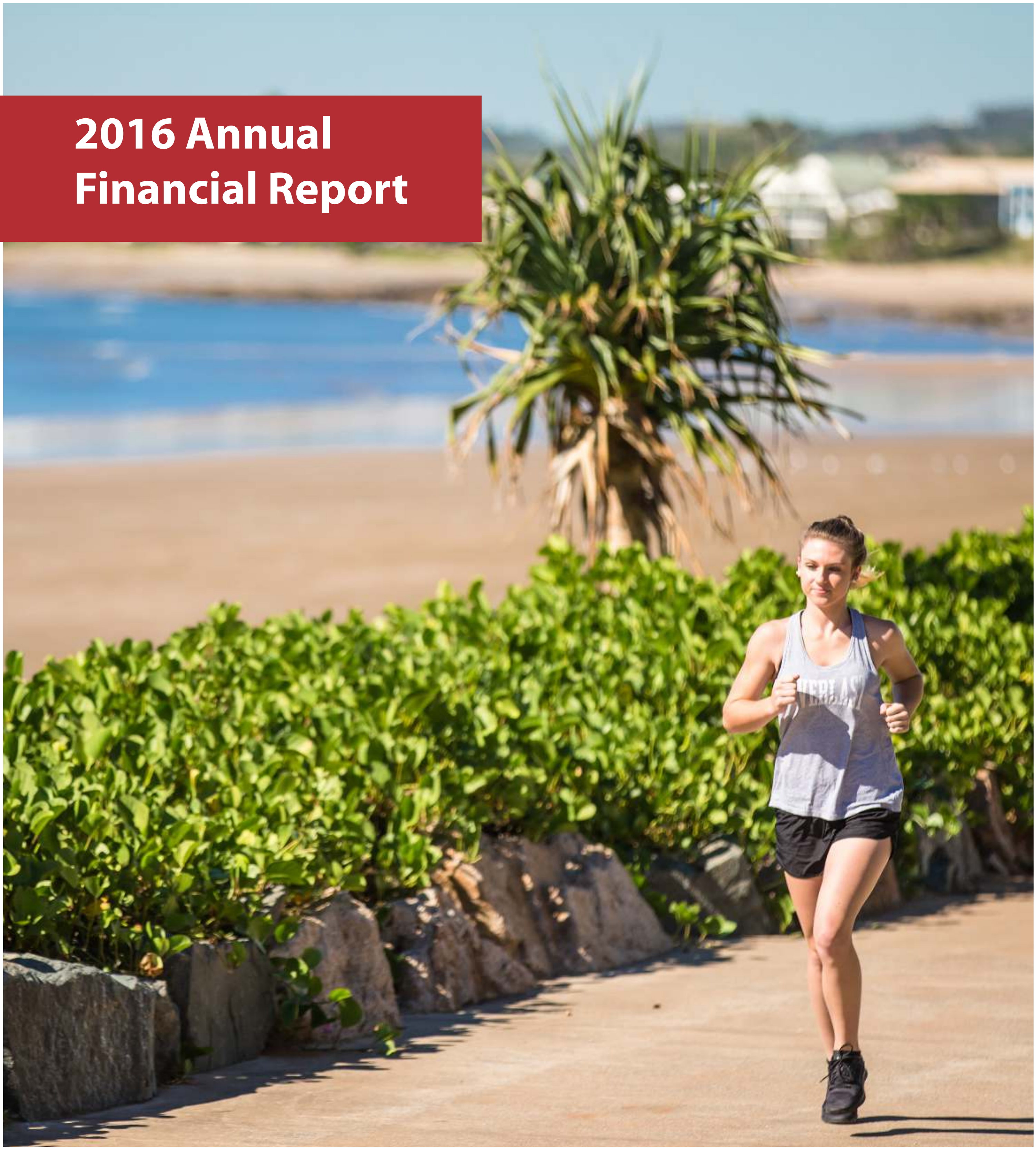
2016 Annual Financial Report



the capricornian
community owned banking

Our Mission

As a credit union, it is our mission to provide trusted, sustainable and fairer financial services to our members and our communities.

Our Vision

There is a vision held by all staff and our Directors, which is to provide a quality banking alternative. We want to be our members' financial institution of choice and grow with them throughout their lives.

Our Values

- Integrity
- Respect
- Fairness

The Capricornian Ltd

ABN 54 087 650 940

Annual financial report for the year ended 30 June 2016

Contents

Directors	George Anthony Edwards *Chairman* Ian John Mill *Deputy-Chairman* Vicki Anne Bastin-Byrne Christopher Bernard O'Brien John Francis Siganto
Secretary	Andrew John Robertson
Registered office	157 East Street, Rockhampton Qld 4700 A.F.S.L. 246 780 A.B.N. 54 087 650 940 Telephone (07) 4931 4900 Facsimile (07) 4931 4970 Email info@capricornian.com.au Phonefast 1300 654 654 Online Banking www.capricornian.com.au
Branches	Stockland Rockhampton, Yaamba Road, North Rockhampton 2 James Street, Yeppoon 115 Egerton Street, Emerald Blomfield Street, Miriam Vale 174 Goondoon Street, Gladstone
ATM's	Automatic Teller Machines (ATM's) are located at all branches listed above
External Auditor	PricewaterhouseCoopers
Internal Auditor	KPMG
Solicitors	Gadens Lawyers (Brisbane) Daniels Bengtsson Pty Ltd (Sydney)
Affiliations	Cuscal Ltd Australian Settlements Limited Customer Owned Banking Association
Website address	www.capricornian.com.au
Regulatory Disclosures	www.capricornian.com.au/About-Us/Prudential-Disclosures/

Following on from the successful 2015 financial year, The Capricornian has continued to perform strongly for the 2016 year.

It is with much satisfaction that I share this result with you and present my report for The Capricornian Limited for the 2015/2016 financial year.

Results this year have come out of a continuation of considered strategic planning by the Board and Management, and the subsequent substantial achievement of the objectives.

The financial year just gone saw our Credit Union continue to complete a number of strategic objectives designed to continually improve member services and experience. The requirement for mutual financial institutions to ensure they are technologically relevant to the needs of their members is a vital component of our planning. At The Capricornian, improvements to our systems and processes have been a major component of our strategic planning over the last few years.

Following the upgrade of the core banking system, we launched an easier to use and better, online and mobile banking platform in November 2015. This upgrade has been fully integrated into our banking system and provides members with improved access and functionality.

Our new banking app, “The Cap App” was launched in May 2016, and it provides members with complete flexibility and access via their tablets and phones to all of their savings and loan accounts.

To tie together the online banking, and banking app, our new website was launched in June. This provides a modern and comprehensive means for our members to research the products and services that our Credit Union offers.

Product development has also been an ongoing part of our planning and during the year a new suite of savings accounts and an associated economical fee structure was launched. As anticipated, we are able to provide fee free transaction banking to all members. The new product suite also rewards those members who support our Credit Union, with their savings and or deposits, by not charging them an account keeping fee. The fee structure also acknowledges and provides for the youth and aged in our community. We encourage you to share this with your families and friends so that they too can benefit from having their financial affairs professionally attended to by our community owned Financial Institution.

There is no doubt that all of Central Queensland has borne the impact of the downturn in the Mining sector, however, we have been able to absorb the affects this has had on our economy and produce good lending growth.

Our overall lending portfolio grew by some 6.9% during the year, with our new home loan portfolio up 4.3%. This is an extremely pleasing result, particularly with two of our key branches (Emerald and Gladstone) being impacted significantly by the mining sector issues. Our personal lending also grew significantly with a 6.5% increase on last years result.

These results produced a pre tax profit for our Credit Union of $1.9 million and importantly resulted in members equity increasing to $21.4 million an increase of 5.8%. Our members equity must continue to grow in order to satisfy the Government Regulators mandated levels of capital for lending institutions. The Credit Union also experienced good asset growth and our assets now stand at a little over $291 million.

As you are well aware, another key to many of our Strategic Goals was improving and increasing our community presence. We are a community owned financial institution, and last year we continued our community efforts by returning approximately $90,000 back to our communities in the form of sponsorships and donations to community organisations including but not limited to, Rockhampton Basketball Association, Yeppoon State High School RAMS, Rocky Tigers Football, Brothers Junior Football, Cancer Council Queensland, Red Shield Appeal and RACQ Helicopter Rescue.

Mr John Brown, our CEO since November 2012, resigned in April to move on to the next stage of his life. When John joined us he brought an extensive background in the customer owned banking sector to our Credit Union. John was key in leading organisational change in pursuit of our strategic objectives, the result of which has positioned The Capricornian as one of the best performing Credit Unions in the country. On behalf of the Board, Management and Staff of the Credit Union I acknowledge and thank John for his contribution and wish him all the best for the future.

Pending the appointment of a new CEO, Graham Olrich the former CEO of Credit Union Australia once again joined The Capricornian in May as Acting CEO. We were fortunate to be able to take advantage of Graham's support during this time and his great depth of skills and Credit Union experience has greatly assisted the business in the transition to our new CEO.

In undertaking the CEO recruitment process, the Board had firm views on the skills, experience and personal characteristics required of a CEO, that would enable your Credit Union to take the next great steps forward in the continual improvement process. We were delighted therefore to announce the appointment of Mr Dale Grounds to the CEO position at the conclusion of the recruitment process. Dale has extensive experience in banking and comes to The Capricornian from his role of General Manager at Family First Credit Union in Lithgow. Dale has previously held roles at The Rock Building Society and is looking forward to returning to Central Queensland. Dale commenced work with The Capricornian on 10 October.

To my fellow Directors, the Executive Management and our Staff, thank you for your support and continued contribution for our Credit Union over the past year. It has been particularly pleasing to see the extra work performed and teamwork displayed during the CEO changeover period.

To our Members thank you for your continued patronage of your locally owned financial institution, which is serving you well. If there is any way in which we can serve you better, please do not hesitate to let us know.

We look forward with confidence to the next year and look forward to again being able to present a positive result for your Credit Union.

G. A. Edwards
Chairman 22nd September 2016

Your directors present their report on the financial report of The Capricornian Ltd for the year ended 30 June 2016.

Directors
The following persons were non-executive directors of The Capricornian Ltd during the whole of the financial year and up to the date of this report, or as otherwise noted:

George Anthony EDWARDS, B.Bus, FCA.
(Chairman)

Experience and expertise
Principal and Director of Evans Edwards and Associates Chartered Accountants for 36 years. Director for 15 years.
Other current directorships
Director of 6 proprietary companies: Capehead Pty Ltd (director since 1981), Evans Edwards & Associates Pty Ltd (director since 2001), Manlex Pty Ltd (director since 1983), Keppel Cruises Pty Ltd (director since 2005), Meled Pty Ltd (formerly Capricornia Rockblock Pty Ltd, director since 2009), Capehead Superannuation Pty Ltd (director since 2012).
Former directorships in last 3 years
Director of Hughes St Pty Ltd from 2005–2012 and Daroto Pty Ltd from 2010-2015.
Special responsibilities
Chairman of the Remuneration Committee.
Member of the Governance Committee.

Ian John MILL, Dip H.A.
(Deputy-Chairman)

Experience and expertise
Chief Executive Officer, Mercy Health and Aged Care Central Queensland Ltd. Director for 11 years.
Other current directorships
None.
Former directorships in last 3 years
Director of Brigwood Pty Ltd from 2004- 2014 and Capricorn Tourism and Economic Development Ltd from 2014-2015.
Special responsibilities
Chairman of the Governance Committee.
Member of the Risk Management Committee.
Member of the Remuneration Committee.

Vicki Anne BASTIN-BYRNE, GAICD

Experience and expertise
Business Proprietor. Local Government Councillor for 11 years. Director for 13 years.
Other current directorships
Director of 1 public company: Iwasaki Foundation Ltd (director since 2010).
Former directorships in last 3 years
Director of Keppel and Fitzroy Delta Alliance from 2012-2015.
Special responsibilities
Member of the Audit Committee.

Christopher Bernard O'BRIEN, B.Bus, FCPA

Experience and expertise
Business Manager. Director for 5 years.
Other current directorships
None.
Former directorships in last 3 years
None.
Special responsibilities
Member of the Audit Committee.
Chairman of the Risk Management Committee.

John Francis SIGANTO, L.L.B, Grad Dip Fin Plan.

Experience and expertise
Solicitor and Financial Planner. Director for 8 years.
Other current directorships
Director of 3 proprietary companies: Grant and Simpson Service Co. Pty Ltd (director since 1997), Otnagis Pty Ltd (director since 2006), Basildon Pty Ltd (director since 2008).
Former directorships in last 3 years
Director of Skillsforce Ltd from 2008-2012 and Capricornia Training Company Ltd from 2007-2014.
Special responsibilities
Chairman of the Audit Committee.
Member of the Governance Committee.

Company secretary
Andrew John ROBERTSON, B.Bus. (Acc), CPA, MAMI, GIA (Cert)
Appointed December 2007.

Principal activities
During the year the principal continuing activities of the credit union were:
(a) to raise funds by subscription, deposit or otherwise, as authorised by the Corporations Law and Banking Act 1959 (Cth);
(b) to apply the funds in providing financial accommodation to members, subject to the Corporations Law and Banking Act 1959 (Cth);
(c) to encourage savings amongst members;
(d) to promote co-operative enterprise;
(e) to provide programs and services to members to assist them to meet their financial, economic, and social needs;
(f) to promote, encourage and bring about human and social development among individual members and within the larger community within which members work and reside; and
(g) to further the interests of members and the communities within which they work and live through co-operation with:
(i) other credit unions and co-operatives; and
(ii) associations of credit unions and co-operatives, locally and internationally.

Results
The profit from ordinary activities, after related income tax of $564,720, was $1,357,162, (2015 net profit of $1,483,324, after recording an income tax expense of $618,214).

Dividends
Dividends paid to members during the financial year were as follows:

	2016	**2015**
Capricornian Investment Shares	**$**	**$**
Final ordinary dividend for the year ended 30 June 2015 equivalent to the maximum dividend benchmark rate 5.36% p.a. per share fully franked.		
Paid on 26th October 2015.	69,512	67,160
Interim ordinary dividend for the year ended 30 June 2016 equivalent to the maximum dividend benchmark rate 4.80% p.a. per share fully franked.		
Paid on 1st February 2016.	63,239	69,291

The directors have provided for the payment of a final ordinary dividend of $65,330 paid out of retained profits at 30 June 2016 on issued Investment Shares as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 5.01% p.a. fully franked for the period ended 30 June 2016. Payment is subject to confirmation of members at the Annual General Meeting.

Review of operations
Information on the operations and financial position of the credit union and its business strategies and prospects is set out in the Chairman's Report on pages 4-5 of this annual report.

Significant changes in the state of affairs
During the year under review there was no significant change in the affairs of the credit union other than the matters mentioned elsewhere in this report or in the financial statements.

Matters subsequent to the end of the financial year
Since 30 June 2016 The Capricornian Ltd has had no other matter or circumstance arise that has significantly affected or may significantly affect:

(a) the credit union's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the credit union's state of affairs in future financial years.

Likely developments and expected results of operations
Additional comments on expected results of operations of the credit union are included in this annual report under the Chairman's Report.

Performance in relation to environmental regulations
The credit union has complied with all environmental regulations applicable to a credit union.

Directors benefits
Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract that:-

- the director; or
- a firm of which the director is a member; or
- an entity in which the director has a substantial financial interest;

has made, during that or any other financial year, with the credit union or an entity related to the credit union at the time of making the contract.

Meetings of directors
The numbers of meetings of the credit union's board of directors and of each board committee held during the year ended 30 June 2016, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees: Audit		Risk Management		Remuneration		Governance	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
G.A. Edwards	11	11	-	4	-	3	1	1	3	3
I.J. Mill	11	9	-	-	4	3	1	1	3	3
V.A. Bastin-Byrne	11	11	4	4	-	-	-	-	-	-
J.R. Mason	3	2	-	-	2	1	-	-	-	-
C.B. O'Brien	11	11	4	3	4	4	-	-	-	-
J.F. Siganto	11	11	4	4	-	-	-	-	3	3

A = Number of meetings held during the time the director held office or was a member of the committee during the year
B = Number of meetings attended

The role of the audit committee is to:
- Monitor compliance with board policies as well as prudential and statutory requirements.
- Oversee financial reporting, external and internal audits, and appointment of the external auditor.

The role of the risk management committee is to:
- Provide objective, independent and non-executive reviews of The Capricornian's Prudential Risk Management Framework.

The role of the remuneration committee is to:
- Provide the board with independent and non-executive advice relating to The Capricornian's Remuneration Policy, including an assessment of the policy's effectiveness in relation to requirements of the Prudential Standards.
- Provide advice relating to the remuneration of the Chief Executive Officer, direct reports of the Chief Executive Officer, other persons whose actions may affect the financial soundness of the credit union and any other person specified by APRA.
- Provide advice relating to the remuneration of the categories of persons covered by the credit union's Remuneration Policy (except those persons included above).

Retirement, election and continuation in office of directors
Mr G.A. Edwards retires by rotation and is eligible for re-election.

Mr J.F. Siganto retires by rotation and is eligible for re-election.

Remuneration report
The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration
The objective of the credit union's executive remuneration policy is to ensure reward for performance is competitive and appropriate for the results delivered. The policy aligns executive reward with achievement of strategic objectives and the creation of value for members, and conforms with industry practice for delivery of reward based on an independent survey of industry remuneration practices.

In keeping with the credit union's origin as a voluntary community service organization, directors' fees do not fully reflect their responsibilities.

The Board recommends an aggregate amount to members at the Annual General Meeting. The amount recommended is consistent with credit union industry standards.

Directors allocate the approved amount between themselves. Generally all directors receive the same base fee, with the chairman, deputy-chairman and chairmen of committees awarded an additional loading in recognition of added duties and responsibilities.

Where applicable, "superannuation guarantee" payments are made on behalf of directors to an eligible fund. Superannuation contributions are included in aggregate remuneration approved by members.

There are no retirement allowances made for directors.

There are no formal short-term or long-term incentive schemes for either directors or executives.

B Details of remuneration
Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of The Capricornian Ltd are set out in the following tables. All other conditions of employment are as set out in the Banking, Finance and Insurance Award 2010.

No directors or key management personnel of The Capricornian Ltd are remunerated by way of Investment Shares in The Capricornian Ltd. All Investment Shares purchased and held by directors and key management personnel, including their personally related parties, are set out in Note 22.

The key management personnel of the credit union are the directors (see pages 6 to 7 above), the Chief Executive Officer and those executives who report directly to the Chief Executive Officer. This includes the 4 executives who received the highest remuneration for the year ended 30 June 2016. The executives are:

- John William Collins Brown – *Chief Executive Officer* (Resigned 29th April 2016)
- Graham Olrich – *Acting Chief Executive Officer* (Appointed 4th May 2016)
- Graeme Walter Kemp – *General Manager Lending*
- Andrew John Robertson – *Chief Financial Officer*
- Leslie James Spencer – *General Manager Operations* (Appointed 19th January 2015, Resigned 11th April 2016)

Key management personnel of The Capricornian Ltd

2016

	Short-term employee benefits		Post-employment benefits	Long-term benefits	
Name	Cash salary and fees $	Non monetary benefits $	Super-annuation $	Long service leave $	Total $
Directors		-			
G.A. Edwards *Chairman*	3,043	-	34,800	-	37,843
I. J. Mill *Deputy-Chairman*	27,276	-	2,591	-	29,867
V.A. Bastin-Byrne	190	-	23,128	-	23,318
J.R. Mason*	-	-	5,363	-	5,363
C.B. O'Brien	100	-	25,729	-	25,829
J.F. Siganto	23,588	-	2,241	-	25,829
Sub-total directors	**54,197**	**-**	**93,852**	**-**	**148,049**
Other key management personnel					
J.W.C. Brown**	317,455	12,042	28,849	-	358,346
G. Olrich***	41,365	-	-	-	41,365
G.W. Kemp	123,119	1,261	17,158	2,750	144,288
A.J. Robertson	158,263	779	26,244	3,282	188,568
L.J. Spencer****	105,002	8,276	9,387	**-**	122,665
Sub-total (other key management personnel)	**745,204**	**22,358**	**81,638**	**6,032**	**855,232**
Totals	**799,401**	**22,358**	**175,490**	**6,032**	**1,003,281**

2015

	Short-term employee benefits		Post-employment benefits	Long-term benefits	
Name	Cash salary and fees $	Non monetary benefits $	Super-annuation $	Long service leave $	Total $
Directors					
G.A. Edwards *Chairman*	2,311	-	33,217	-	35,528
I.J. Mill *Deputy-Chairman*	25,050	-	2,380	-	27,430
V.A. Bastin-Byrne	-	-	20,786	-	20,786
J.R. Mason*	2,099	-	18,687	-	20,786
C.B. O'Brien	3,652	-	19,676	-	23,328
J.F. Siganto	21,304	-	2,024	-	23,328
Sub-total directors	**54,416**	**-**	**96,770**	**-**	**151,186**
Other key management personnel					
J.W.C. Brown**	318,393	13,167	18,780	-	350,340
G.W. Kemp	125,363	1,553	23,649	2,802	153,367
A.J. Robertson	150,479	2,162	29,880	3,731	186,252
B.S. Cook*****	49,522	4,428	14,302	(7,514)	60,738
L.J. Spencer****	44,307	1,442	4,209	-	49,958
Sub-total (other key management personnel)	**688,064**	**22,752**	**90,820**	**(981)**	**800,655**
Totals	**742,480**	**22,752**	**187,590**	**(981)**	**951,841**

* J.R. Mason retired 30th September 2015.

** J.W.C. Brown resigned 29th April 2016.

*** G. Olrich appointed 4th May 2016.

**** L.J. Spencer appointed 19th January 2015 and resigned 11th April 2016.

***** B.S. Cook resigned 3rd November 2014

Loans to key management personnel

Information on loans to key management personnel, including amounts, interest rates and repayment terms are set out in Note 22 to the financial statements.

Insurance of officers

During the financial year, The Capricornian Ltd paid a premium to insure the directors and secretaries of the credit union and its executive officers and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the credit union.

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 credit union, or to intervene in any proceedings to which the credit union is a party, for the purpose of taking responsibility on behalf of the credit union for all or part of those proceedings.

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

Non-audit services

The credit union may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the credit union are important.

Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in Note 23.

The Directors have considered the position and are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by directors to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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 12.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of directors.

G. A. Edwards
Director

J. F. Siganto
Director

Rockhampton
22nd September 2016

Auditor's Independence Declaration

As lead auditor for the audit of The Capricornian Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Michael O'Donnell
Partner
PricewaterhouseCoopers

Brisbane
22nd September 2016

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T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Contents

These financial statements cover The Capricornian Ltd ('the credit union') as an individual entity. The financial statements are presented in the Australian currency.

The credit union is a company limited by shares, incorporated and domiciled in Australia and operating under the "principles of mutuality" as set out in the preamble to the constitution. Its registered office and principal place of business is:

157 East Street
Rockhampton QLD 4700

A description of the nature of the credit union's operations and its principal activities is included in the directors' report on pages 6 to 12.

The financial statements were authorised for issue by the directors on 22nd September 2016. The credit union has the power to amend and reissue the financial statements.

	Notes	**2016** **$**	2015 $
Interest revenue	3	13,298,997	14,140,927
Interest expense	3	(5,657,733)	(6,792,700)
Net interest revenue		7,641,264	7,348,227
Fee and commission revenue	4	1,695,781	1,842,784
Other revenue	4	400,547	168,890
Total net interest income and other revenue		9,737,592	9,359,901
Bad and doubtful debts (expense)/revenue	11(b)	(200,180)	21,649
Other expenses	5	(7,615,530)	(7,280,012)
Total expenses		(7,815,710)	(7,258,363)
Profit before income tax expense		1,921,882	2,101,538
Income tax expense	6	(564,720)	(618,214)
Profit for the year attributable to members		1,357,162	1,483,324
Other comprehensive income/(loss), net of income tax Revaluation of land and buildings		(43,424)	-
Total comprehensive income for the year attributable to members		1,313,738	1,483,324

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	**2016** **$**	2015 $
ASSETS			
Cash and cash equivalents	7	12,099,451	10,339,607
Receivables	8	468,739	458,386
Held-to-maturity investments	9	28,826,948	38,809,802
Loans and advances	10,11	246,201,584	230,291,825
Property, plant and equipment	12	3,042,057	2,992,781
Intangible assets	13	513,953	354,978
Deferred tax assets	14	486,287	449,240
Other assets	15	168,998	408,536
Total assets		291,808,017	284,105,155
LIABILITIES			
Deposits and borrowings	17	267,695,780	260,364,993
Other liabilities	16	2,122,008	2,703,039
Provision for income tax		112,592	259,318
Provisions	18	438,101	523,436
Total liabilities		270,368,481	263,850,786
Net assets		21,439,536	20,254,369
EQUITY			
Contributed equity	19	2,508,579	2,508,579
Reserves	20(a)	1,223,721	1,227,839
Retained earnings	20(b)	17,707,236	16,517,951
Total equity		21,439,536	20,254,369

The above statement of financial position should be read in conjunction with the accompanying notes.

	Notes	Contributed Equity $	Reserves $	Retained Earnings $	Total $
Balance 1 July 2014		2,508,579	1,043,106	15,358,119	18,909,804
Profit for the year as reported in the 2014 financial statements	20(b)	-	-	1,483,325	1,483,325
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	1,483,325	1,483,325
Transfer to/from reserve for credit losses	20(b)	-	184,733	(184,733)	-
Total transfers to/from retained earnings		-	184,733	(184,733)	-
Transactions with investment shareholders					
Contributions of equity, net of transaction costs	19	-	-	-	-
Dividend provided for or paid	20(b)	-	-	(138,760)	(138,760)
		-	-	(138,760)	(138,760)
Balance 30 June 2015		2,508,579	1,227,839	16,517,951	20,254,369
Profit for the year	20(b)	-	-	1,357,162	1,357,162
Other comprehensive income/(loss)	20(a)	-	(43,424)	-	(43,424)
Total comprehensive income for the year		-	(43,424)	1,357,162	1,313,738
Transfer to/from reserve for credit losses	20(b)	-	39,306	(39,306)	-
Total transfers to/from retained earnings		-	39,306	(39,306)	-
Transactions with investment shareholders					
Contributions of equity, net of transaction costs	19	-	-	-	-
Dividend provided for or paid	20(b)	-	-	(128,571)	(128,571)
		-	-	(128,571)	(128,571)
Balance 30 June 2016		2,508,579	1,223,721	17,707,236	21,439,536

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	**2016** **$**	2015 $
Cash flows from operating activities			
Interest received		13,329,120	14,155,568
Interest paid		(5,836,436)	(6,528,911)
Loans and advances funded		(60,276,617)	(46,496,357)
Loans repaid excluding overdrafts		44,174,374	40,643,685
Net inflow/(outflow) in member deposits		7,330,785	2,753,398
Non interest revenue received		2,257,260	1,745,401
Cash paid to suppliers and employees		(7,644,743)	(6,033,312)
Income taxes paid		(729,882)	(608,919)
Net cash outflow from operating activities	28	(7,396,139)	(369,447)
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(700,220)	(367,333)
Proceeds from sale of property, plant and equipment		6,100	75
Net cash outflow from investing activities		(694,120)	(367,258)
Cash flows from financing activities			
Dividends paid		(132,751)	(136,408)
Net cash outflow from financing activities		(132,751)	(136,408)
Net decrease in cash and cash equivalents		(8,223,010)	(873,113)
Cash and cash equivalents at the beginning of the financial year		49,149,409	50,022,522
Cash and cash equivalents at the end of the financial year	29	40,926,399	49,149,409

The above statement of cash flows should be read in conjunction with the accompanying notes.

Contents

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for The Capricornian Ltd.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, *Corporations Act 2001* and the reporting requirements of the Prudential Standards.

Compliance with IFRS
The financial statements of The Capricornian Ltd also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through the statement of comprehensive income, certain classes of property, plant and equipment and investment property.

(b) Fee and commission revenue

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan establishment fees are deferred and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees are recognised over the period the service is provided. This principle is applied to loan brokerage, insurance, asset management and financial planning services that are continuously provided over an extended period of time.

(c) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the company income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the credit union has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(d) Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 25(a)). Payments made under operating leases (net of any incentives received by the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

1 Summary of significant accounting policies (continued)

(e) Investments and other financial assets

Classification
The credit union classifies its investments in the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The directors determine the classification of investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluate this designation at each reporting date.

(i) Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the credit union provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and advances are included in the statement of financial position (Note 10).

(ii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the credit union's management has the positive intention and ability to hold to maturity.

Recognition and derecognition
Regular purchases and sales of investments are recognised on the date on which the credit union commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the credit union has transferred substantially all the risks and rewards of ownership.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Fair value
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the credit union establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where the fair value cannot be reliably measured, available-for-sale assets are accounted for at cost.

Impairment
The credit union assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the credit union's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of comprehensive income.

(f) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the credit union for similar financial instruments.

(g) Interest receivable

The interest receivable on cash equivalents and held to maturity investments is recognised in the statement of comprehensive income, with all investments expected to be held until maturity and interest received within 12 months.

(h) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with banks.

(i) Interest income on loans

Loan interest is calculated on the daily loan balance outstanding and is charged to the members' loan account monthly in arrears.

1 Summary of significant accounting policies (continued)

(j) Loans and advances

Loans and advances to members are recognised at the recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is objective evidence that not all the principal and interest can be collected in accordance with the terms of the loan agreement.

During the year ended 30 June 2016 the credit union's provision for impairment policy consisted of the following components:

- The provision for impairment is calculated monthly according to Prudential Standard AGN220.3. Additional provision on credit exposures is included as directed by the Board.
- The Prudential Standards require that a "credit loss reserve" be maintained as part of members' equity to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has been previously recognised, write offs for bad debts are recognised as an expense in the statement of comprehensive income.

(k) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the credit union and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to asset revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is first recognised in the statement of comprehensive income. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the statement of comprehensive income. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method. The rates used are as follows:

- Buildings	2.5%
- Computer Hardware	25.0%
- Leasehold Improvements	10.0% (or the unexpired term of the lease whichever is shorter)
- Motor Vehicles	20.0%
- Office Furniture and Equipment	15.0%
- "Low value pool" depreciable assets whose individual acquisition cost is less than $1,000	25.0%

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is credit union policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

1 Summary of significant accounting policies (continued)

(l) Intangible Assets

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the credit union are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use it
- there is an ability to use the software
- it can be demonstrated how the software will generate probable future economic benefits
- there is a definite useful life expected of the software
- adequate technical, financial and other resources to complete the development and to use the software are available, and
- the expenditure attributable to the software during its development can be reliable measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Amortisation on intangible assets is calculated using the straight-line method. The rates used are as follows:

- Core Banking System (licenses and installation costs)	25.0%
- General Computer Software	33.3%

The amortisation expense is recorded as Other expenses in the Statement of Comprehensive Income.

(m) Member deposits

Member's deposits are brought to account at the gross value of the outstanding balance. Interest on deposits is brought to account on an accrual basis. Interest accrued at balance date is included in accrued expenses.

(n) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave
The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and measured in accordance with the paragraph above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

(iii) Retirement benefit obligations
Contributions are made by the credit union to employee superannuation funds and are charged as expenses when incurred.

(o) Contributed equity

"Investment Shares", which are Irredeemable, Non-cumulative, Non-participating preference shares are classified as equity.

If the credit union reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the statement of comprehensive income and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(p) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the credit union, on or before the end of the financial year but not distributed at balance date.

1 Summary of significant accounting policies (continued)

(q) Goods and Services Tax (GST)

As a financial institution providing input taxed supplies, the credit union is unable to claim back all GST paid and thus amounts shown in these financial statements are inclusive of any non-recoverable GST.

(r) Deferral of fees and transaction costs

The deferral of the fees and transaction costs under the effective interest rate method results in the deferral of income to subsequent years.

(s) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the credit union's accounting policies. Accounting estimates are used in the calculation of the provision for bad and doubtful debts relating to loans to members. Refer to Note 1(j) for further information regarding such estimates.

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016. The credit union's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is applicable for reporting periods after 1 January 2018.

When adopted, the standard will affect in particular the credit union's accounting for impairment of loans and advances, as the new approach to accounting for impairment will require more timely recognition of expected credit losses. There will be no material impact on the credit union's accounting for financial assets or liabilities, as the new requirements for classification and measurement only affect the accounting for gains and losses on available for sale debt instruments and financial liabilities that are designated at fair value through profit and loss and the credit union does not have any such assets or liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The revisions to hedge accounting align the accounting treatment with risk management activities which will require enhanced disclosures about risk management activity however the credit union does not currently apply hedge accounting. The credit union has not yet decided when to adopt AASB 9.

(ii) IFRS 15 *Revenue from contracts with customers* will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The standard is applicable for reporting periods after 1 January 2018 but is available for early adoption. The credit union is yet to assess how the standard will impact on its financial reporting.

(iii) IFRS 16 *Leases* eliminates the classification of leases as either operating leases or finance leases and introduces a single lease accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The model also requires that a lessee recognise depreciation of lease assets separately from interest on lease liabilities in the income statement. The standard was published in January 16, however it only applies to annual periods beginning on or after 1 January 2019. The credit union is yet to assess how the standard will impact on its financial reporting.

2 Financial risk management

The credit union's activities expose it to a variety of financial risks; credit risk, liquidity risk and market risk (including fair value interest rate risk and price risk). The credit union's overall risk management program focuses on the unpredictability of financial markets and seeks to manage potential adverse effects on the financial performance of the credit union.

Risk management is carried out by applying policies approved by the board of directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate and credit risks and investing excess liquidity.

(a) Market Risk

(i) Price risk

Equity securities price risk arises from investments held by the credit union and classified on the statement of financial position as available-for-sale. The credit union is not exposed to significant price risk. The credit union is not exposed to commodity price risk.

(ii) Interest rate risk

The credit union is subject to risk arising from the effects of future changes in the prevailing level of interest rates. The extent of any exposure to interest rate risk is described by the period to contractual repricing as follows:

1) Financial assets and liabilities not exposed to interest rate risk:
   - Cash on hand (*Note 7*)
   - Prepayments (*Note 8*)
   - Other liabilities (*Note 16*)
   - Provisions (*Note 18*)

2) Financial assets and liabilities where the period to contractual repricing is equivalent to the maturity analysis:
   - Held-to-maturity investments (*Note 9*)
   - Deposits and borrowings – member call deposits and member term deposits (*Note 2c*)

3) Unsecured notes (*Refer Note 2c*) are issued for a five or seven year term with repayment of principal and outstanding interest subordinated to the rights of depositors, secured and unsecured creditors and any other payments required by the law to be made in priority.

Contractual terms provide for the repricing of unsecured notes every 3 months, as indicated in the following schedule:-

	2016 **$**	2015 $
No longer than 1 month	-	757,185
More than 1 month and less than 3 months	4,117,140	4,255,940
	4,117,140	5,013,125

4) Loans and advances will potentially reprice in accordance with the following schedule:-

	2016 **$**	2015 $
No longer than 1 month	189,674,511	182,756,549
More than 1 month and less than 3 months	1,443,058	1,276,779
More than 3 months and less than 12 months	24,288,538	9,968,642
More than 12 months and less than 5 years	31,130,712	36,522,453
	246,536,819	230,524,423

2 Financial risk management (continued)

(a) Market Risk (continued)

5) Sensitivity.

Interest sensitivity of the book is a measure of the change in the present value of an asset or liability due to a change in interest rates.

Sensitivity has been measured to a 100 basis point parallel downward shift in interest rates out to the last repricing period of the book. This figure is found by summing the present values of the exposures across the different maturity periods. A positive figure means the portfolio will be adversely affected by a rate rise.

The use of 100 basis points sensitivity allows the credit union to compare movements in its risk position on a quarterly basis. This provides an estimate of changes to accrued income should rates move in a certain direction. In practice though, exact parallel shifts in rates are unlikely to occur in the market. The analysis is done on a quarterly basis to verify that the maximum loss potential to the statement of comprehensive income is within the limit set by the board.

The analysis and aggregation of the credit union's statement of financial position gives rise to the following interest rate sensitivities:

Sensitivity	**2016** **$**	2015 $
Sensitivity to 1% rate fall on profit and equity	(368,500)	(393,800)

The results of the interest sensitivity analysis reported provides that the credit union's exposure as at 30 June 2016 is to a decrease in interest rates. This is demonstrated by the resulting change to accrued income recording a negative result.

(b) Credit risk

(i) Maximum credit risk exposure

The maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event counterparties fail to perform their obligations under financial instruments is equivalent to the amounts reported in the statement of financial position or notes to and forming part of the accounts for the following financial assets:

- Cash and cash equivalents – current accounts with Authorised Deposit-Taking Institutions (*Note 7*)
- Receivables (*Note 8*)
- Loans and advances (*Note 10*)
- Held-to-maturity investments *(Note 9)*

(ii) Concentration of credit risk

The credit union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of members. Credit risk is currently managed in accordance with the Prudential Standards to reduce the credit union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

The credit union's operations are predominately in the Central Queensland region. There is no significant exposure to a particular industry or customer group.

The following groups represent concentrations of financial assets in excess of 10% of capital:

	2016 **$**	2015 $
• Authorised Deposit-Taking Institutions Aggregate Amount	22,977,355	39,173,169

2 Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit Risk Management System

The credit risk management system ensures that:

- Rigorous ongoing monitoring of credit quality is undertaken.
- Impaired facilities are identified, measured and acted on in a timely manner.
- Inherent credit risk in the credit union's business is realistically estimated and factored into business planning, capital and credit systems.
- Recognition of collateral as a mitigant to credit risk is based on sound and prudent valuation of security.
- Credit facilities which are deemed to be uncollectible are routinely written down or written off.
- Credit assessment and provisioning procedures are periodically validated to ensure that policy settings remain appropriate.
- Provisions and reserves, including the specific provision for doubtful debts and the general reserve for credit losses, are adequate.
- Data is generated to fully and adequately assess the credit union's credit risk exposures and levels of impairment and to prepare various reports including internal reports, general purpose financial reports and reports to Australian Prudential Regulatory Authority (APRA).
- Credit exposures, including non-lending exposures, are sensibly diversified and limited such that changing market conditions do not unduly impact on the credit union's net worth or viability.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or, in the instance of loans to members, consideration of the structure of the loan and any collateral held.

Current accounts with ADI's	**2016** **$**	2015 $
Investment Grade	6,232,278	6,781,616
Non-investment Grade	5,424,090	3,089,909
Total current accounts with ADI's	11,656,368	9,871,525

Held to maturity investments	**2016** **$**	2015 $
Investment Grade	28,826,948	37,809,802
Non-investment Grade	-	1,000,000
Total held to maturity investments	28,826,948	38,809,802

Loans and advances	**2016** **$**	2015 $
Mortgage over Residential Property	213,509,185	200,191,722
Mortgage over Other Property	21,460,791	19,845,267
Personal Loans	10,958,932	10,108,896
Unsecured overdrafts	607,911	378,538
	246,536,819	230,524,423

2 Financial risk management (continued)

(b) Credit risk (continued)

2016

Ageing analysis of Loans in Arrears	Category 1 loans $	Category 2 loans $	Category 3 loans $
less than 30 days	5,145,007	-	535,900
30 days and less than 90 days	457,248	-	380,675
90 days and less than 182 days	545,524	-	340,086
182 days and less than 365 days	-	-	60,570
365 days and over	252,166	-	202,646
	6,399,945	-	1,519,877

	Category 4 loans $
less than 14 days	45,597
14 days and less than 90 days	17,546
90 days and less than 182 days	2,437
182 days and over	1,839
	67,419

	Category 1 loans $	Category 2 loans $	Category 3 loans $	Category 4 loans $
Value of collateral held	10,248,000	-	1,319,765	-

2015

Ageing analysis of Loans in Arrears	Category 1 loans $	Category 2 loans $	Category 3 loans $
less than 30 days	1,657,299	478,212	824,322
30 days and less than 90 days	233,979	181,022	186,484
90 days and less than 182 days	-	-	35,124
182 days and less than 365 days	-	-	439,487
365 days and over	-	-	37,156
	1,891,278	659,234	1,522,573

	Category 4 loans $
less than 14 days	28,607
14 days and less than 90 days	12,743
90 days and less than 182 days	1,098
182 days and over	5,999
	48,447

	Category 1 loans $	Category 2 loans $	Category 3 loans $	Category 4 loans $
Value of collateral held	3,607,000	725,000	2,089,000	-

2 Financial risk management (continued)

(b) Credit risk (continued)

The value of mortgaged property held as collateral is determined by reference to most recent valuer's valuation report. The valuation report must be dated not more than six months prior to the date of the lending decision. Where the credit union has collateral via bill of sale over a vehicle, the value of the collateral is determined by reference to Glass's Information Services value. Loan to valuation ratio is calculated using total loan balances as well as available redraw and is referred to as 'LVR' throughout The Capricornian's annual report.

- Category 1 loans – Loans with eligible residential mortgage held as collateral with LVR less than 80%. Where LVR is greater than 80% there is mortgage insurance in place.
- Category 2 loans – Loans with eligible residential mortgage held as collateral with LVR greater than 80% and no mortgage insurance is in place.
- Category 3 loans – Loans with no collateral or collateral other than eligible residential mortgage or loans with eligible residential mortgage held as collateral with LVR greater than 100% and no mortgage insurance in place.
- Category 4 loans – Overdrafts which are over limit, or savings accounts without overdraft which are overdrawn.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying business, the credit union aims at maintaining flexibility in funding by keeping committed credit lines available.

(i) Liquidity Management Strategy

The liquidity management strategy ensures, irrespective of any contemporary or contingent, internal or external risk, event or calamity, and across a wide range of operating circumstances, that:

- The credit union has, at all times, ready access to unencumbered, high quality liquid assets to meet any call on its liabilities.
- The credit union's provisioning for liquid assets is both appropriate and proportional to the risk of any likely call on its liabilities.
- The credit union does not create any exposure to any single or associated group of members that could create an undue liquidity risk.
- Such liquid assets are held in a form and with persons acceptable to APRA and the Board.
- Minimum liquidity ratios, as may be prescribed from time to time, are easily exceeded.

(ii) Maturity Profile of Financial Liabilities

The associated table shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

2016	**Within 1 month $**	**1–3 months $**	**3-12 months $**	**1-5 years $**	**At Call $**	**Total $**
Liabilities						
Deposits and borrowings	24,029,794	27,973,085	63,843,847	2,432,423	149,330,759	267,609,908
Interest payable	222,727	155,792	436,519	-	-	815,038
Total Financial Liabilities	**24,252,521**	**28,128,877**	**64,280,366**	**2,432,423**	**149,330,759**	**268,424,946**

2015	**Within 1 month $**	**1–3 months $**	**3-12 months $**	**1-5 years $**	**At Call $**	**Total $**
Liabilities						
Deposits and borrowings	23,667,430	25,845,943	61,035,274	4,117,140	145,612,716	260,278,503
Interest payable	326,620	167,395	499,726	-	-	993,741
Total Financial Liabilities	**23,994,050**	**26,013,338**	**61,535,000**	**4,117,140**	**145,612,716**	**261,272,244**

2 Financial risk management (continued)

(c) Liquidity risk (continued)

(iii) Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The Capricornian Ltd has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Capricornian Ltd holds unlisted securities which are valued at cost as the fair value cannot be reliably measured in accordance with the accounting policy described in Note 1(e). The credit union does not hold any other financial instruments measured at fair value.

(d) Capital risk

The credit union's objectives when managing capital is to optimise member value through the mix of available capital sources whilst complying with statutory and constitutional capital and distribution requirements and continuing to operate as a going concern.

The credit union assesses its capital management approach as a key part of the credit union's overall strategy and is continuously reviewed by management and the board.

The credit union is required by the Australian Prudential Regulation Authority (APRA) to comply with certain minimum standards in respect of capital management. APRA sets certain minimum benchmark ratios in these standards with which the credit union must comply. The credit union has complied with these minimum standards throughout the reporting period.

3 Interest revenue and interest expense

The following table shows the amount of interest revenue or expense for each of the major categories of interest bearing assets and liabilities.

	2016 **$**	2015 $
Interest Revenue		
Cash and cash equivalents	214,419	305,225
Investment securities	799,519	851,224
Loans and advances	12,285,059	12,984,478
	13,298,997	14,140,927
Interest Expense		
Member deposits	5,407,446	6,467,176
Investment Bonds	244,659	323,816
Borrowings	5,628	1,708
	5,657,733	6,792,700

4 Fee, commission and other revenue

	2016 **$**	2015 $
Non-interest revenue		
Fees and commissions		
-loan fee income	182,311	198,692
-other fee income	775,892	723,885
-insurance commissions	417,773	443,191
-other commissions	319,805	477,016
Subtotal	1,695,781	1,842,784
Bad debts recovered	6,378	5,775
Other revenue		
-sale of financial planning relationships	208,702	-
-other	185,467	163,115
Subtotal	400,547	168,890
Total non-interest revenue	2,096,328	2,011,674

5 Other expenses

	2016 **$**	2015 $
Depreciation and amortisation		
-plant and equipment	137,111	170,405
-buildings	133,201	54,471
-intangible assets	159,619	59,157
General and administration		
-personnel costs	3,445,982	3,412,306
-other	2,012,892	1,901,660
Other expenses		
-operating lease expenses	226,051	203,590
-other	1,500,674	1,478,423
Total other expenses	7,615,530	7,280,012

6 Income tax expense

(a) The prima facie tax on profit before income tax is reconciled to the income tax expense provided in the financial statements as follows:

	2016 **$**	2015 $
Profit from continuing operations before income tax	1,921,882	2,101,538
Prima facie tax payable on profit at 30% (2015: 30%)	576,565	630,461
Add Tax effect of:		
Non-deductible entertainment	1,394	992
	577,959	631,453
Less Tax effect of:		
Tax Building depreciation/building allowance	(13,239)	(13,239)
Income tax expense attributable to profit before income tax.	564,720	618,214
The applicable weighted average effective tax rates are as follows:	29%	29%

	2016 **$**	2015 $
(b) The components of tax expense comprise:		
Current tax	583,156	623,552
Deferred tax	(18,436)	(5,338)
	564,720	618,214
Income tax is attributable to:		
Profit from continuing operations	583,156	623,552
Aggregate income tax expense	583,156	623,552
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets (Note 14)	(18,436)	(5,338)
	564,720	618,214
(c) Tax expense (income) relating to items of other Comprehensive income		
Gains on revaluation of land and buildings	(18,612)	-
(d) Balance of franking account at year end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the reporting date based on a tax rate of 30% (2015: 30%)	6,045,198	5,518,934

7 Cash and cash equivalents

	2016 **$**	2015 $
Cash on Hand	443,083	468,082
Current accounts with Authorised Deposit-Taking Institutions	11,656,368	9,871,525
	12,099,451	10,339,607

8 Receivables

	2016 **$**	2015 $
Interest Receivables – to be settled within 12 months	93,022	123,145
Prepayments	375,717	335,241
	468,739	458,386

9 Held-to-maturity investments

	2016 **$**	2015 $
Debt securities – at amortised cost:		
Deposits with Authorised Deposit-Taking Institutions	28,826,948	38,809,802
	28,826,948	38,809,802

10 Loans and advances

	2016 **$**	2015 $
Overdrafts	5,910,403	6,421,548
Term loans	240,626,416	224,102,875
Unamortised setup costs	73,040	41,009
Unamortised establishment fees	(154,166)	(129,831)
Gross loans and advances	246,455,693	230,435,601
Provision for impairment (Note 11)	(254,109)	(143,776)
Net loans and advances	246,201,584	230,291,825

Maturity Analysis

	2016 **$**	2015 $
Unamortised setup costs	73,040	41,009
Unamortised establishment fees	(154,166)	(129,831)
Current accounts		
Overdrafts	5,910,403	6,421,548
Not longer than 3 months	3,138,450	2,755,921
Longer than 3 months and not longer than 12 months	7,776,579	7,645,348
Non-current accounts		
Longer than 1 year and not longer than 5 years	37,102,889	35,600,354
Longer than 5 years	192,608,498	178,101,252
	246,455,693	230,435,601

10 Loans and advances (continued)

Securitisation

From time to time the credit union transfers loans into a securitisation vehicle for the purpose of liquidity and capital management. The credit union considers this securitisation vehicle to be an unconsolidated structured entity.

At 30 June 2016, the fair value of securitised loans under management is $15,480,473 (2015: $21,864,140). These loans have been derecognised from the credit union's balance sheet. The credit union's interest in the securitisation vehicle is limited to a margin entitlement earned from servicing these securitised loans. During 2016, the credit union earned $210,429 (2015: $288,415) income from these activities.

The credit union's maximum exposure to loss associated with structured entities is the loss of the margin entitlement earned in servicing securitised loans.

There are no additional off balance sheet arrangements which would expose the credit union to potential loss. Once the securitised loans have been repaid, the credit union ceases to be exposed to any risk from the securitisation vehicle.

The credit union's last transfer of loans into a securitisation vehicle occurred in 2012 and the credit union has no plans at this time of securitising any further loans.

11 Impairment of loans and advances

These provisions have been determined in accordance with the policies as set out in Note 1(e).

	2016 **$**	2015 $
(a) Provisions for impairment		
Opening balance	143,776	335,669
Expense to/(from) provision	200,180	(21,649)
Bad debts written off from provision	(89,847)	(170,244)
Closing balance	254,109	143,776
(b) Bad and doubtful debts expense/(revenue)		
Provision for impairment	200,180	(21,649)
	200,180	(21,649)
(c) Impaired loans and past due loans		
Non-accrual loans	471,271	93,140
Provision for non-accrual loans	(154,004)	(63,420)
Net carrying value	317,267	29,720
Interest forgone on non-accrual loans	10,293	1,865
Balance of past-due loans	950,933	438,414

12 Property, plant and equipment

	Freehold land and Buildings $	Plant and Equipment $	Assets in Progress $	Total $
At 1 July 2014				
Cost or fair value	2,810,000	1,755,803	8,699	4,574,502
Accumulated depreciation	(51,500)	(1,390,574)	-	(1,442,074)
Carrying amount	2,758,500	365,229	8,699	3,132,428
Year ended 30 June 2015				
Carrying amount at 1 July 2014	2,758,500	365,229	8,699	3,132,428
Additions	51,208	30,107	3,914	85,229
Depreciation	(54,471)	(170,405)	-	(224,876)
Carrying amount at 30 June 2015	2,755,237	224,931	12,613	2,992,781
At 30 June 2015				
Cost or fair value	2,861,208	1,785,910	12,613	4,659,731
Accumulated depreciation	(105,971)	(1,560,979)	-	(1,666,950)
Carrying amount	2,755,237	224,931	12,613	2,992,781
Year ended 30 June 2016				
Carrying amount at 1 July 2015	2,755,237	224,931	12,613	2,992,781
Additions	-	371,564	42,996	414,560
Disposals	-	(32,936)	-	(32,936)
Transfers from Work in Progress accounts	-	3,914	(3,914)	-
Revaluation increments	(62,036)	-	-	(62,036)
Depreciation	(133,201)	(137,111)	-	(270,312)
Carrying amount at 30 June 2016	2,560,000	430,362	51,695	3,042,057
At 30 June 2016				
Cost or fair value	2,560,000	1,789,806	51,695	4,401,501
Accumulated depreciation	-	(1,359,444)	-	(1,359,444)
Carrying amount	2,560,000	430,362	51,695	3,042,057

Recognised fair value measurements

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

All resulting fair value estimates for properties are included in level 3 of the fair value hierarchy levels prescribed under the accounting standards as one or more of the significant inputs required to fair value the credit union's properties is not based on observable market data.

The credit union engages external, independent and qualified valuers to determine the fair value of the credit union's properties at least every three years. A revaluation of freehold land and buildings at 157 East Street, Rockhampton was performed by directors as at 20th April 2016, based on an assessment of the current market value. In performing the revaluation, directors referred to an independent valuation by Herron Todd White (Central Queensland) Pty Ltd. The current carrying value of property held in Emerald was based on an independent valuation as at 6th May 2016 by Taylor Byrne Pty Ltd. Current market value of freehold properties as at 30th June 2016 was assessed at $2,560,000 and it is the opinion of the directors that this current carrying value is appropriate.

The property, plant and equipment values have been reclassified for both 2015 and 2016 as a result of the identification and separate disclosure of intangible assets (Note 13).

13 Intangible assets

	Software $	Asset in Progress $	Total $
At 1 July 2014			
Cost or fair value	1,256,171	65,564	1,321,735
Accumulated amortisation	(1,189,705)	-	(1,189,705)
Carrying amount	66,466	65,564	132,030
Year ended 30 June 2015			
Carrying amount at 1 July 2014	66,466	65,564	132,030
Additions	171,910	110,195	282,105
Transfers from Work in Progress accounts	14,525	(14,525)	-
Amortisation	(59,157)	-	(59,157)
Carrying amount at 30 June 2015	193,744	161,234	354,978
At 30 June 2015			
Cost or fair value	1,442,606	161,234	1,603,840
Accumulated amortisation	(1,248,862)	-	(1,248,862)
Carrying amount	193,744	161,234	354,978
Year ended 30 June 2016			
Carrying amount at 1 July 2015	193,744	161,234	354,978
Additions	314,192	4,402	318,594
Transfers from Work in Progress accounts	141,683	(141,683)	-
Amortisation	(159,619)	-	(159,619)
Carrying amount at 30 June 2016	490,000	23,953	513,953
At 30 June 2016			
Cost	1,898,482	23,953	1,922,435
Accumulated amortisation	(1,408,482)	-	(1,408,482)
Carrying amount	490,000	23,953	513,953

14 Deferred tax assets

	2016 $	2015 $
Deferred tax assets comprise temporary differences attributable to:		
Doubtful debts	76,234	43,133
Employee benefits	111,832	136,177
Accruals	3,837	3,836
Depreciation	123,972	174,367
Excess FBT accounting over tax deduction	(362)	(175)
Prepayments (expense account)	38,797	74,808
Prepayments (asset account)	6,550	(1,059)
Deferred tax liabilities attributable to property, plant and equipment	125,427	18,153
	486,287	449,240

14 Deferred tax assets (continued)

Movements:		
Opening balance 1 July	449,240	443,902
Credited/(charged) to the income statement	144,321	21,083
Credited/(charged) from deferred tax liabilities	(107,274)	(15,745)
Closing balance 30 June	486,287	449,240
Deferred tax assets to be recovered within 12 months	486,287	449,240
	486,287	449,240

15 Other assets

	2016 **$**	2015 $
Other assets	168,998	408,536
	168,998	408,536

The balance of other assets consists of clearing accounts that are expected to settle within one month.

16 Other liabilities

	2016 **$**	2015 $
Accrued expenses – to be settled within 12 months	1,018,310	1,083,898
Other liabilities – to be settled within 12 months	1,083,198	1,619,141
Other liabilities – to be settled within 5 years	20,500	-
	2,122,008	2,703,039

17 Deposits and borrowings

	2016 **$**	2015 $
Unsecured deposits and borrowings		
Member call deposits (including withdrawable shares)	149,416,631	145,699,207
Member term deposits	114,162,009	109,652,661
Member unsecured notes	4,117,140	5,013,125
Total deposits and borrowings	267,695,780	260,364,993
Current – within 12 months to maturity	265,263,357	256,247,853
Non-current – greater than 12 months to maturity	2,432,423	4,117,140
	267,695,780	260,364,993

Concentration of Deposits

The credit union's operations are predominately in the Central Queensland region. There is no significant exposure to a particular industry or customer group. There are no deposits lodged by individual depositors or related groups which exceed 10% of liabilities.

18 Provisions

	2016 **$**	2015 $
Non-current provisions		
Provision for employee benefits – long service leave	25,619	57,230
Current provisions		
Provision for employee benefits – annual leave	129,940	194,484
Provision for employee benefits – long service leave	217,212	202,210
Provision for dividends	65,330	69,512
	438,101	523,436

(a) Movements in provisions

Movements in provision for dividend during the financial year is set out below:

	2016 **$**	2015 $
Carrying amount at start of year	69,512	67,160
Charged/(credited) to the income statement		
- additional provisions recognised	128,569	138,760
Dividends paid	(132,751)	(136,408)
Closing Balance as at 30 June	65,330	69,512

19 Contributed equity

		Number of Shares	$
(a) Movements in Share Capital			
Investment Shares			
Opening balance 1 July 2015		2,613,190	2,613,190
Balance 30 June 2016		2,613,190	2,613,190
Less: Transaction costs arising on share issue			(104,611)
30 June 2016	**Total contributed equity**	2,613,190	2,508,579

Investment Shares are irredeemable, non-cumulative, non-participating preference shares issued under Division 2 of Appendix 3 to the credit union's constitution.

20 Reserves and retained profits

	2016 $	2015 $
(a) Reserves		
Asset revaluation reserve – opening balance	747,978	747,978
Movements:		
Decrease on revaluation – gross (Note 12)	(62,036)	-
Decrease on revaluation – deferred tax (Note 6)	18,612	-
Balance 30 June 2016	704,554	747,978
Credit loss reserve – opening balance	479,861	295,128
Movements:		
Increment on transfer from retained earnings	39,306	184,733
Balance 30 June 2016	519,167	479,861
Total reserves 30 June 2016	1,223,721	1,227,839

Nature and purpose of reserves

(i) Asset revaluation reserve
The asset revaluation reserve is used to record increments and decrements on the revaluation of assets, as described in accounting policy Note 1(k).

(ii) Credit loss reserve
The credit loss reserve replaces the former general provision for doubtful debts. It is an equity reserve established in accordance with the Prudential Standards that as a minimum, covers credit losses prudently estimated but not certain to arise over the full life of all the individual facilities making up the business of the credit union.

(b) Retained profits

	2016 $	2015 $
Retained profits at the beginning of the financial year	16,517,951	15,358,119
Profit for the year	1,357,162	1,483,325
Dividends	(128,571)	(138,760)
Transfer to credit loss reserve	(39,306)	(184,733)
Retained profits at the end of the financial year	17,707,236	16,517,951

21 Dividends

(a) Investment shares

	2016 $	2015 $
Final dividend for the year ended 30 June 2015 equivalent to the maximum dividend benchmark rate 5.36% p.a. per share (2014 – 5.18% p.a. per share fully franked). Paid on 26th October 2015 (2014 – 3rd November 2014).	69,512	67,160
Interim dividend for the year ended 30 June 2016 equivalent to the maximum dividend benchmark rate 4.80% p.a. per share (2015 – 5.26% p.a. per share fully franked). Paid on 1st February 2016 (2015 – 9th February 2015).	63,239	69,248

The directors have provided for the payment of a final ordinary dividend of $65,330 paid out of retained profits at 30 June 2016 on Investment Shares issued as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 5.01% p.a. fully franked for the period ended 30 June 2016. Payment is subject to confirmation of members at the Annual General Meeting.

22 Key management personnel disclosures

(a) Key management personnel compensation

	2016 $	2015 $
Short-term employee benefits	821,759	765,232
Post-employment benefits	175,490	187,590
Long-term benefits	6,032	(981)
	1,003,281	951,841

Detailed remuneration disclosures are provided in sections A-B of the remuneration report on pages 9-10.

22 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

(i) Share holdings

The numbers of Investment Shares in the credit union held during the financial year by each director of The Capricornian Ltd and other key management personnel of the credit union, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation. There were no shares sold or purchased by key management personnel during the year.

2016 Name	Balance at the start of the year	Balance at the end of the year
Directors of The Capricornian Ltd **Investment Shares.**		
George Anthony Edwards	50,500	50,500
Ian John Mill	Nil	Nil
Vicki Anne Bastin-Byrne	2,000	2,000
James Richard Mason*	Nil	Nil
Christopher Bernard O'Brien	Nil	Nil
John Francis Siganto	4,000	4,000
Other key management personnel of The Capricornian Ltd **Investment Shares.**		
John William Collins Brown**	Nil	Nil
Graham Olrich***	Nil	Nil
Graeme Walter Kemp	2,000	2,000
Andrew John Robertson	2,000	2,000
Leslie James Spencer****	Nil	Nil

2015 Name	Balance at the start of the year	Balance at the end of the year
Directors of The Capricornian Ltd **Investment Shares.**		
George Anthony Edwards	50,500	50,500
Ian John Mill	Nil	Nil
Vicki Anne Bastin-Byrne	2,000	2,000
James Richard Mason*	Nil	Nil
Christopher Bernard O'Brien	Nil	Nil
John Francis Siganto	4,000	4,000
Other key management personnel of The Capricornian Ltd **Investment Shares.**		
John William Collins Brown**	Nil	Nil
Graeme Walter Kemp	2,000	2,000
Andrew John Robertson	2,000	2,000
Bradley Stuart Cook*****	Nil	Nil
Leslie James Spencer****	Nil	Nil

All of the above persons also hold one $10 member share or held a $10 member share whilst key management personnel of the credit union.

* J.R. Mason retired 30th September 2015.

** J.W.C. Brown resigned 29th April 2016.

*** G. Olrich appointed 4th May 2016.

**** L.J. Spencer appointed 19th January 2015 and resigned 11th April 2016.

***** B.S. Cook resigned 3rd November 2014.

22 Key management personnel disclosures (continued)

(c) Loans to key management personnel

Details of loans made to key management personnel of The Capricornian Ltd, including their personally related parties, are set out below.

(i) Aggregates for key management personnel

	Balance at the start of the year $	Interest paid and payable for the year $	Balance at the end of the year $	Number in Group at the end of the year
2016	**57,210**	**986**	**71,373**	**2**
2015	225,880	4,931	57,210	1

(ii) Key management personnel with loans above $100,000

No key management personnel held loans greater than $100,000 as at 30 June 2016.

2015 Name	Balance at the start of the year $	Interest paid and payable for the year $	Balance at the end of the year $	Highest Indebtedness during the year $
B S Cook*	147,049	2,098	-	147,049

* B S Cook resigned 3rd November 2014. Balances disclosed are for the period 1 July 2014 to 3 November 2014.

Loans are provided to key management personnel and their related entities on the same terms and conditions as members. There are no benefits or concessional terms and conditions applicable.

Loans outstanding at the end of the current and prior year include overdraft and term loans secured by first mortgages over residences. Interest is payable on the facilities at the standard rate for each facility.

All other loans to key management personnel are unsecured overdraft facilities at standard interest rates for each facility.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to key management personnel.

(d) Other transactions with key management personnel

A director, Mr Edwards, is a director and shareholder of Evans Edwards & Associates Pty Ltd which has provided ad hoc consultancy services to the credit union.

A director, Mr Siganto, is a director and shareholder of Grant and Simpson Lawyers which has provided legal services to the credit union.

All transactions described above occurred within the normal customer or supplier relationship on terms and conditions no more favourable than those in which it is reasonable to expect the credit union would have adopted if dealing with the director at arm's length in the same circumstances.

	2016 $	2015 $
Amounts recognised as expense		
Secretarial services	5,679	-
Legal services	2,263	-

23 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the credit union:

	2016	2015
	$	$
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australia		
Auditing or reviewing the accounts, including half year report and regulatory reporting	158,386	135,943
(b) Taxation services		
BDO Kendalls		
Tax compliance services, including company income tax returns	18,712	18,672
(c) Advisory services		
KPMG		
Internal audit work	88,173	86,040

24 Contingent liabilities

Guarantees
The credit union has issued guarantees to support the obligations of certain members. The guarantees are for limited amounts and limited terms. Security is taken from the member whose obligation is guaranteed in accordance with the credit union's normal lending policies.

	2016	2015
	$	$
Guarantees	296,684	157,262

25 Commitments

(a) Operating lease commitments

	2016	2015
	$	$
Non cancellable operating leases contracted for but not capitalised in the accounts, payable:		
Within one year	241,444	121,691
Later than one year but not later than five years	750,237	422,551
Later than five years	-	3,425
	991,681	547,667

25 Commitments (continued)

(a) Operating lease commitments (continued)

(i) Operating Leases

The credit union leases various office and retail premises under non-cancellable operating leases expiring within one to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(b) Outstanding loan commitments

	2016	2015
	$	$
Loans and credit facilities approved but not yet funded or drawn at the end of the financial year:		
Loans approved but not funded	3,964,671	2,943,333
Undrawn overdraft and lines of credit	4,036,283	4,391,977
	8,000,954	7,335,310

26 Fair value of financial instruments

The fair value estimates were determined by the following methodologies and assumptions:

Cash equivalents

The carrying amount of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand.

Securities

Held to maturity investments are carried at amortised cost as these assets are intended to be held until maturity.

Loans and advances

The carrying value of loans and advances is net of provisions for impairment. This is a reasonable estimate of the fair value.

Short term borrowings

The fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repriced within twelve months is the carrying value as at 30 June 2016.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	$	$	$	$
Assets				
Cash and cash equivalents	12,099,451	12,099,451	10,339,607	10,339,607
Receivables	468,739	468,739	458,386	458,386
Held to maturity investments	28,826,948	28,826,948	38,809,802	38,809,802
Loans and advances	246,201,584	246,201,584	230,291,825	230,291,825
Liabilities				
Deposits and borrowings	267,695,780	267,695,780	260,364,993	260,364,993
Accrued Interest Expense and other liabilities	2,122,008	2,122,008	2,703,039	2,703,039
Provisions	438,101	438,101	523,436	523,436

27 Operational dependency

The credit union has an operational dependency on the following suppliers of services:-

(a) Industry service companies

The credit union is a member of Australian Settlements Limited and a customer of Cuscal Ltd. These entities provide cheque clearing, card and electronic transaction clearing and banking facilities to the credit union.

(b) Ultradata Australia Pty Ltd

This entity is the provider of support and maintenance for the retail banking application software utilised by the credit union.

(c) The System Works Pty Ltd

This entity is the provider of facilities management, bureau support and managed desktop support utilised by the credit union.

28 Reconciliation of profit after income tax to net cash inflow from operating activities

	2016 **$**	2015 $
Profit for the year	1,357,162	1,483,324
Depreciation	429,931	284,033
Provision for doubtful debts	200,180	(21,649)
Bad debts written off from provision	(89,847)	(170,244)
Net (gain) loss on sale of non-current assets	(6,100)	(75)
Change in operating assets and liabilities		
(Increase) decrease in loans	(16,012,396)	(5,682,428)
(Decrease) increase in member deposits	7,330,785	2,753,398
(Increase) decrease in deferred tax assets	(18,436)	(5,338)
(Increase) decrease in other assets	197,155	(251,558)
(Decrease) increase in creditors	(556,694)	1,213,115
Increase (decrease) in provision for income tax	(146,726)	14,633
(Decrease) increase in other provisions	(81,153)	13,342
Net cash (outflow) inflow from operating activities	(7,396,139)	(369,447)

29 Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash is defined as currency, on call deposits with a financial institution net of overdrafts and short term deposits used in the credit union's cash management function on a day to day basis.

	2016 **$**	2015 $
Cash at the end of the financial year as shown in the Statement of Cash Flows consists of:		
Cash on hand at bank	12,099,451	10,339,607
Short term deposits	28,826,948	38,809,802
Cash at the end of the financial year	40,926,399	49,149,409

30 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 22.

(b) Transactions with other related parties

Disclosures relating to transactions with related parties are set out in Note 22.

(c) Outstanding balances arising from sales/purchases of goods and services

There are no balances outstanding at the end of the reporting period in relation to transactions with related parties.

(d) Loans to/from related parties

There are no loans to/from related parties other than those disclosed in Note 22.

In the directors' opinion:

(a) the financial statements and notes set out on pages 13-45 are in accordance with the *Corporations Act 2001,* including:
    (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
    (ii) giving a true and fair view of the entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date, 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, and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

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

G.A. Edwards
Director

J. F. Siganto
Director

Rockhampton
22nd September 2016

Independent auditor's report to the members of The Capricornian Ltd

Report on the financial report

We have audited the accompanying financial report of Capricornian Ltd (the 'credit union'), which comprises the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the credit union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of The Capricornian Ltd is in accordance with the *Corporations Act 2001*, including:

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(i) giving a true and fair view of the credit union's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the credit union's financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 10 of the directors' report for the year ended 30 June 2016. The directors of the credit union are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

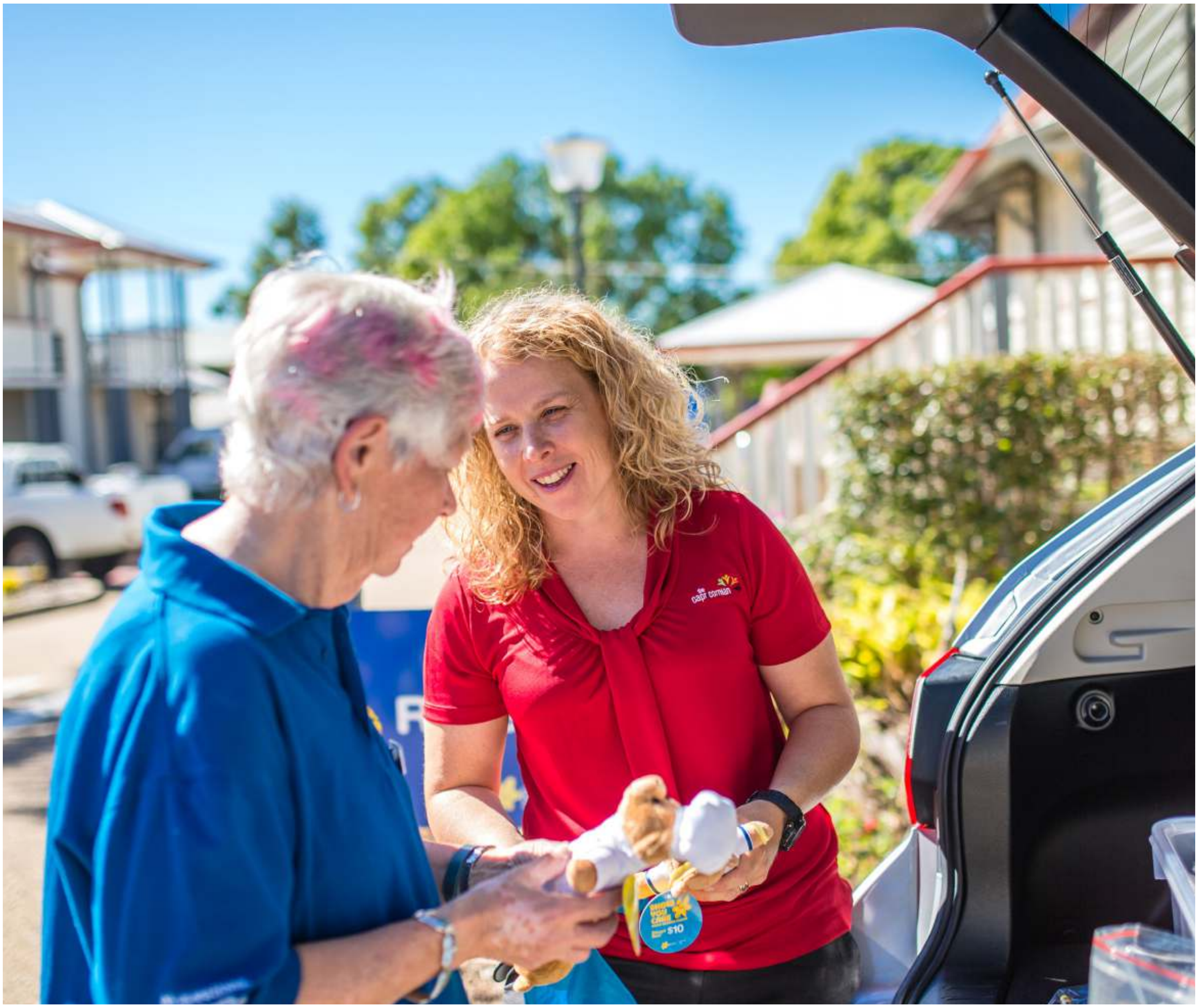
Auditor's opinion

In our opinion, the remuneration report of The Capricornian Ltd for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

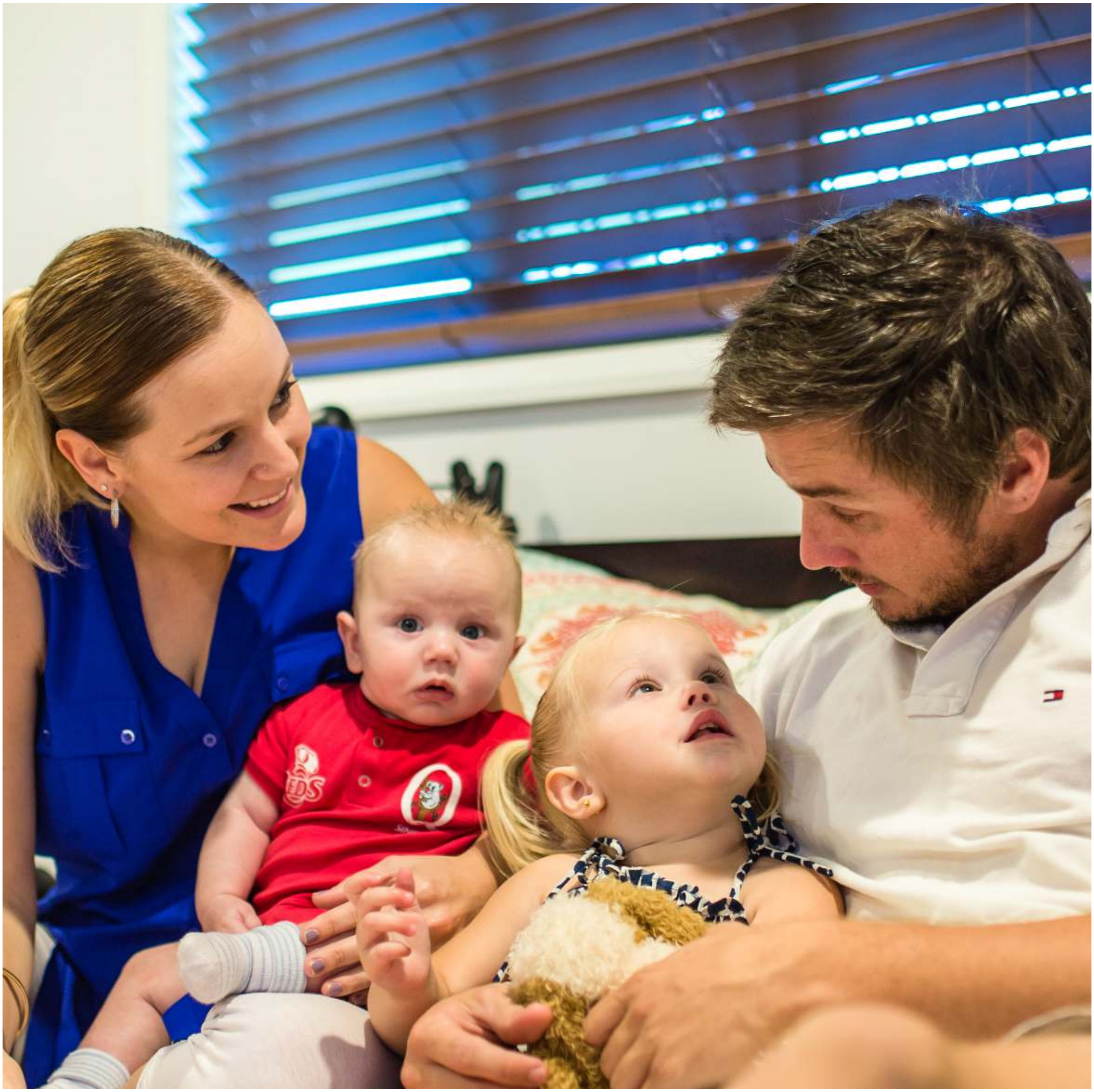
Michael O'Donnell
Partner

Brisbane
22nd September 2016



Our People, Our Community

The Capricornian plays an active role in supporting local events, organisations and charities. Thanks to all of our members, we can give back to our local communities.



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