Sanctuary Point & Districts **Community Bank®** Branch

annual report 2011

Bay & Basin Community
Financial Services Limited
ABN 62 105 756 063

Sanctuary Point & Districts **Community Bank®** Branch

annual report 2011

chairman's report

In my first full report as Chairman, it is my pleasure to provide you with feedback on the Company's performance for the year ended June 2011.

The global financial market remains volatile with US and many of the European economies under great pressure with the resultant impact on our own markets here in Australia. However, despite the challenging economic times, I am pleased to announce that once again this year we are in a position to pay a dividend to our Shareholders while continuing to make adequate provision in respect of cash reserves as well as looking after our obligations in respect of our Community. This year the Board has approved the payment of a dividend of six (6) cents per share to our Shareholders.

As mentioned in last year's report, in order to achieve our goal of increasing our returns to Shareholders and making more funds available for Community contributions, we have expanded our Banking operations through the opening of our Agency in Vincentia. Currently we are operating the Agency at a small loss but within budget, and our business plan targets the Agency as a major focal point in terms of increasing our business in the 2011/12 financial year.

On 22 February 2011 the company's Franchise partner, Bendigo & Adelaide Bank Limited, announced that commencing 1st April 2011 two income streams (Term Deposits greater than 90 days and Fixed Rate Home Loans) would have their trailing commission reduced from 0.5% to 0.375%. If implemented, this reduction in the commission rate would be expected to have a material effect on the expected revenue and profits of the company. While there has been no financial impact in the 2010/2011 financial year, discussions in this regard continue and there could be a financial impact in the financial year 2011/2012. The Board estimates that the change could reduce income by some $40,000 based on current budgets. Further information regarding the financial impact of these changes should they be implemented, will be made available in the 2011 Annual General meeting.

There have been a number of changes on the Board over the past financial year. We said farewell to Jeff Everingham in July 2010, and Greg Thornton, Greg Woods, and Huxley Gunter in the latter part of the year. We thank them all for their contribution over their years of service, especially Jeff and Greg who not only served on Board but on the original Steering Committee as well. During the year, we identified the need for specific skills required to complete the composition of the Board, especially in the area of Community Affairs. We advertised in the **About.....**© magazine and as a result, we are delighted to welcome Veronica Husted, Kell Meech, and John Kelly to the Board. They, together with Rebecca Rudd and Keith Robinson, have formed the backbone of our Community Affairs sub-committee, and we look forward to working with them over the coming years.

In response to meeting our Community obligations, this year the board approved a number of smaller grants and sponsorships totaling $66,000, the recipients of which are listed within the Annual Report. Included in this amount is $50,000 which has been paid into the Community Enterprise Foundation for use as part of a future Community grant. Further, as advised last year, having established a suitably qualified Community Affairs subcommittee, a community consultative process has commenced whereby funds can be directed into a significant community project and in this regard, a Community Forum has been scheduled for November 2011

A major factor in the ongoing growth and achievement has been the continuing high level of customer service and support provided by our team at the Branch and for this I would like to thank Keith and his team for their efforts in this regard. And though Keith will report on the staff movements in his report, it would be remiss of me not to acknowledge the major contribution made by Joe Netherby to the success of the branch since its inception some seven years ago.

The **About.....**© magazine has continued to grow thanks in the main to the efforts of its editor, Paul Schilling. Paul has done a great job and while the **About.....**© was never intended to operate as a "profit centre", this year we are taking a more "commercial approach" to its production and associated costs.

This year, it was decided to revamp our website and this has come to fruition thanks to a concerted effort from Stewart Harding, a former Director, and John Kelly, one of our current Directors. I would encourage you all to have a look at it as it is full of information pertinent to the Bay and Basin area in general, and our Shareholders and Community in particular (**www.aboutbayandbasin.org**).

Last year, we made reference to the Low Volume Market (LVM) as a vehicle for our Shareholders to buy and sell shares in our Company. This has yet to come to fruition but details as to how it will operate should be available on our website by the end of November.

Finally, I would like to thank all Board members for their contribution to the running of the Company during the year. All members have participated fully both at Board level as well as on the various sub committees required to enable the Company to fulfil its obligations effectively and efficiently. And I don't think anyone would take exception if I make special mention of John Dunn whose contribution in the role of Treasurer throughout the year, has been outstanding.

Noel Burke
Chairman

manager's report

as at 30 June 2011

The past financial year saw your **Community Bank®** complete its seventh year of trading and as you will see from our financial reports, we have remained financially strong throughout this year returning a creditable profit in the business.

At the years end there were 3,967 accounts on our books and total business of $57,339,000. This represents 388 loan accounts totalling $15,235,000 and 3,579 deposit accounts totalling of $42,104,000.

This coming year will again prove to be a challenging one with the global financial position far from stable and consumer confidence low. Together with input from Bendigo Bank, the board and I have spent a lot of time working on a business plan for the 2011/12 year to provide us with a framework for continued growth of our business. Some highlights of initiatives from the plan are:

- Appointment of local Business banker to service the coastal regional
- The establishment of a regionally placed financial planner position
- Strategies to capitalise on our Vincentia based Agency
- Customer call program, designed to make contact with Businesses who don't currently bank with us
- Business retention program, designed to retain as much of our existing business as possible.

This year saw us take the first step towards expanding the presence of the **Community Bank®** in the Bay & Basin area with the opening of the agency in Vincentia in December. The Agency, located in the Harcourt's Real Estate office, gives us a strategic advantage over most of our local competitors by having two shopfronts in the Bay & Basin. It was also decided to include a 24 hour ATM within the Agency, giving both our own customers and those visiting the area, better access to their accounts. Early indications for the agency are promising, showing a reasonable level of activity in its first few months of operation.

The team at the branch is continually updating and training with a view to providing the ongoing exceptional service that the Bay & Basin have come to expect. And as with any business, there have been a number of changes to the team over the past 12 months:

- We say farewell to Joe Nethery who has now retired. Joe will continue to be available as part of our team as a "call in casual" – between his many planned trips away! I am sure you will join me in wishing Joe a happy and safe retirement after many years of dedicated service to the branch.

And we welcome two new team members:

- **Wayne Hogben:** Wayne brings with him a wealth of banking knowledge, having worked in the industry for the past 20 years. Wayne will take on the role of branch supervisor replacing Joe.
- **Karen Charles:** Karen is a Bay & Basin lady who has been working locally for many years. Karen will be known to many of you from her time working for a local Real Estate agency. Karen fills the roll of Part Time Customer Service Officer left vacant when Yvonne Angerer left us late last year.

In summary, the branch team at year's end consisted of:

- Keith Robinson – Full Time Branch manager
- Wayne Hogben – Full Time Supervisor
- Robyne Gilmour – PPT CSO (Customer Service Officer)
- Megan Ray – PPT CSO (Customer Service Officer)
- Karen Charles – PPT CSO (Customer Service Officer)

While Joseph Nethery was still "on the books" as a member of staff, he was in fact on long service leave pending retirement (effective July 2011).

Our effective FTE (full time equivalent) number at year's end was 4.

I would like to thank our many customers and supporters we have in the area. Without this support, we would not be where we are today, i.e. contributing significant funds back into the local community in the form of grants and sponsorships.

As shareholders of the bank you have a vested interest in the success of this company. I urge you to consider how you can support the business in which you own shares. Remember we are a full service bank and we can offer any banking or insurance service available elsewhere. Give your local bank a chance to quote for your business - any business that comes to the **Community Bank®** will directly benefit the area in which you live.

Keith G Robinson
Branch Manager

sponsorships/ grant allocations

During the last financial year many local organisations benefited from grants, sponsorships and donations provided by your **Community Bank®**.

These included:

- Bay & Basin Community Radio
- Bendigo Bank Aerial Patrol
- Shoalhaven Suicide Prevention
- Sanctuary Point Public School
- Jervis Bay Christian School
- Vincentia Primary School
- Jervis Bay Public School
- Drivers Education Training
- White Sands Fishing Carnival
- St Georges Basin Football Club
- Little Athletics
- Bay & Basin Amateur Swimming Club
- St Georges Basin Junior Rugby League
- Lady Denman Heritage Complex
- Vietnam Veterans Golf
- Huskisson Community Voice
- Vincentia Ladies Golf
- Community Enterprise Foundation
- St Georges Basin Men's Golf
- Bay & Basin Men's Shed
- Cancer Care Support Group
- Jervis Bay Triathlon Club
- St Georges Basin Pro-Am golf tournament
- Sanctuary Point School, Kitchen Garden project.

Our contributions for this financial year totalled over $66,000.

directors' report

Your directors submit the financial statements of the company for the financial year ended 30 June 2011.

DIRECTORS

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

Nicholas Patrick Burke **Chairman/Managing Director** ***Age:*** 66 Retired IT Consultant/Project Manager	Former Member British Computer Society (BSc degree equivalent), ex-member of the Coastal Patrol and past captain of Vincentia Golf Club. ***Special Responsibilities:*** Chairman Human Resources Committee ***Interest in shares:*** Nil
Desmond Neile Powell **Director** ***Age:*** 62 Retired IT Specialist	Retired Managing Director Asia Pacific branch of US based global IT company. Past captain and current Vice President of Vincentia Golf Club. ***Special Responsibilities:*** Member Human Resources and Marketing, Media & Management Committees ***Interest in shares:*** Nil
Rebecca Jane Rudd **Director** ***Age:*** 53 Vegetation Consultant	Served as a councillor on the Shoalhaven City Council and has worked with many community groups in the local areas over the past 20 years. ***Special Responsibilities:*** Member Community Committee ***Interest in shares:*** 1,000
Veronica Jean Husted **Director** (Appointed 23 May 2011) ***Age:*** 69 Library Assistant	Past President Bay & Basin Community Resources, current Vice President Southern Cross Community Housing, President Sanctuary Point Rural Fire Service. ***Special Responsibilities:*** Chairman Community Committee ***Interest in shares:*** 500
John Peter Dunn **Treasurer** ***Age:*** 65 Retired Business Proprietor	Retired Managing Director of an Engineering company in Sydney and past vice president of St Georges Basin Country Club. ***Special Responsibilities***: Member Human Resources and Marketing, Media & Management Committees ***Interest in shares:*** Nil
Geoffrey McNiel Ellison **Vice Chairman** ***Age:*** 74 Chartered Accountant and Retired Insolvency Practitioner	Company Director (Overseas & Not for Profit), Faculty member (Business Management Org), Treasurer & Strategic Planning Unit Leader (National Security & Defence "Think Tank" Org.) ***Special Responsibilities:*** Governance & Audit Committee ***Interest in shares:*** 1,000
Kell Meech **Director** (Appointed 7 January 2011) ***Age:*** 60 Driver	Owned and operated own business in Bay & Basin for 35 years. He has worked with numerous sports clubs during that time. Life member of the SGB Soccer Club. ***Special Responsibilities:*** Member Community Committee ***Interest in shares:*** Nil
John Patrick Kelly **Director** (Appointed 23 May 2011) ***Age:*** 64 Retired	Retired Warrant Officer Royal Australian Navy 21 years, Managing Director of own building company 21 years, Secretary/Treasurer MOBI Yacht Nirimba Assn. ***Special Responsibilities:*** Member Community Committee ***Interest in shares:*** Nil

directors' report continued

Gregory Allan Woods
Director (Resigned 22 November 2010)
Age: 64
Retired School Principal

Ross Cole Tooley
Director (Appointed 23 May 2011, Resigned 8 July 2011)
Age: 66
Retired Financial Advisor

Huxley Peterson Gunter
Director (Resigned 22 November 2010)
Age: 80
Retired Lecturer

Gregory Rowland Thornton
Director (Resigned 22 November 2010)
Age: 58
School Teacher

Jeffrey James Everingham
Director (Resigned 31 July 2010)
Age: 68
Retired Accountant

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

COMPANY SECRETARY

The company secretary is Keith Robinson. Keith was appointed to the position of secretary on 25 August 2010, taking over from John Dunn, who held the position on an interim basis following the resignation of Jeffrey Everingham.

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

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

	Year ended 30 June	
	2011 $	2010 $
	43,164	86,353

REMUNERATION REPORT

a. Remuneration of Directors

In setting the remuneration policy of Bay & Basin Community Financial Services Limited, the board recognises the company has been formed to govern the Community Bank branch as it returns banking services to the community, provides contributions to community projects and the shareholders who contributed the capital.

Bearing this in mind, with the exception of Nicholas Patrick Burke, all the positions on the board are held on a voluntary basis. Nicholas Patrick Burke was appointed to the position of Managing Director and Chairman, effective 23 June 2010. For this role his remuneration is currently $1,150 per month plus associated superannuation at 9%.

b. Remuneration of Branch Managers

The Board is responsible for the determination of remuneration packages and policies applicable to the Branch Manager and all the staff. The Branch Manager is invited to the Board meetings as required to discuss performance and remuneration packages.

The Board's policy in respect of the branch manager is to maintain remuneration at parity within the **Community Bank®** network and local market rates for comparable roles.

There are no executives who are directly accountable and responsible for the strategic direction and operational management of the entity. This is wholly a board role. There are therefore no Specified Executives.

	Year Ended 30 June 2011	
Dividends	Cents	$
Final dividends recommended:	6.00	39,600
Dividends paid in the year:		
As recommended in the prior year report	5.00	33,000

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 22 February 2011 the company's Franchise partner Bendigo & Adelaide Bank Limited announced that commencing 1st April 2011 two income streams (Term Deposits greater than 90 days and Fixed Rate Home Loans) would have their trailing commission reduced from 0.5% to 0.375%. If implemented, this reduction in commission rate would be expected to have a material effect on the expected revenue and profits of the company. While there has been no financial impact in the 2010/2011 financial year, discussions in this regard continue and there could be a financial impact in the financial year 2011/2012. The Board estimates that the change could potentially reduce income by some $40,000 based on current budgets and it will continue to monitor budgets to ensure maximisation of returns to Shareholders and the Community. An update regarding the financial impact will be available at the 2011 Annual General Meeting.

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

LIKELY DEVELOPMENTS

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

ENVIRONMENTAL REGULATION

The company is not subject to any significant environmental regulation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

DIRECTORS MEETINGS

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

	Board Meetings Attended		Committee Meetings Attended: Governance & Audit		Human Resources		Marketing, Media & Management		Community	
	A	B	A	B	A	B	A	B	A	B
Nicholas Patrick Burke	11	11	–	–	5	5	–	–	–	–
John Peter Dunn	11	11	–	–	5	5	–	–	11	9
Desmond Neile Powell	11	11	–	–	5	4	–	–	11	8
Geoffrey McNiel Ellison	11	11	6	6	–	–	–	–	–	–
Rebecca Jane Rudd	11	9	–	–	–	–	4	3	–	–
Kell Meech (Appointed 7 January 2011)	6	4	–	–	–	–	4	1	–	–
Veronica Jean Husted (Appointed 23 May 2011)	2	2	–	–	–	–	3	3	–	–
John Patrick Kelly (Appointed 23 May 2011)	2	1	–	–	–	–	3	2	–	–
Huxley Peterson Gunter (Resigned 22 November 2010)	4	3	–	–	–	–	–	–	4	2
Gregory Allan Woods (Resigned 22 November 2010)	4	–	–	–	–	–	–	–	–	–
Gregory Rowland Thornton (Resigned 22 November 2010)	4	3	–	–	–	–	–	–	–	–
Ross Cole Tooley (Appointed 23 May 2011, Resigned 8 July 2011)	2	2	–	–	–	–	–	–	–	–
Jeffrey James Everingham (Resigned 31 July 2010)	1	1	–	–	–	–	–	–	–	–

A – Eligible to attend, B – Number attended

Branch Manager, Keith Robinson is Chairman of the Marketing, Media and Management committee and attended all 11 meetings held during the year. He is also a member of the Community committee and attended all 4 meetings held during the year.

directors' report continued

NON AUDIT SERVICES

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

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

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

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

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

Signed in accordance with a resolution of the board of directors at Sanctuary Point, New South Wales on 30 August 2011.

Nicholas Patrick Burke
Chairman

John Peter Dunn
Treasurer

auditor's independence declaration

Partners in success

Chartered Accountants

Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Bay & Basin Community Financial Services Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

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

DAVID HUTCHINGS
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

30th August 2011

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Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

statement of comprehensive income

for the financial year ended 30 June 2011

	Notes	2011 $	2010 $
Revenues from ordinary activities	4	664,250	586,909
Employee benefits expense		(280,823)	(237,230)
Charitable donations, sponsorship, advertising and promotion		(76,754)	(12,690)
Occupancy and associated costs		(43,855)	(42,357)
Systems costs		(21,973)	(21,583)
Depreciation and amortisation expense	5	(23,308)	(22,218)
General administration expenses		(149,972)	(121,567)
Profit before income tax expense		67,565	129,264
Income tax expense	6	(24,401)	(42,911)
Profit after income tax expense		43,164	86,353
Total comprehensive income for the year		43,164	86,353
Earnings per share (cents per share)			
Basic for profit for the year	22	6.54	13.08

The accompanying notes form part of these financial statements.

balance sheet

as at 30 June 2011

	Notes	2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	287,901	281,617
Trade and other receivables	8	62,422	56,484
Current tax asset	11	13,197	–
Total Current Assets		363,520	338,101
Non-Current Assets			
Property, plant and equipment	9	153,036	134,382
Intangible assets	10	37,874	51,647
Deferred tax assets	11	11,990	25,354
Total Non-Current Assets		202,900	211,383
Total Assets		566,420	549,484
LIABILITIES			
Current Liabilities			
Trade and other payables	12	18,948	20,243
Provisions	13	26,777	57,069
Total Current Liabilities		45,725	77,312
Non-Current Liabilities			
Provisions	13	17,599	12,240
Total Non-Current Liabilities		17,599	12,240
Total Liabilities		63,324	89,552
Net Assets		503,096	459,932
Equity			
Issued capital	14	624,056	624,056
Accumulated losses	15	(120,960)	(164,124)
Total Equity		503,096	459,932

The accompanying notes form part of these financial statements.

statement of changes in equity

for the financial year ended 30 June 2011

	Issued Capital $	Retained Earnings $	Total Equity $
Balance at 1 July 2009	624,056	(204,277)	419,779
Total comprehensive income for the year	–	86,353	86,353
Transactions with owners in their capacity as owners:			
Shares issued during period	–	–	–
Costs of issuing shares	–	–	–
Dividends provided for or paid	–	(46,200)	(46,200)
Balance at 30 June 2010	624,056	(164,124)	459,932
Balance at 1 July 2010	**624,056**	**(164,124)**	**459,932**
Total comprehensive income for the year	**–**	**43,164**	**43,164**
Transactions with owners in their capacity as owners:			
Shares issued during period	**–**	**–**	**–**
Costs of issuing shares	**–**	**–**	**–**
Dividends provided for or paid	**–**	**–**	**–**
Balance at 30 June 2011	**624,056**	**(120,960)**	**503,096**

The accompanying notes for part of these financial statements.

statement of cashflows

for the financial year ended 30 June 2011

	Notes	2011 $	2010 $
Cash Flows From Operating Activities			
Receipts from customers		715,669	628,337
Payments to suppliers and employees		(633,363)	(479,148)
Interest received		9,401	2,993
Income taxes paid		(24,234)	-
Net cash provided by operating activities	16	67,473	152,182
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(28,189)	(135)
Net cash used in investing activities		(28,189)	(135)
Cash Flows From Financing Activities			
Dividends paid		(33,000)	(13,200)
Net cash used in financing activities		(33,000)	(13,200)
Net increase in cash held		6,284	138,847
Cash and cash equivalents at the beginning of the financial year		281,617	142,770
Cash and cash equivalents at the end of the financial year	7(a)	287,901	281,617

The accompanying notes for part of these financial statements.

notes to the financial statements

for the financial year ended 30 June 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standard Boards and the Corporations Act 2001.

Compliance with IFRS

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

Critical accounting estimates

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

Financial statement presentation

The company has applied revised AASB 101: *Presentation of Financial Statements* which became effective on 1 January 2009. The company has elected to present all items of income and expense recognised in the period in a single statement of comprehensive income.

Historical cost convention

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

Comparative figures

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

Adoption of new and revised Accounting Standards

During the current year the entity has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the company.

AASB 101 Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101, and as a result there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the company's financial statements.

Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The company's financial statements contain a single statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of "other comprehensive income" which comprises of income and expense that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods, as follows:

- AASB 9: *Financial Instruments* and AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9* [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013)

- AASB 2009-12: *Amendments to Australian Accounting Standards* [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The company has determined these amendments will have no impact on the preparation of the financial statements and therefore they have not been applied.

Economic dependency – Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branch at Sanctuary Point, New South Wales.

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

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

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

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

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

b. Revenue

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

Revenue calculation

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

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (ie 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days).

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

notes to the financial statements continued

for the financial year ended 30 June 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

c. Income Tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d. Employee Entitlements

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

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

e. Cash and Cash Equivalents

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

f. Trade Receivables and Payables

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

g. Property, Plant and Equipment

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

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

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

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

h. Intangibles

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

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

i. Payment Terms

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

j. Borrowings

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

k. Financial Instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

i. Loans and receivables

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

ii. Held-to-maturity investments

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

iii. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

l. Leases

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

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

m. Provisions

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

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

n. Contributed Equity

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

notes to the financial statements continued

for the financial year ended 30 June 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

o. Earnings Per Share

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

p. Goods and Services Tax

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

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

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

NOTE 2. FINANCIAL RISK MANAGEMENT

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

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

i. Market risk

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

ii. Price risk

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

iii. Credit risk

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

iv. Liquidity risk

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

v. Cash flow and fair value interest rate risk

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

vi. Capital management

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

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

i. the distribution limit is the greater of:
   a. 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
   b. subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and

ii. the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2011 can be seen in the statement of comprehensive income.

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

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Goodwill

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

The calculations require the use of assumptions.

Impairment of assets

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

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

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

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

notes to the financial statements continued

for the financial year ended 30 June 2011

NOTE 4. REVENUE FROM ORDINARY ACTIVITIES

	2011 $	2010 $
Operating activities:		
– services commissions	594,773	537,089
– other revenue	57,870	45,059
Total revenue from operating activities	652,643	582,148
Non-operating activities:		
– interest received	11,607	4,761
Total revenue from non-operating activities	11,607	4,761
Total revenues from ordinary activities	664,250	586,909

NOTE 5. EXPENSES

	2011 $	2010 $
Depreciation of non-current assets:		
– plant and equipment	7,581	6,492
– leasehold improvements	1,954	1,954
Amortisation of non-current assets:		
– franchise agreement	2,296	2,295
– franchise renewal fee	11,477	11,477
	23,308	22,218
Bad debts	2,862	2,328

NOTE 6. INCOME TAX EXPENSE

	Note	2011 $	2010 $
The components of tax expense comprise:			
– Current tax		11,038	–
– Future income tax benefit attributed to losses		–	–
– Movement in deferred tax		(1,004)	(3,137)
– Recoupment of prior year tax loss		14,367	46,048
		24,401	42,911
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		67,565	129,264
Prima facie tax on profit from ordinary activities at 30%		20,269	39,158
Add tax effect of:			
– non-deductible expenses		4,132	4,132
– timing difference expenses		1,004	2,758
– other deductible expenses		–	–
		25,405	46,048
Movement in deferred tax	11	(1,004)	(3,137)
		24,401	42,911

NOTE 7. CASH AND CASH EQUIVALENTS

	2011 $	2010 $
Cash at bank and on hand	80,248	205,458
Term deposits	207,653	76,159
	287,901	281,617

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

a. Reconciliation of cash

Cash at bank and on hand	80,248	205,458
Term deposits	207,653	76,159
	287,901	281,617

NOTE 8. TRADE AND OTHER RECEIVABLES

	2011 $	2010 $
Trade receivables	50,556	49,825
Other receivables and accruals	4,134	1,928
Prepayments	7,732	4,731
	62,422	56,484

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

	2011 $	2010 $
Plant and equipment		
At cost	133,837	105,648
Less accumulated depreciation	(44,826)	(37,245)
	89,011	68,403
Leasehold improvements		
At cost	78,165	78,165
Less accumulated depreciation	(14,140)	(12,186)
	64,025	65,979
Total written down amount	153,036	134,382

notes to the financial statements continued

for the financial year ended 30 June 2011

NOTE 9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

	2011 $	2010 $
Movements in carrying amounts:		
Plant and equipment		
Carrying amount at beginning	68,403	74,760
Additions	28,189	135
Disposals	–	–
Less: depreciation expense	(7,581)	(6,492)
Carrying amount at end	89,011	68,403
Leasehold improvements		
Carrying amount at beginning	65,979	67,933
Additions	–	–
Disposals	–	–
Less: depreciation expense	(1,954)	(1,954)
Carrying amount at end	64,025	65,979
Total written down amount	153,036	134,382

NOTE 10. INTANGIBLE ASSETS

	2011 $	2010 $
Franchise fee		
At cost	71,477	71,477
Less: accumulated amortisation	(65,165)	(62,869)
	6,312	8,608
Establishment/Renewal processing fee		
At cost	57,385	57,385
Less: accumulated amortisation	(25,823)	(14,346)
	31,562	43,039
Total written down amount	37,874	51,647

NOTE 11. TAX

	2011 $	2010 $
Current:		
Income tax refundable	13,197	–
Non-Current:		
Deferred tax assets		
– accruals	465	1,389
– employee provisions	13,313	10,893
– tax losses carried forward	–	14,367
	13,778	26,649
Deferred tax liability		
– accruals	1,240	579
– deductible prepayments	548	716
	1,788	1,295
Net deferred tax asset	11,990	25,354
Movement in deferred tax charged to statement of comprehensive income	(1,004)	(3,137)

NOTE 12. TRADE AND OTHER PAYABLES

	2011 $	2010 $
Trade creditors	16,744	18,043
Other creditors and accruals	2,204	2,200
	18,948	20,243

NOTE 13. PROVISIONS

	2011 $	2010 $
Current:		
Provision for dividend	–	33,000
Provision for annual leave	26,777	24,069
	26,777	57,069
Non-Current:		
Provision for long service leave	17,599	12,240
Number of employees at year end#	4	4

employee numbers are based on effective full time equivalent

notes to the financial statements continued

for the financial year ended 30 June 2011

NOTE 14. CONTRIBUTED EQUITY

	2011 $	2010 $
660,000 Ordinary shares fully paid (2010: 660,000)	**660,000**	660,000
Less: equity raising expenses	**(35,944)**	(35,944)
	624,056	624,056

Rights attached to shares

a. Voting rights

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

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

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

b. Dividends

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

c. Transfer

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

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

Prohibited shareholding interest

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

In summary, a person has a prohibited shareholding interest if they control or own 10% or more of the shares in the company (the "10% limit").

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

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

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

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

NOTE 15. ACCUMULATED LOSSES

	2011 $	2010 $
Balance at the beginning of the financial year	(164,124)	(204,277)
Net profit from ordinary activities after income tax	43,164	86,353
Dividends paid or provided for	–	(46,200)
Balance at the end of the financial year	(120,960)	(164,124)

NOTE 16. STATEMENT OF CASHFLOWS

	2011 $	2010 $
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	43,164	86,353
Non cash items:		
– depreciation	9,535	8,446
– amortisation	13,773	13,772
Changes in assets and liabilities:		
– (increase)/decrease in receivables	(5,938)	(10,076)
– (increase)/decrease in other assets	167	42,910
– increase/(decrease) in payables	(1,295)	1,756
– increase/(decrease) in provisions	8,067	9,021
Net cashflows provided by operating activities	67,473	152,182

NOTE 17. LEASES

	2011 $	2010 $
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable – minimum lease payments		
– not later than 12 months	25,440	24,270
– between 12 months and 5 years	44,520	66,742
– greater than 5 years	–	–
	69,960	91,012

The rental lease agreement on the branch premises is a non-cancellable lease with a five year term, with rent payable monthly in advance. The current lease expires on 21 March 2014, with the option for a further term of five years available to be exercised.

notes to the financial statements continued

for the financial year ended 30 June 2011

NOTE 18. AUDITORS' REMUNERATION

	2011 $	2010 $
Amounts received or due and receivable by the auditor of the company for:		
– audit and review services	**3,400**	3,400
– share registry services	**2,585**	3,265
– non-audit services	**2,264**	1,430
	8,249	8,095

NOTE 19. DIRECTOR AND RELATED PARTY DISCLOSURES

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

- Nicholas Patrick Burke
- John Peter Dunn
- Desmond Neile Powell
- Geoffrey McNiel Ellison
- Rebecca Jane Rudd
- Kell Meech (Appointed 7 January 2011)
- Veronica Jean Husted (Appointed 23 May 2011)
- John Patrick Kelly (Appointed 7 January 2011)
- Huxley Peterson Gunter (Resigned 22 November 2010)
- Gregory Allan Woods (Resigned 22 November 2010)
- Gregory Rowland Thornton (Resigned 22 November 2010)
- Ross Cole Tooley (Appointed 23 May 2011, Resigned 8 July 2011)
- Jeffrey James Everingham (Resigned 31 July 2010)

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

Directors Shareholdings

	2011	2010
Nicholas Patrick Burke	**–**	–
John Peter Dunn	**–**	–
Desmond Neile Powell	**–**	–
Geoffrey McNiel Ellison	**1,000**	1,000
Rebecca Jane Rudd	**1,000**	1,000
Kell Meech (Appointed 7 January 2011)	**–**	–
Veronica Jean Husted (Appointed 23 May 2011)	**500**	–
John Patrick Kelly (Appointed 7 January 2011)	**–**	–
Huxley Peterson Gunter (Resigned 22 November 2010)	**3,000**	3,000
Gregory Allan Woods (Resigned 22 November 2010)	**–**	–
Gregory Rowland Thornton (Resigned 22 November 2010)	**1,501**	1,501
Ross Cole Tooley (Appointed 23 May 2011, Resigned 8 July 2011)	**–**	–
Jeffrey James Everingham (Resigned 31 July 2010)	**5,001**	5,001

NOTE 20. DIVIDENDS PAID OR PROVIDED

	2011 $	2010 $
a. Dividends paid during the year		
Prior year proposed final		
Unfranked dividend – 5 cents (2010: 4 cents) per share	33,000	13,200
b. Dividends proposed and not recognised as a liability		
Current year final dividend		
Unfranked dividend – 6 cents (2010: 5 cents) per share	39,600	33,000
c. Franking account balance		
Franking credits available for subsequent reporting periods are:		
– franking account balance as at the end of the financial year	24,235	–
– franking debits that will arise from the refund of income tax as at the end of the financial year	(13,197)	–
– franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	–	–
Franking credits available for future financial reporting periods:	11,038	–
– franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	–	–
Net franking credits available	11,038	–

NOTE 21. KEY MANAGEMENT PERSONNEL DISCLOSURES

With the exception of Nicholas Patrick Burke, no director of the company receives remuneration for services as a company director or committee member.

Nicholas Patrick Burke was appointed to the position of Managing Director and Chairman, effective 23 June 2010. For this role remuneration of $1,150 per month plus associated superannuation is paid.

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

NOTE 22. EARNINGS PER SHARE

	2011 $	2010 $
a. Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	43,164	86,353
	2011 Number	**2010 Number**
b. Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	660,000	660,000

notes to the financial statements continued

for the financial year ended 30 June 2011

NOTE 23. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 22 February 2011 the company's Franchise partner Bendigo & Adelaide Bank Limited announced that commencing 1st April 2011 two income streams (Term Deposits greater than 90 days and Fixed Rate Home Loans) would have their trailing commission reduced from 0.5% to 0.375%. If implemented, this reduction in commission rate would be expected to have a material effect on the expected revenue and profits of the company. While there has been no financial impact in the 2010/2011 financial year, discussions in this regard continue and there could be a financial impact in the financial year 2011/2012. The Board estimates that the change could potentially reduce income by some $40,000 based on current budgets and it will continue to monitor budgets to ensure maximisation of returns to Shareholders and the Community. An update regarding the financial impact will be available at the 2011 Annual General Meeting.

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

NOTE 24. CONTINGENT LIABILITIES

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

NOTE 25. SEGMENT REPORTING

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Sanctuary Point and Districts, New South Wales pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

NOTE 26. REGISTERED OFFICE/ PRINCIPAL PLACE OF BUSINESS

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

Registered Office

1/200 Kerry Street
Sanctuary Point NSW 2540

Principal Place of Business

1/200 Kerry Street
Sanctuary Point NSW 2540

NOTE 27. FINANCIAL INSTRUMENTS

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

			Fixed interest rate maturing in									
	Floating interest rate		1 year or less		Over 1 to 5 years		Over 5 years		Non interest bearing		Weighted average effective interest rate	
Financial instrument	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 %	2010 %
Financial Assets												
Cash and cash equivalents	**80,048**	205,258	**207,653**	76,159	**–**	–	**–**	–	**200**	200	**3.67**	2.27
Receivables	**–**	–	**–**	–	**–**	–	**–**	–	**52,556**	52,640	**N/A**	N/A
Financial Liabilities												
Payables	**–**	–	**–**	–	**–**	–	**–**	–	**16,744**	18,041	**N/A**	N/A

directors' declaration

year ended 30 June 2011

In accordance with a resolution of the directors of Bay & Basin Community Financial Services Limited we state that:

In the opinion of the directors:

a. the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
   ii. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
c. the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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

Nicholas Patrick Burke
Chairman

John Peter Dunn
Treasurer

Signed on the 30th of August 2011.

independent auditor's report

Partners in success

Chartered Accountants

Independent Auditor's Report To The Members Of Bay & Basin Community Financial Services Limited

Report on the Financial Report

We have audited the accompanying financial report of Bay & Basin Community Financial Services Limited, which comprises the balance sheet as at 30 June 2011, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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

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

independent auditor's report continued

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion on the Financial Report

In our opinion:

1) The financial report of Bay & Basin Community Financial Services Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 30 June 2011 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Bay & Basin Community Financial Services Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

DAVID HUTCHINGS
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

30th August 2011

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Bendigo Bank