate on the adoption date. The discount rate used on recognition was 4.00%.

The discount rate used in calculating the present value of enforceable future payments takes into account the particular circumstances applicable to the underlying leased assets (including the amount, lease term, economic environment, and other relevant factors).

The Company has applied judgement in estimating the remaining lease term including the effects of any extension or termination options reasonably expected to be exercised, applying hindsight where appropriate.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21 Lease liabilities (*continued*)

Lease portfolio

The Company's lease portfolio includes:

- East Ivanhoe Branch The lease agreement is a non-cancellable lease with an initial term of five years which commenced in April 2001. An extension option term of five years was exercised in April 2006, April 2011 and April 2016. The Board is currently assessing its final lease renewal option.
- Heidelberg Branch The lease agreement is a non-cancellable lease which commenced in July 2009. An extension option term of three years was exercised in September 2019. The lease has one further three year extension option available. The Board is currently assessing its lease renewal option.

The Company assesses at the lease commencement date whether it is reasonably certain to exercise extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

a) Lease liability measurement

Where the Company is a lessee for the premises to conduct its business, extension options are included in the lease term except when the Company is reasonably certain not to exercise the extension option. This is due to the significant disruption of relocating premises and the loss on disposal of leasehold improvements fitted out in the demised leased premises.

| <i>Lease liabilities on transition</i> | Note | 2020 \$ | 2019 \$ |
|---|------|----------------|------------|
| Initial recognition on AASB 16 transition | 3d) | 1,242,090 | - |
| Remeasurement adjustments | | (351,636) | - |
| Lease payments - interest | | 47,629 | - |
| Lease payments | | (223,981) | - |
| | | <u>714,102</u> | <u>-</u> |

b) Current lease liabilities

| | | |
|----------------------------|----------------|----------|
| Property lease liabilities | 205,071 | - |
| Unexpired interest | (24,819) | - |
| | <u>180,252</u> | <u>-</u> |

c) Non-current lease liabilities

| | | |
|----------------------------|----------------|----------|
| Property lease liabilities | 581,400 | - |
| Unexpired interest | (47,550) | - |
| | <u>533,850</u> | <u>-</u> |

d) Maturity analysis

| | | |
|------------------------------------|----------------|----------|
| - Not later than 12 months | 205,071 | - |
| - Between 12 months and 5 years | 547,200 | - |
| - Greater than 5 years | 34,200 | - |
| Total undiscounted lease payments | <u>786,471</u> | <u>-</u> |
| Unexpired interest | (72,369) | - |
| Present value of lease liabilities | <u>714,102</u> | <u>-</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21 Lease liabilities (continued)

e) Impact on the current reporting period

During the financial year, the Company has mandatorily adopted AASB 16 for the measurement and recognition of its leases. The primary impact on the profit or loss is that lease payments are split between interest and principal payments and the right-of-use asset depreciates. This is in contrast to the comparative reporting period where lease payments under AASB 117 were expensed as incurred. The following note presents the impact on the profit or loss for the current reporting period.

Comparison under current AASB 16 and former AASB 117

The net impact for the current reporting period is a increase in profit after tax of \$26,580.

| | AASB 117 expense not recognised | Impact on current reporting period | AASB 16 expense now recognised |
|--|---------------------------------------|---|--------------------------------------|
| Profit or loss - increase (decrease) in expenses | | | |
| - Occupancy and associated costs | 223,981 | (223,981) | - |
| - Depreciation and amortisation expense | - | 136,894 | 136,894 |
| - Finance costs | - | 50,424 | 50,424 |
| Decrease in expenses - before tax | 223,981 | (36,663) | 187,318 |
| - Income tax expense / (credit) - current | (61,595) | 61,595 | - |
| - Income tax expense / (credit) - deferred | - | (51,512) | (51,512) |
| Decrease in expenses - after tax | 162,386 | (26,580) | 135,806 |

Note 22 Provisions

As at the reporting date, the make-good of the leased premises is not expected to be wholly settled within 12 months. The balance is classified as non-current.

a) Non-current liabilities

| | 2020 \$ | 2019 \$ |
|------------------------------|------------|------------|
| Make-good on leased premises | 79,987 | - |
| | 79,987 | - |

b) Make-good provision

In accordance with the branch lease agreements, the Company must restore the leased premises to their original condition before the expiry of the lease term.

The Company has estimated the provision based on experience and consideration of the expected future costs to remove all fittings and the ATM as well as cost to remedy any damages caused during the removal process.

| Provision | Note | 2020 \$ | 2019 \$ |
|--|------|------------|------------|
| Face-value of make-good costs recognised | 3d) | 89,000 | - |
| Present value discounting | 3d) | (20,397) | - |
| Present value unwinding | | 2,795 | - |
| Provision remeasurements | | 8,589 | - |
| | | 79,987 | - |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22 Provisions (continued)

c) Changes in estimates

During the financial year, the Company re-assessed the lease agreement with respect to the make-good and restoration clauses. The estimated costs were revised with respect to an analysis of restoration costs of bank branches completed by Bendigo Bank's property team. The provision was previously assessed as nil or immaterial with no provision recognised in the accounts.

In addition, during the financial year, the Company has re-assessed the estimates and assumptions. The Company has prepared further detailed estimates of the expected future costs, the discount rate used in recognising the present value, and the passage of time until settlement has now been extended following the reasonable expectation of exercising an additional lease option.

The lease for the East Ivanhoe branch is due to expire on 31 March 2021, while the lease for the Heidelberg branch is due to expire on 30 September 2025 at which time it is expected the face-value costs to restore the premises will fall due.

Note 23 Employee benefits

a) Current liabilities

| | 2020 \$ | 2019 \$ |
|----------------------------------|---------------|---------------|
| Provision for annual leave | 46,687 | 32,633 |
| Provision for long service leave | 34,546 | 30,202 |
| | <u>81,233</u> | <u>62,835</u> |

b) Non-current liabilities

| | | |
|----------------------------------|------------|--------------|
| Provision for long service leave | 186 | 8,927 |
| | <u>186</u> | <u>8,927</u> |

c) Key judgement and assumptions

Employee attrition rates

The Company uses historical employee attrition rates in determining the probability of an employee, at a given date, achieving continuous employment eligible for entitlement in accordance with long service leave legislation.

Note 24 Issued capital

a) Issued capital

| | 2020 | | 2019 | |
|---|------------------|------------------|------------------|------------------|
| | Number | \$ | Number | \$ |
| Ordinary shares - fully paid - East Ivanhoe | 473,010 | 473,010 | 473,010 | 473,010 |
| Bonus shares - fully paid (3:1) | 625,376 | - | 625,376 | - |
| Ordinary shares - fully paid - Heidelberg | 1,200,000 | 1,200,000 | 1,200,000 | 1,200,000 |
| Less equity raising costs | - | (31,845) | - | (31,845) |
| | <u>2,298,386</u> | <u>1,641,165</u> | <u>2,298,386</u> | <u>1,641,165</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24 Issued capital (*continued*)

b) Rights attached to issued capital

Ordinary shares

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.

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 Bank 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).

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.

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 206. As at the date of this report, the Company had 439 shareholders (2019: 438 shareholders).

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

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24 Issued capital (*continued*)

b) Rights attached to issued capital (*continued*)

Prohibited shareholding interest (continued)

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

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

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

Note 25 Reserves

a) Nature and purpose of reserves

Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment and investment properties.

b) Disaggregation of reserve balances, net of tax

Reserves for the period ended 30 June 2020

| | Fair value reserve | Revaluation reserve | Total |
|--|-----------------------|------------------------|----------------|
| | \$ | \$ | \$ |
| Balance at beginning of reporting period | 295,301 | - | 295,301 |
| Balance at end of reporting period | <u>295,301</u> | <u>-</u> | <u>295,301</u> |

Reserves for the period ended 30 June 2019

| | Fair value reserve | Revaluation reserve | Total |
|--|-----------------------|------------------------|----------------|
| | \$ | \$ | \$ |
| Balance at beginning of reporting period | 295,301 | - | 295,301 |
| Balance at end of reporting period | <u>295,301</u> | <u>-</u> | <u>295,301</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26 Retained earnings

| | Note | 2020 \$ | 2019 \$ |
|---|------|----------------|----------------|
| Balance at beginning of reporting period | | 773,232 | 697,327 |
| Adjustment for transition to AASB 16 | 3d) | (334,374) | - |
| Net profit after tax from ordinary activities | | 237,705 | 236,792 |
| Dividends provided for or paid | 31a) | (172,379) | (160,887) |
| Balance at end of reporting period | | <u>504,184</u> | <u>773,232</u> |

Note 27 Reconciliation of cash flows from operating activities

| | | 2020 \$ | 2019 \$ |
|--|--|----------------|----------------|
| Net profit after tax from ordinary activities | | 237,705 | 236,792 |
| Adjustments for: | | | |
| - Depreciation | | 71,424 | 47,134 |
| - Amortisation | | 22,702 | 25,307 |
| - AASB16 depreciation | | 136,894 | - |
| Changes in assets and liabilities: | | | |
| - (Increase)/decrease in trade and other receivables | | 56,968 | (5,221) |
| - (Increase)/decrease in other assets | | 121,613 | (14,140) |
| - Increase/(decrease) in trade and other payables | | 10,781 | 34,284 |
| - Increase/(decrease) in employee benefits | | 9,657 | (49,251) |
| - Increase/(decrease) in provisions | | 2,795 | - |
| - Increase/(decrease) in tax liabilities | | (95,375) | (16,562) |
| Net cash flows provided by operating activities | | <u>575,164</u> | <u>258,343</u> |

Note 28 Financial instruments

The following shows the carrying amounts for all financial instruments at amortised costs. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | Note | 2020 \$ | 2019 \$ |
|------------------------------|------|------------------|------------------|
| Financial assets | | | |
| Trade and other receivables | 14 | 180,100 | 237,068 |
| Cash and cash equivalents | 13 | 386,032 | 55,749 |
| Term deposits | 13 | 930,250 | 1,060,250 |
| | | <u>1,496,382</u> | <u>1,353,067</u> |
| Financial liabilities | | | |
| Trade and other payables | 19 | 115,065 | 103,047 |
| Secured bank loans | 20 | 1,384 | 1,320 |
| Lease liabilities | 21 | 714,102 | - |
| | | <u>830,551</u> | <u>104,367</u> |

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29 Auditor's remuneration

Amount received or due and receivable by the Auditor of the Company for the financial year.

| | 2020 \$ | 2019 \$ |
|---|---------------|---------------|
| <i>Audit and review services</i> | | |
| - Audit and review of financial statements | 5,900 | 5,700 |
| | <u>5,900</u> | <u>5,700</u> |
| <i>Non audit services</i> | | |
| - Taxation advice and tax compliance services | 1,500 | 1,810 |
| - General advisory services | 4,610 | 3,230 |
| - Share buy-back consultancy | 300 | - |
| - Share registry services | 3,853 | - |
| | <u>10,263</u> | <u>5,040</u> |
| Total auditor's remuneration | <u>16,163</u> | <u>10,740</u> |

Note 30 Related parties

a) Details of Director personnel

The Directors of the Company during the financial year were:

Nancy Louise Caple
 Russell James Hutchins
 Brian Thomas Simpson
 John Kenneth Nelson
 Jason Gerard Dwyer
 Peter Richard Drapac
 Anne Marie Rogan
 Amy Louise Coote
 Jeremy McAuliffe
 Tara O'Brien

b) Director compensation

| | 2020 \$ | 2019 \$ |
|--|---------------|---------------|
| Director compensation comprised the following. | | |
| Director benefits | 35,041 | 33,500 |
| | <u>35,041</u> | <u>33,500</u> |

Compensation of the Company's Director personnel includes salaries and contributions to a defined contribution plan.

c) Related party transactions

No director or related entity has entered into a material contract with the Company.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30 Related parties (*continued*)

c) Related party transactions (*continued*)

Community Bank Directors' Privileges Package

The Board has not 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. There is no requirement to own Bendigo Bank shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo Bank shareholders.

Note 31 Dividends provided for or paid

a) Dividends paid during the period

The following dividends were provided for and paid to shareholders during the reporting period as presented in the Statement of Cash Flows and and Statement of Changes in Equity.

| | 30 June 2020 | | 30 June 2019 | |
|--|--------------|---------|--------------|---------|
| | Cents | \$ | Cents | \$ |
| Fully franked dividend | 7.50 | 172,379 | 7.00 | 160,887 |
| Total dividends paid during the financial year | 7.50 | 172,379 | 7.00 | 160,887 |

The tax rate at which dividends have been franked is 27.5% (2019: 27.5%).

b) Franking account balance

| | 2020 | 2019 |
|--|----------|----------|
| | \$ | \$ |
| <i>Franking credits available for subsequent reporting periods</i> | | |
| Franking account balance at the beginning of the financial year | 378,937 | 316,485 |
| Franking transactions during the financial year: | | |
| - Franking credits (debits) arising from income taxes paid (refunded) | 63,140 | 119,695 |
| - Franking credits from the payment of income tax following lodgement of annual income tax | (16,140) | 3,783 |
| - Franking debits from the payment of franked distributions | (65,385) | (61,026) |
| Franking account balance at the end of the financial year | 360,552 | 378,937 |
| Franking transactions that will arise subsequent to the financial year end: | | |
| - Franking credits (debits) that will arise from payment (refund) of income tax | 18,506 | (14,140) |
| Franking credits available for future reporting periods | 379,058 | 364,797 |

The ability to utilise franking credits is dependent upon the Company's ability to declare dividends.

Heidelberg District Community Enterprise Limited

Notes to the Financial Statements

for the year ended 30 June 2020

Note 32 Earnings per share

a) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

| | 2020 \$ | 2019 \$ |
|--|---------------|---------------|
| Profit attributable to ordinary shareholders | 237,705 | 236,792 |
| | Number | Number |
| Weighted-average number of ordinary shares | 2,298,386 | 2,298,386 |
| | Cents | Cents |
| Basic and diluted earnings per share | 10.34 | 10.30 |

Note 33 Commitments

a) Lease commitments

Following adoption of AASB 16 as of 1 July 2019, all lease commitment information and amounts for the financial year ending 30 June 2020 can now be found in 'Lease liabilities' (Note 21).

| Operating lease commitments - lessee | 2020 \$ | 2019 \$ |
|---|------------|------------|
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Payable - minimum lease payments: | | |
| - not later than 12 months | - | 218,592 |
| - between 12 months and 5 years | - | 341,615 |
| Minimum lease payments payable | - | 560,207 |

b) Other commitments

The Company has no other commitments contracted for which would be provided for in future reporting periods.

Note 34 Contingencies

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

Note 35 Subsequent events

Since the end of the financial year, Melbourne has entered into Stage 4 COVID-19 restrictions, significantly suppressing the general economy and expected to detrimentally impact the 2021 results.

There have been no other significant events occurring after the reporting period which may affect either the Company's operations or the results of those operations or the Company's state of affairs.

Heidelberg District Community Enterprise Limited

Directors' Declaration

In accordance with a resolution of the Directors of Heidelberg District Community Enterprise 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 2020 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 AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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



Russell James Hutchins, Director

Dated this 24th day of September 2020

Independent auditor's report to the members of Heidelberg District Community Enterprise Limited

Report on the audit of the financial report

Our opinion

In our opinion, the accompanying financial report of Heidelberg District Community Enterprise Limited, is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the company's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

What we have audited

Heidelberg District Community Enterprise Limited's (the company) financial report comprises the:

- ✓ Statement of profit or loss and other comprehensive income
- ✓ Statement of financial position
- ✓ 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 company.

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 (including Independence Standards)* (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 2020.

In our opinion, the Remuneration Report of Heidelberg District Community Enterprise Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

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.

Key audit matters

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

| Key Audit Matter | How our audit addressed the matter |
|---|--|
| Application and recognition of AASB 16: Leases | |
| <p>The company adopted <i>AASB 16: Leases</i> as at 1 July 2019, and first reported this at 31 December 2019 during the half-year review.</p> <p>The company has assessed the impact that AASB 16 will have on its financial statements at 30 June 2020. The expected impact of AASB 16 is disclosed in Note 3 and 4 m) to the financial statements.</p> <p>A number of judgements have been applied and estimates made in determining the impact of the standard.</p> <p>Our key audit matter was focused on the following areas of risk:</p> <ul style="list-style-type: none"> Leasing arrangements within the scope of AASB 16 are not identified or appropriately included in the calculation of the transitional impact. Specific assumptions applied to determine the discount rates and lease terms for each lease are inappropriate. The underlying lease data used to calculate the transitional impact is incomplete and/or inaccurate. The disclosures in the financial statements are insufficient, preventing investors from obtaining a clear understanding as to the transitional impact of the change in accounting standard. | <p>In responding to the identified key audit matter, we completed the following audit procedures:</p> <ul style="list-style-type: none"> assessed the design and implementation of key controls pertaining to the determination of the AASB 16 transition impact disclosure. assessed the appropriateness of the discount rates and lease terms applied in determining lease liabilities, including any underlying assumptions. verified the accuracy of the underlying lease data by agreeing the information directly back to original lease contracts or other supporting information, and checked the integrity and mechanical accuracy of the AASB 16 calculations for each lease through recalculation of the expected AASB 16 adjustment. considered completeness by testing the reconciliation to the company's operating lease commitments and by investigating key service contracts to assess whether any contained a lease under AASB 16. assessed whether the disclosures within the financial statements are appropriate in light of the requirements of <i>AASB 8 Accounting Policies, Changes in Accounting Estimates and Errors</i>. <p>Key observation</p> <p>We are satisfied that the disclosure of the impact of adoption of <i>AASB 16: Leases</i> is in accordance with the company's accounting policy and the related disclosure of these items per Note 3 and 4 m) to the financial statements is appropriate.</p> |

| Key Audit Matter | How our audit addressed the matter |
|---|---|
| <p>Revenue Share Model</p> <p>The company is a franchise of Bendigo Bank. The franchise agreement provides for a share of interest, fee, and commission revenue earned by the company.</p> <p>Interest margin share is based on a funds transfer pricing methodology which recognises that income is derived from deposits held, and that loans granted incur a funding cost. Fees are based on the company's current fee schedule and commissions are based on the agreements in place. All margin revenue is recorded as non-interest income when the company's right to receive the payment is established.</p> <p>The company receives the Revenue Share from Bendigo Bank via a monthly profit share statement.</p> <p>Our Key Audit Matter was focused on the following areas of risk:</p> <ul style="list-style-type: none"> Revenue is recognised appropriately and in line with <i>AASB 15 Revenue from Contracts with Customers</i>. Reliance on third party auditor (Ernst & Young) to review the revenue share model. | <p>In responding to the identified Key Audit Matter, we completed the following audit procedures:</p> <ul style="list-style-type: none"> We have obtained the monthly profit share statements from the entire year and analytically assessed the existence, accuracy and completeness of revenue. Ernst & Young complete a Community Bank Revenue Share Arrangements report on factual findings two-yearly, which we review and determine that the scope and testing procedures were sufficient to enable reliance on the monthly profit share reports specifically relating to revenue. <p>Key observation</p> <p>We are satisfied that the revenue share model has been sufficiently reviewed by an external auditor and the reliance can be placed on the monthly profit share reports. The company's accounting policy relating to the revenue share model is detailed at Note 4 a) to the financial statements.</p> |

There are no other key audit matters to disclose for the 30 June 2020 audit.

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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



Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 24 September 2020



Graeme Stewart
Lead Auditor