Merbein & District
Community Bank® Branch

Bendigo Bank

Merbein District Community Services Limited
Annual Report 2009

ABN 68 108 297 945

Contents

Chairman's Report

To say that the last 12 months has been challenging for our bank and our local people would be an understatement. District businesses, horticulturalists and the community in general have been doing it tough, with low commodity and low water allocations.

However, I am happy to report to you that our bank has weathered the storm and has continued to grow, even if not as fast as we would like. We are however, moving forward more quickly now as the economy recovers and this has come about by your continued support and hard work by your Board and bank staff. Our Manager Rob Libchard will give you a more detailed snapshot of our achievements for the last 12 months.

Plenty of bank activity and several grant allocations have been happening this year and we continue to give financial support to worthy applicants as soon as funds become available.

Your Board and bank staff, have been busy participating in local events, in particular our fifth birthday party and the Merbein Centenary Celebrations. All of these events put your bank in the public eye and hopefully attract new business.

In thanking all Directors and bank staff for their untiring work, I would like to acknowledge in particular our Secretary Jeanette. Believe you me she does a tremendous amount of voluntary work on your behalf and does so in a very professional way. Many thanks to Jeanette.

In closing this report, I would like to ask all shareholders to continue to support your bank and encourage others to call in and have a chart to our friendly staff. They would be more than happy to help you if they can.

Thank you

Geoff Izard
Acting Chairperson

Branch Manager's Report

For year ending 30 June 2009

It gives me great pleasure to report on the progress of Merbein & District Community Bank® Branch to our valued shareholders for the year ended 30 June 2009.

Twelve months have past since our last Annual General Meeting and I am still impressed by the strong sense of community engagement around Merbein and district and the goodwill towards our branch since its opening five years ago. This community engagement was certainly highlighted during Merbein's Centenary Celebrations held during August this year. I wish I could have bottled up the feeling that was around town those ten days – Merbein truly came alive.

Some of the highlights attributed to the branch to 30 June include:

- Total business held at the branch in excess of $43 million;
- More than 3,000 accounts;
- More than 1,500 account holders;
- More than $47,000 donated or pledged back to the community through various sponsorships, grants and donations;
- Our fifth birthday in July coincided with our third bi-annual grants night and some of the recipients included:
  - $ 3,300 Tour of the Murray Bike Race as a Stage Sponsor
  - $ 3,000 Merbein Secondary School for their Rock Eisteddfod
  - $ 3,000 Merbein Centenary Committee for Sponsorship of Centenary Concert
  - $ 1,500 Merbein Progress Group for New Computer Equipment
  - $ 1,500 Merbein Historical Society for New Computer Equipment
  - $ 1,100 New Junior Training Shirts for The Saints Baseball Club
  - $ 1,000 New Swimming Shirts for the Merbein Amateur Swimming Club;
- Continuation of a quarterly newsletter;
- Continuation of School Banking to the District which encompasses our five primary schools; and
- Installation of an ATM which up to 30 June 2009 had over 60,000 transactions in just 20 months.

The prime objective of Merbein & District Community Bank® Branch is to continue recording profits which enable us to make a financial return to our community. Simply by doing you're banking with us you will be making that happen.

We need your maximum support to enable us to continue to expand our grants program to the Merbein community. If you haven't already considered banking with us, I urge you to call in to the branch and talk to me or my friendly staff about how we can assist you with transferring your banking business. Remember everyone needs to bank somewhere, why not bank with us where we can make a difference to our community. If you have already started banking with us, thank you – you are the greatest advocate of Merbein & District Community Bank® Branch.

I would thank my staff members Lauren, Sam, Tanya and Deb, for their dedication and continued greatwork. It truly is a great pleasure to come to work every day and be greeted by such a devoted group of people who only have your Community Bank® branch at heart. I regularly receive positive feedback about the personalised and friendly service we provide and would like as many people as possible to experience banking the Bendigo way'.

I would like to also thank our Board for their continued great work. It is sometimes a thankless job that has been guided brilliantly by Geoff Izard since February this year so credit must go out to him and the rest of his Board of Directors for their continued commitment to our branch.

Rob Libchard
Branch Manager

A Message from Bendigo Bank

2008/09 will go down as one of the most tumultuous financial years in history. The global financial crisis and its aftermath wiped trillions of dollars off the world's net wealth. Some of the biggest names in international banking disappeared; many other banks – vastly bigger than Bendigo and Adelaide Bank Ltd – turned to governments to bail them out. Not surprisingly, confidence sagged, reflected in rising unemployment and stock markets falling by around half their former valuations.

In short, we have seen the biggest financial meltdown since the Great Depression of nearly 80 years ago. Amidst all that turmoil, though, our grassroots banking movement marched steadily on. Twenty new Community Bank® branches joined Bendigo and Adelaide Bank Ltd's national network. Around 120,000 new customers switched to the Bendigo style of banking.
And 70 more communities continued their local campaign to open a Community Bank® branch.

Those statistics are impressive in themselves, but it is the story behind them that is really important. That's the story of ordinary people – an awful phrase, but you know what I mean – who inherently understand that the role of a bank is to feed into prosperity, rather than profit from it. That lesson was forgotten by many bankers across the globe, with devastating consequences. But it is now well understood by the residents of 237 towns and suburbs that own their own Community Bank® branch, because every day they see the fruits of their investment in locally owned banking.

Again, the statistics are impressive enough – $29 million paid out in community projects and nearly $11 million in local shareholder dividends. But again, the real stories lie behind the numbers – new community centres and fire trucks, more local nurses, new walking tracks and swimming pools, safer young drivers, more trees and fewer wasteful incandescent globes, innovative water-saving projects… the list goes on.

And of course more money retained and spent locally. And more jobs. Fifteen hundred or so just in the branches alone. More because of the flow-on, or multiplier, effect of those wages being spent locally. And yet more because of the extra shopping now done in communities made more prosperous and active by having their own bank branch.

Community Bank® branches have not escaped the fallout from the global turmoil. Like Bendigo and Adelaide Bank Ltd, they have received less income than in normal times. But also like Bendigo and Adelaide Bank Ltd, they have not needed anyone's help to get through this crisis. And every day we are reminded that banks that are relevant and connected locally will be valued by their customers and communities. For the better of all.

Russell Jenkins
Chief General Manager

Directors' Report

Your Directors submit the financial report of the company for the financial year ended 30 June 2009.

Directors

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

Jeanette Ellen Worthington
Secretary
Age: 56
Clerical Officer
Interests in shares: 5,001

Geoffrey John Izard
Director
Age: 71
Business Proprietor
Interests in shares: 6,001

Garry William Costello
Director *(Appointed 6 April 2009)*
Age: 55
School Principal
Interests in shares: 1

Stephen Joszef Lorincz
Director *(Appointed 6 April 2009)*
Age: 47
Primary Producer
Interests in shares: 1

Graeme Keith Stephens
Director *(Resigned 6 April 2009)*
Age: 65
Retired
Interests in shares: 6,001

Barry Lyle Smith
Director
Age: 68
Horticultrist
Interests in shares: 5,001

Stephen Thomas Milverton
Director *(Appointed 6 April 2009)*
Age: 40
School Principal
Interests in shares: 1

Marianne Dawn Glover
Director *(Appointed 6 April 2009)*
Age: 59
Hairdresser
Interests in shares: 1

Kay Elizabeth Martin
Director *(Resigned 31 March 2009)*
Age: 56
Solicitor
Interests in shares: 5,001

Anthony Dal Corobbo
Chairman *(Resigned 6 April 2009)*
Age: 62
Semi-retired
Interests in shares: 5,001

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

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

Company Secretary

The Company Secretary is Jeanette Ellen Worthington. Jeanette was appointed as secretary 10 March 2004. She has prior experience as a secretary with numerous not-for-profit organisations.

Principal activities

The principal activities of the company during the course of the financial year were in facilitating community banking services under management rights to operate a franchised branch of Bendigo & Adelaide Bank Limited.

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

The recent global financial crisis has adversely impacted the stability of the international financial system. The current global financial crisis presents a challenge for all financial institutions, including Bendigo and Adelaide Bank and in turn Merbein District Financial Services Limited. The duration and extent of the global financial crisis is still largely unknown and continuation of these conditions could adversely affect the ongoing financial performance or financial condition of the Company's business as a franchisee of a Community Bank® branch.

	Year ended 30 June 2009 $	Year ended 30 June 2008 $
	(29,483)	(26,928)

Remuneration Report

(a) Remuneration of Directors

All Directors of the Company are on a voluntary basis, therefore no remuneration guidelines have been prepared.

(b) Remuneration of Area and 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.

Dividends

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

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 report.

Matters subsequent to the end of the financial year

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

Likely Developments

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

The company is not subject to any significant environmental regulation.

Directors' Benefits

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest except as disclosed in note 17 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

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:

	Number of Board Meetings eligible to attend	Number attended
Jeanette Ellen Worthington	10	10
Barry Lyle Smith	10	10
Geoffrey John Izard	10	8
Stephen Thomas Milverton *(Appointed 6 April 2009)*	6	2
Garry William Costello *(Appointed 6 April 2009)*	6	3
Marianne Dawn Glover *(Appointed 6 April 2009)*	6	6
Stephen Joszef Lorincz *(Appointed 6 April 2009)*	7	2
Kay Elizabeth Martin *(Resigned 31 March 2009)*	5	1
Graeme Keith Stephens *(Resigned 6 April 2009)*	7	5
Anthony Dal Corobbo *(Resigned 6 April 2009)*	7	6

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 Professional Statement F1, 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 Merbein, Victoria on 28 September 2009.

Jeanette Ellen Worthington, Secretary

Geoffrey John Izard, Director

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Auditor's Independence Declaration

partners in success
Chartered Accountants & Business Advisors

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Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Merbein District 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 2009 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
Auditor

Andrew Frewin & Stewart
Bendigo, Victoria

Dated this 28th day of September 2009

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Liability limited by a scheme approved under Professional Standards Legislation

Income Statement
For the year Ended 30 June 2009

	Notes	2009 $	2008 $
Revenues from ordinary activities	3	375,029	379,177
Salaries and employee benefits expense		(260,601)	(259,423)
Advertising and promotion expenses		(14,480)	(19,860)
Occupancy and associated costs		(31,566)	(29,162)
Systems costs		(22,195)	(28,167)
Depreciation and amortisation expense	4	(19,090)	(16,869)
General administration expenses		(73,607)	(61,419)
Loss before income tax credit		**(46,510)**	**(35,724)**
Income tax credit	5	17,027	8,796
Loss for the period		(29,483)	(26,928)
Loss attributable to members of the entity		**(29,483)**	**(26,928)**
Earnings per share (cents per share)		c	c
- basic for profit for the year	19	(5.44)	(4.96)

The accompanying notes form part of these financial statements

Balance Sheet
As at 30 June 2009

	Notes	2009 $	2008 $
ASSETS			
Current Assets			
Cash assets	6	28,181	24,309
Trade and other receivables	7	33,659	20,947
Total Current Assets		**61,840**	**45,256**
Non-Current Assets			
Property, plant and equipment	8	74,288	56,590
Intangible assets	9	67,958	12,690
Deferred tax assets	10	134,565	117,538
Total Non-Current Assets		**276,811**	**186,818**
Total Assets		**338,651**	**232,074**
LIABILITIES			
Current Liabilities			
Trade and other payables	11	107,510	15,539
Borrowings	12	40,487	-
Provisions	13	14,221	12,988
Total Current Liabilities		**162,218**	**28,527**
Non-Current Liabilities			
Provisions	13	5,365	2,996
Total Non-Current Liabilities		**5,365**	**2,996**
Total Liabilities		**167,583**	**31,523**
Net Assets		**171,068**	**200,551**
Equity			
Issued capital	14	490,005	490,005
Accumulated losses	15	(318,937)	(289,454)
Total Equity		**171,068**	**200,551**

Statement of Changes of Equity

For the year ended 30 June 2009

	2009 $	2008 $
Total equity at the beginning of the period	200,551	227,479
Net profit/(loss) for the period	(29,483)	(26,928)
Net income/expense recognised directly in equity	-	-
Total income and expense recognised by the entity for the year	(29,483)	(26,928)
Dividends provided for or paid	-	-
Shares issued during period	-	-
Costs of issuing shares	-	-
Total equity at the end of the period	171,068	200,551

The accompanying notes form part of these financial statements

Statement of Cash Flows
For the year ended 30 June 2009

	Notes	2009 $	2008 $
Cash Flows From Operating Activities			
Receipts from customers		361,827	389,112
Payments to suppliers and employees		(392,345)	(395,601)
Interest received		490	541
Interest paid		(1,421)	(30)
Net cash used in operating activities	16	**(31,449)**	**(5,978)**
Cash Flows From Investing Activities			
Payment for property plant & equipment		(5,166)	-
Net cash used in investing activities		**(5,166)**	**-**
Net decrease in cash held		**(36,615)**	**(5,978)**
Cash at the beginning of the financial year		24,309	30,287
Cash at the end of the financial year	6(a)	**(12,306)**	**24,309**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

For the year ended 30 June 2009

1. Summary of significant accounting policies

Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS). These financial statements and notes comply with IFRS.

Historical cost convention

The financial report has been prepared under the historical cost conventions 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.

Revenue

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of Goods and Services Tax (GST). 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.

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 for 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 ATO are classified as operation cash flows.

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 tax 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).

1. Summary of significant accounting policies (continued)

Income tax (continued)

Deferred tax

Deferred tax is accounted for using the comprehensive 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/consolidated 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 income statement, 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.

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.

Intangibles

The cost of the company's franchise fee has been recorded at cost and is amortised on a straight line basis at a rate of 20% per annum.

Cash

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.

Comparative figures

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

1. Summary of significant accounting policies (continued)

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

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.

There are no estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Payment terms

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

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.

Borrowings

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

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 transactions costs. Financial instruments are classified and measured as set out below.

1. Summary of significant accounting policies (continued)

Financial Instruments (continued)

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 income statement.

Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the entity 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.

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.

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.

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.

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 & 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 & Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo & 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 & 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 2009 can be seen in the Income Statement.

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

Notes to the Financial Statements continued
For the year ended 30 June 2009

3. Revenue from ordinary activities	2009 $	2008 $
Operating activities:		
- margin income	182,732	187,288
- commission fees	112,840	190,099
- other revenue	78,967	1,282
Total revenue from operating activities	374,539	378,669
Non-operating activities:		
- interest received	490	508
Total revenue from non-operating activities	490	508
Total revenues from ordinary activities	375,029	379,177

4. Expenses

Depreciation of non-current assets:		
- office furniture and equipment	4,258	1,872
- leasehold improvements	2,832	2,997
Amortisation of non-current assets:		
- franchise agreement	12,000	12,000
	19,090	16,869
Finance costs:		
- interest paid	1,421	30

5. Income tax expense

The components of tax expense comprise:			
- Deferred tax on provisions		1,878	(4,824)
- Future income tax benefit attributable to losses		(16,359)	(6,518)
- Under/over provision from prior year		(2,546)	2,546
		(17,027)	(8,796)
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating loss		(46,510)	(35,723)
Prima facie tax on loss from ordinary activities at 30%		(13,953)	(10,717)
Add tax effect of:			
- non-deductible expenses		3,600	3,681
- timing difference expenses		(2,861)	3,662
- other deductible expense		(3,144)	(3,144)
Current tax		(16,358)	(6,518)
Movement in deferred tax	10.	1,878	(4,824)
Under/over provision from prior year			2,546
		(14,480)	(8,796)

Notes to the Financial Statements continued

For the year ended 30 June 2009

6. Cash assets	2009 $	2008 $
Cash at bank and on hand	18,019	17,535
Term deposits	10,162	6,774
	28,181	24,309

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

6(a) *Reconciliation of cash*

Cash at bank and on hand	18,019	17,535
Term deposit	10,162	6,774
Bank Overdraft	(40,487)	-
	(12,306)	24,309

7. Trade and other receivables

Trade receivables	22,433	17,602
Prepayments	11,227	3,345
	33,660	20,947

8. Property, plant and equipment

Fit Out Costs		
At cost	63,508	63,508
Less accumulated depreciation	(17,509)	(14,677)
	45,999	48,831
Office Furniture		
At cost	44,583	19,795
Less accumulated depreciation	(16,294)	(12,036)
	28,289	7,759
Total written down amount	74,288	56,590

Movements in carrying amounts:

Fit Out Costs		
Carrying amount at beginning	48,831	51,828
Less: depreciation expense	(2,832)	(2,997)
Carrying amount at end	45,999	48,831
Leasehold improvements		
Office Furniture	7,759	9,631
Additions	24,788	-
Less: depreciation expense	(4,258)	(1,872)
Carrying amount at end	28,289	7,759
Total written down amount	74,288	56,590

Notes to the Financial Statements continued

For the year ended 30 June 2009

	2009 $	2008 $
9. Intangible assets		
Franchise Fee		
At cost	71,211	60,000
Less: accumulated amortisation	(59,310)	(47,310)
Franchise Renewl Fee		
At cost	56,057	-
Less: accumulated amortisation	-	-
	67,958	12,690

10. Deferred Tax

	2009 $	2008 $
Deferred Tax Asset		
- Opening Balance	117,538	108,742
Future income tax benefits attributable to losses	16,359	6,518
Deferred tax on provisions	(1,878)	4,824
Under/over provision from prior year	2,546	(2,546)
- Closing Balance	134,565	117,538

11. Trade and other payables

	2009 $	2008 $
Trade creditors	105,062	12,233
Other creditors & accruals	2,448	3,306
	107,510	15,539

12. Borrowings

	2009 $	2008 $
Current		
Bank overdraft	40,487	-

The approved overdraft limit is $50,000 and is unsecured. Interest is charged at a rate of 8.64%

13. Provisions

	2009 $	2008 $
Current		
Employee provisions	14,221	12,988
Non-Current		
Employee provisions	5,365	2,996
Number of employees at year end	2	2

14. Contributed equity

	2009 $	2008 $
542,111 Ordinary shares fully paid of $1 each (2008: 542,111)	542,411	542,411
Less: equity raising expenses	(52,406)	(52,406)
	490,005	490,005

14. Contributed equity (continued)

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 Bank contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(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

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.

15. Accumulated losses	**2009** **$**	**2008** **$**
Balance at the beginning of the financial year	(289,454)	(262,526)
Net loss from ordinary activities after income tax	(29,483)	(26,928)
Balance at the end of the financial year	(318,937)	(289,454)

16. Statement of cashflows	2009 $	2008 $
Reconciliation of loss from ordinary activities after tax to net cash used in operating activities		
Loss from ordinary activities after income tax	(29,483)	(26,928)
Non cash items:		
- depreciation	7,090	4,869
- amortisation	12,000	12,000
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(12,712)	10,476
- (increase) in other assets	(17,027)	(8,796)
- increase/(decrease) in payables	5,081	(3,471)
- increase in provisions	3,602	5,872
Net cashflows used in operating activities	(31,449)	(5,978)

17. Auditors' remuneration

Amounts received or due and receivable by the auditor of the company for:		
- audit & review services	3,550	3,000
- non audit services	4,117	800
	7,667	3,800

18. Director and related party disclosures

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

Jeanette Ellen Worthington

Barry Lyle Smith

Geoffrey John Izard

Stephen Thomas Milverton (Appointed 6 April 2009)

Garry William Costello (Appointed 6 April 2009)

Marianne Dawn Glover (Appointed 6 April 2009)

Stephen Joszef Lorincz (Appointed 6 April 2009)

Kay Elizabeth Martin (Resigned 31 March 2009)

Graeme Keith Stephens (Resigned 6 April 2009)

Anthony Dal Corobbo (Resigned 6 April 2009)

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

Directors shareholdings	2009	2008
Jeanette Ellen Worthington	5,001	5,001
Barry Lyle Smith	5,001	4,001
Geoffrey John Izard	6,001	6,001
Stephen Thomas Milverton (Appointed 6 April 2009)	1	1
Garry William Costello (Appointed 6 April 2009)	1	1
Marianne Dawn Glover (Appointed 6 April 2009)	1	1
Stephen Joszef Lorincz (Appointed 6 April 2009)	1	1
Kay Elizabeth Martin (Resigned 31 March 2009)	5,001	5,001
Graeme Keith Stephens (Resigned 6 April 2009)	6,001	6,001
Anthony Dal Corobbo (Resigned 6 April 2009)	5,001	5,001

There was no movement in directors shareholdings during the year. Each share held is valued at $1.

19. Earnings per share

	2009 $	2008 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	(29,483)	(26,928)
	2009 Number	**2008 Number**
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	542,411	542,411

20. Events occurring after the balance sheet date

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

21. Contingent liabilities

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

22. Segment reporting

The economic entity operates in the service sector where it facilitates community banking services pursuant to a franchise agreement with Bendigo & Adelaide Bank Limited. The economic entity operates in one geographic area being the Merbein district, Victoria.

23. Registered office/Principal place of business

The registered office and principal place of business is:

Registered office	Principal place of business
66 Commercial Street Merbein VIC 3505	66 Commercial Street Merbein VIC 3505

24. 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 Income Statement and notes to the financial statements.

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

Interest rate risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Over 5 years		Non interest bearing		Weighted average effective interest rate	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 %	2008 %
Financial assets												
Cash Assets	17,819	17,335	-	-	-	-	-	-	200	200	0.05	0.05
Term Deposit	-	-	10,162	6,774	-	-	-	-	-	-	4.14	6.25
Receivables	-	-	-	-	-	-	-	-	33,659	20,947	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	107510	15,539	N/A	N/A
Borrowings	40,487	-	-	-	-	-	-	-	-	-	5.46	N/A

Directors' Declaration

In accordance with a resolution of the directors of Merbein District 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 2009 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 AASB174 Related Party Disclosures and the Corporations Regulations 2001.

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

Jeanette Ellen Worthington, Secretary

Geoffrey John Izard, Director

Signed on the 28th September 2009

partners in success

Chartered Accountants & Business Advisors

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INDEPENDENT AUDITOR'S REPORT

To the members of Merbein District Community Financial Services Limited

We have audited the accompanying financial statements of Merbein District Community Financial Services Limited, which comprise the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair 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 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 report, comprising the financial statements and notes, complies 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 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.

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

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 met 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 Merbein District Community Financial Services Limited is in accordance with the Corporations Act 2001 including

   (a) giving a true and fair view of the company's financial position as at 30 June 2009 and of its financial performance and its cash flows for the year then ended and;
   (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001 and;

2) The financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. 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 Merbein District Community Financial Services Limited for the year ended 30 June 2009, complies with section 300A if the Corporations Act 2001.

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

Dated this 28th day of September 2009

Merbein & District
Community Bank® Branch

Bendigo Bank

Merbein & District
Community Bank® Branch

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