Midwest

Community Enterprises Limited

ABN 90 132 512 460

annual report 2011

Geraldton **Community Bank®** Branch

Contents

Chairman's report

For year ending 30 June 2011

It is with great pleasure that I present to you my report on behalf of the Midwest Community Enterprises Board of Directors for the 2010/2011 year.

In its second full year of operation, the Geraldton **Community Bank**® Branch has continued to grow at a steady rate, and thanks to the tremendous work being done by Jody Beven and all his staff, maintains the forecast course of reaching profitability in our third year of operation.

The Board this year also welcomed two new Directors, Trina Vasic and Gerard Marquis who I would like to thank for their time and commitment whilst also acknowledging all our Board members for their ongoing community work.

We feel we are getting to a very exciting phase of our business development. We continue to progress to our planned targets, and thus allowing us to really exploit the wonderful community benefits that this banking model will provide.

I would like to thank all our shareholders for continued support of the branch , and urge you all to utilise the branch for all of your banking requirements so that our path to profitability is assured.

We also are very mindful of declaring a dividend as soon as we believe it to be prudent to reward our patient shareholders.

I sincerely believe that this **Community Bank**® branch, and the model it represents, will become one of the most significant achievements of the Geraldton community and will provide a stream of funding for projects that will be unmatched in size and spread throughout our region. And you, as our shareholders, and the custodians of this magnificent project, will be justifiably proud of your foresight, and your continued sense of pride in what will be achieved.

I see nothing but an exciting future for our 'local branch' and as the world adapts to a new economic reality, we will see the even greater strengthening of our position in the financial lives of our region.

I commend to you our 2010/11 Annual Report.

Rob Houwen - Chairman.

Manager’s report

For year ending 30 June 2011

The second year of business for the Geraldton **Community Bank**® Branch was again successful, although it must also be said that it was a lot more challenging than the initial 12 months. Difficult economic conditions in retail businesses and a very slow real estate market made overall banking conditions tough, and sources of growth opportunities were not as easily found as in the previous year.

The period saw solid growth in banking business; in fact balances grew by approximately $24 million over the financial year, and as at June 2011 we have over 1,275 accounts opened by over 900 clients (increases of 475 and 250 respectively). Growth for the year was only 80% of the projected $30 million, but still represented a strong commitment by the local community to their belief in our business model.

While we have developed excellent and in some cases very deep relationships with some of our shareholders, it is still surprising to me how many do not yet hold accounts or any substantial relationship with the branch.

Perhaps it is a matter of a lack of understanding of the business model and what makes the Geraldton **Community Bank**® Branch different from other financial institutions, and why supporting the local bank is supporting the community that we live in. This is a primary focus for me in the coming 12 months, to make sure that the fundamental point of difference in having profits from banking staying in the local economy, and that the reward for shareholders in supporting us will be extra money for community distribution and, in time, payment of dividends.

We have had numerous staffing changes over the past 12 months with Steve and Joy Greenwood moving to Perth for family reasons in December 2010. Cassandra Armstrong has become an important member of our team and will soon become full time, while Donna Bawden joined us in March 2011 and has quickly taken to her new career. Mandy Woodman is still running our customer service area however Arnika Lloyd-Stein resigned and finished up in August to take up another opportunity. Bev Davidson has also advised of her intention to retire before the end of 2011 so the search is on for a replacement for her.

Our thanks go to both Bev and Arnika for their hard work and perseverance as foundation staff and they will both be missed by staff and customers alike.

In January 2011 Bendigo Bank’s new Business Banking Manager Tom Schaberau started with us, and he has been a wonderful acquisition. His 30+ years experience across all areas of banking means he can relate to all the issues that our staff and customers face on a daily basis, and he has also warmly embraced the whole community concept. On an even more positive note, Tom has been successful in writing some valuable business in his first 6 months to the extent that Bendigo Bank will be supporting him with a full time assistant from October this year.

On somewhat of a negative note, the new financial year is looking like being much more challenging than the previous year, with consumer sentiment and the general lack of business spending and confidence making for difficult conditions. When the economic environment is like this, it is common to see clients sticking with what they know and being reluctant to switch banks. To compensate for this we will continue to look for new opportunities and ways of deepening relationships with existing clients in an effort to increase our market share and grow income streams.

Manager's report continued

I must thank the board who have again been unwavering in their support for me and my staff during 2010/11. Their belief in our long term vision and determination to make our branch successful continues to be an inspiration to me.

A final thank you must go to all the staff who worked in the business over the past year. Things have not always been easy and my temperament has been tested at times, but it is the professional, enthusiastic and humorous response from the staff that still makes going to work enjoyable.

So the environment is different as we head into 2011/12, but the lessons we have learned over the past two years stands us in good stead to build on what we have developed thus far, and we can now see us achieving the goal of trading profitably on a monthly basis by June 2012. All we need is continued and growing support from the community and I ask all our shareholders to become advocates of our branch so we can all share in the rewards that will come with our success.

Jody Beven
Branch Manager

Bendigo and Adelaide Bank Ltd report

For year ending 30 June 2011

As **Community Bank®** shareholders you are part of something special, a unique banking movement which has evolved into a whole new way of thinking about organising and strengthening community.

Together, we have reached new heights and achieved many great successes, all of which has been underpinned by our commitment and dedication to the communities we're a part of.

Together we're making extraordinary progress, with more than $58.25 million returned to support community groups and endeavours since the network was established in 1998.

The returns grow exponentially each year, with $469 thousand returned within the first five years, $8.15 million within the first eight and $22.58 million by the end of the first decade of operation. Based on this, we can predict the community returns should top $100 million within the next three years, which equates to new community facilities, better health care, increased transport services and generally speaking, more prosperous communities.

Together, we haven't just returned $58.25 million; there is also the flow on economic impact to consider. Bendigo and Adelaide Bank is in the process of establishing an evidential basis that captures the complete picture and the economic outcomes these initiatives generate. However, the tangible outcomes are obvious. We see it in tenanted shops, increased consumer traffic, retained local capital and new jobs but we know that there are broader elements of community strength beyond the economic indicators, which demonstrate the power of our community models.

It is now evident that branches go through a clear maturity phase, building customer support, generating surpluses and establishing a sustainable income stream. This enables Boards to focus less on generating business and more on the community's aspirations. Bendigo is facilitating this through Director engagement and education, community consultations and other community solutions (Community Enterprise Foundation™, Community Sector Banking, Community Telco, Generation Green™ and Community Enterprises) that will provide Boards with further development options.

In Bendigo, your **Community Bank®** Board has a committed and successful partner. Our past efforts and continued commitment to be Australia's leading customer-connected bank, that is relevant, connected and valued, is starting to attract attention and reap rewards.

In January, a Roy Morgan survey into customer satisfaction saw Bendigo Bank achieve an industry leading score among Australian retail banks. This was the first time Bendigo Bank has led the overall results since August 2009.

In May, Fitch Ratings upgraded Bendigo and Adelaide Banks Long-Term Issuer Default Rating (IDR) to A- from BBB+. This announcement saw us become the first Australian bank – and one of the very few banks globally – to receive an upgrade since the Global Financial Crisis.

Standard & Poor's revised credit rating soon followed seeing Bendigo and Adelaide Bank shift from BBB+ stable, to BBB+ positive. These announcements reflect the hard and diligent work by all our staff, our sound risk management practices, low-risk funding and balance sheet structure, sound capital ratios and a sustained improvement in profitability.

Bendigo and Adelaide Bank Ltd report continued

The strength of our business model – based on our commitment to our customers and the communities that we operate in – is being recognised by all three ratings agencies.

Over the past year the bank has also added more than 700 additional ATMs through a network sharing agreement with Suncorp Bank, which further enhances our customers' convenience and expands our footprint across the country. In addition to this a further 16 **Community Bank®** branches were opened.

The bank has also had a renewed focus on business banking and re-launched our wealth management services through Bendigo Wealth, which oversees the Adelaide Bank, Leveraged Equities, Sandhurst Trustees and financial planning offering.

The **Community Bank®** model is unique and successful, it's one of our major points of difference and it enables us to connect with more than 550,000 customers, in excess of 270 communities and make a difference in the lives of countless people.

We are very proud of the model we have developed and we're very thankful for the opportunity to partner with communities to help build their balance sheets.

We thank you all for the part you play in driving this success.

Russell Jenkins
Executive Customer and Community

Directors' report

For the financial year ended 30 June 2011

Your directors submit their report 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:

Robert Francis Houwen
Chairman
Age: 52
Occupation: Manager
Experience & expertise: Over 20 years experience as Dealer/Principal of Geraldton Toyota. Member of Rotary club.
Interest in shares: 50,001

Paul James Adam
Treasurer
Age: 52
Occupation: Accountant
Experience & expertise: B.Bus. CPA. Principal of accounting practice Adam Hunter Pty Ltd.
Interest in shares: 10,151

Wayne John Clarkson
Director
Age: 52
Occupation: Insurance Broker/AFSL Holder
Experience & expertise: Dip.Fin.Serv. Senior Associate CIP.
Committee member of Geraldton turf club inc.
Member of Spalding Park Golf club.
Interest in shares: 27,500

Gary Bruce Clark
Director
Age: 65
Occupation: Consultant
Experience & expertise: Assoc Dip Recreation. Regional Manager Dept of Sport and Recreation (30 Years). Life member of various sporting clubs in the Geraldton area.
Interest in shares: 7,001

Paul Lawrence McKenzie
Director
Age: 44
Occupation: Agriculture Consultant
Experience & expertise: B.Sc(Agric), B.Com, FAICD. Experienced management consultant for 19+ years.
Interest in shares: 13,001

Harold McCashney
Director
Age: 77
Occupation: Retired Farmer
Experience & expertise: Former Shire Councillor and State Secretary to WA farmers.
Interest in shares: 30,001

Gerard Dale Marquis
Director (Appointed 19 July 2011)
Age: 39
Occupation: General Manager
Experience & expertise: Previous owner of Harvey Norman franchise. Current GM of Geraldton Newspaper. On the board of St Francis Xavier PS.
Interest in shares: Nil

Trina Michelle Vasic
Director (Appointed 19 July 2011)
Age: 39
Occupation: Driver Trainer/Instructor
Experience & expertise: Owner/Proprietor of Midwest Driver Training 13+years. Cert IV Driving Instructor. 10 years volunteering on various road saftey committees.
Interest in shares: 4,000

Robert William Jefferies
Director (Resigned 19 April 2011)

Martin Theodore de Haas
Director (Resigned 18 November 2010)

Karen Julie Godfrey
Director (Resigned 25 August 2010)

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

Company Secretary

The company secretary is Gemma Stuart. Taken over from Martin Theodore de Haas on 18 November 2010. Gemma Stuart was appointed as a Non Director to carry out the Secretarial duties on 17 September 2010. Gemma has holds a Certificate III in Business and is employed as an Assistant Accountant. Gemma served a period of service as Secretary of the Chapman Valley Football club and likes to be involved in local sporting clubs. She was born and raised in Geraldton and is proud to call the Midwest her home.

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 loss of the company for the financial year after provision for income tax was:

	Year ended 30 June 2010 $	Year ended 30 June 2009 $
	(224,310)	(309,626)

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 statements.

Matters Subsequent to the End of the Financial Year

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

Directors' report continued

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

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 20 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:

	Board Meetings Attended	
	Eligible	**Attended**
Robert Francis Houwen	12	12
Paul James Adam	12	10
Wayne John Clarkson	12	10
Gary Bruce Clark	12	5
Paul Lawrence McKenzie	12	7
Harold McCashney	12	10
Gerard Dale Marquis (Appointed 19 July 2011)	-	-
Trina Michelle Vasic (Appointed 19 July 2011)	-	-
Robert William Jefferies (Resigned 19 April 2011)	10	5
Martin Theodore de Haas (Resigned 18 November 2010)	5	2
Karen Julie Godfrey (Resigned 25 August 2010)	2	2

The Board has 4 sub-committees, Audit, Business Development, Community Investment & Partnerships and Human Resource. All sub-committees have elected Directors who meet on a regular, or as needs, basis and present reports/recommendations to the monthly Board meetings where required.

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 11.

Signed in accordance with a resolution of the board of directors at Geraldton, Western Australia on

22 September 2011.

Robert Francis Houwen, Chairman

Auditor's independence declaration

AFS
Partners in success
Chartered Accountants

Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Midwest Community Enterprises Limited

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

22 September 2011

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TAXATION - AUDIT - BUSINESS SERVICES - FINANCIAL PLANNING

Financial statements

Statement of comprehensive income for the year ended 30 June 2011

	Note	2011 $	2010 $
Revenues from ordinary activities	4	543,658	306,354
Employee benefits expense		(543,086)	(486,118)
Charitable donations, sponsorship, advertising and promotion		(49,118)	(16,860)
Occupancy and associated costs		(75,256)	(72,942)
Systems costs		(26,663)	(24,850)
Depreciation and amortisation expense	5	(54,262)	(53,867)
Finance costs	5	(27)	(31)
General administration expenses		(109,823)	(90,019)
Loss before income tax credit		**(314,577)**	**(438,333)**
Income tax credit	6	90,267	128,707
Loss after income tax credit		**(224,310)**	**(309,626)**
Total comprehensive income for the year		**(224,310)**	**(309,626)**

Earnings per share (cents per share)		**c**	**c**
- basic for profit for the year	22	(16.02)	(22.12)

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2011

	Note	2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	189,080	471,506
Trade and other receivables	8	49,110	32,706
Total Current Assets		**238,190**	**504,212**
Non-Current Assets			
Property, plant and equipment	9	271,795	297,865
Intangible assets	10	64,158	86,166
Deferred tax assets	11	273,375	183,108
Total Non-Current Assets		**609,328**	**567,139**
Total Assets		**847,518**	**1,071,351**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	35,541	36,609
Borrowings	13	10,300	7,917
Provisions	14	30,851	25,490
Total Current Liabilities		**76,692**	**70,016**
Non-Current Liabilities			
Borrowings	13	-	11,142
Provisions	14	10,560	5,617
Total Non-Current Liabilities		**10,560**	**16,759**
Total Liabilities		**87,252**	**86,775**
Net Assets		**760,266**	**984,576**
Equity			
Issued capital	15	1,358,402	1,358,402
Accumulated losses	16	(598,136)	(373,826)
Total Equity		**760,266**	**984,576**

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2011

	Note	2011 $	2010 $
Cash Flows From Operating Activities			
Receipts from customers		519,078	322,011
Payments to suppliers and employees		(795,833)	(764,513)
Interest received		9,299	21,988
Interest paid		(27)	(31)
Net cash used in operating activities	**17**	**(267,483)**	**(420,545)**
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(6,184)	(2,336)
Net cash used in investing activities		**(6,184)**	**(2,336)**
Cash Flows From Financing Activities			
Repayment of borrowings		(8,759)	(8,141)
Net cash used in financing activities		**(8,759)**	**(8,141)**
Net decrease in cash held		**(282,426)**	**(431,022)**
Cash and cash equivalents at the beginning of the financial year		471,506	902,528
Cash and cash equivalents at the end of the financial year	**7(a)**	**189,080**	**471,506**

The accompanying notes form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2011

	Issued Capital $	Retained Earnings $	Total Equity $
Balance at 1 July 2009	**1,358,402**	**(64,200)**	**1,294,202**
Total comprehensive income for the year	**-**	**(309,626)**	**(309,626)**
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 2010	**1,358,402**	**(373,826)**	**984,576**
Balance at 1 July 2010	**1,358,402**	**(373,826)**	**984,576**
Total comprehensive income for the year	**-**	**(224,310)**	**(224,310)**
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	**1,358,402**	**(598,136)**	**760,266**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For 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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

Adoption of new and revised Accounting Standards (continued)

- 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.

Note 1. Summary of Significant Accounting Policies (continued)

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 Geraldton, Western Australia.

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).

Note 1. Summary of Significant Accounting Policies (continued)

b) Revenue (continued)

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 amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has be exercised on several occasions previously. For example in February 2011 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank**® partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank**® companies remain balanced.

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

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

Note 1. Summary of Significant Accounting Policies (continued)

c) Income Tax (continued)

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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

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 establishment 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

<u>Recognition and initial measurement</u>

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.

Note 1. Summary of Significant Accounting Policies (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 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.

Note 1. Summary of Significant Accounting Policies (continued)

m) Provisions (continued)

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

n) Contributed Equity

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

o) Earnings Per Share

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

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.

Note 2. Financial Risk Management (continued)

(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.

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets

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

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

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

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

Note 4. Revenue from continuing operations

	2011 $	2010 $
Operating activities:		
- services commissions	485,067	284,366
- other revenue	50,000	-
Total revenue from operating activities	**535,067**	**284,366**
Non-operating activities:		
- interest received	8,591	21,988
Total revenue from non-operating activities	**8,591**	**21,988**
Total revenues from ordinary activities	**543,658**	**306,354**

		2011 $	2010 $

Note 5. Expenses

	2011 $	2010 $
Depreciation of non-current assets:		
- plant and equipment	8,281	7,892
- leasehold improvements	16,309	16,311
- motor vehicle	7,664	7,664
Amortisation of non-current assets:		
- franchise agreement	2,004	2,000
- franchise renewal fee	20,004	20,000
	54,262	**53,867**
Finance costs:		
- interest paid	27	31
Bad debts	89	60

Note 6. Income tax credit

	Note	2011 $	2010 $
The components of tax expense comprise:			
- Future income tax benefit attributed to losses		(87,874)	(123,493)
- Movement in deferred tax		(2,393)	(5,214)
		(90,267)	**(128,707)**
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating loss		(314,577)	(438,333)
Prima facie tax on loss from ordinary activities at 30%		(94,373)	(131,500)
Add tax effect of:			
- non-deductible expenses		6,602	6,650
- timing difference expenses		2,393	4,554
- investment deduction		-	(701)
- other deductible expenses		(2,496)	(2,496)
		(87,874)	**(123,493)**
Movement in deferred tax	11	(2,393)	(5,214)
		(90,267)	**(128,707)**

	2011 $	2010 $

Note 7. Cash and cash equivalents

	2011 $	2010 $
Cash at bank and on hand	18,124	24,697
Term deposits	170,956	446,809
	189,080	**471,506**

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

	2011 $	2010 $
Note 7.(a) Reconciliation of cash		
Cash at bank and on hand	18,124	24,697
Term deposits	170,956	446,809
	189,080	**471,506**

Note 8. Trade and Other Receivables

	2011 $	2010 $
Trade receivables	43,187	28,278
Other receivables and accruals	392	1,100
Prepayments	5,531	3,328
	49,110	**32,706**

Note 9. Property, Plant and Equipment

	2011 $	2010 $
Plant and equipment		
At cost	54,121	47,937
Less accumulated depreciation	(17,047)	(8,766)
	37,074	**39,171**
Leasehold improvements		
At cost	252,539	252,539
Less accumulated depreciation	(32,977)	(16,668)
	219,562	**235,871**
Motor vehicle		
At cost	30,655	30,655
Less accumulated depreciation	(15,496)	(7,832)
	15,159	**22,823**
Total written down amount	**271,795**	**297,865**

	2011 $	2010 $

Note 9. Property, Plant and Equipment (continued)

Movements in carrying amounts:

	2011 $	2010 $
Plant and equipment		
Carrying amount at beginning	39,171	44,727
Additions	6,184	2,336
Less: depreciation expense	(8,281)	(7,892)
Carrying amount at end	**37,074**	**39,171**
Leasehold improvements		
Carrying amount at beginning	235,872	252,182
Additions	-	-
Less: depreciation expense	(16,310)	(16,310)
Carrying amount at end	**219,562**	**235,872**
Motor vehicle		
Carrying amount at beginning	22,822	30,487
Additions	-	-
Less: depreciation expense	(7,663)	(7,665)
Carrying amount at end	**15,159**	**22,822**
Total written down amount	**271,795**	**297,865**

Note 10. Intangible Assets

	2011 $	2010 $
Franchise fee		
At cost	10,000	10,000
Less: accumulated amortisation	(4,171)	(2,167)
	5,829	**7,833**
Establishment/Renewal processing fee		
At cost	100,000	100,000
Less: accumulated amortisation	(41,671)	(21,667)
	58,329	**78,333**
Total written down amount	**64,158**	**86,166**

		2011 $	2010 $

Note 11. Tax

Deferred tax assets			
- accruals		659	909
- employee provisions		12,423	9,332
- tax losses carried forward		262,070	174,195
		275,152	**184,436**
Deferred tax liability			
- accruals		117	330
- deductible prepayments		1,660	998
		1,777	**1,328**
Net deferred tax asset		**273,375**	**183,108**
Movement in deferred tax charged to statement of comprehensive income		**(2,393)**	**(5,214)**

Note 12. Trade and Other Payables

Trade creditors		29,843	8,093
Other creditors and accruals		5,698	28,516
		35,541	**36,609**

Note 13. Borrowings

Current:			
Lease liability	18	10,300	7,917
		10,300	**7,917**
The Chattel Mortgage is repayable monthly with the final instalment due on May 2012. Interest is recognised at an annual rate of 8.801%.			
Non-Current:			
Lease liability	18	-	11,142
		-	**11,142**

	2011 $	2010 $

Note 14. Provisions

	2011 $	2010 $
Current:		
Provision for annual leave	**30,851**	**25,490**
Non-Current:		
Provision for long service leave	**10,560**	**5,617**
Number of employees at year end	6	5

Note 15. Contributed Equity

	2011 $	2010 $
1,400,009 Ordinary shares fully paid (2010: 1,400,009)	1,400,009	1,400,009
Less: equity raising expenses	(41,607)	(41,607)
	1,358,402	**1,358,402**

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.

Note 15. Contributed Equity (continued)

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

Prohibited shareholding interest

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

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 217. As at the date of this report, the company had 241 shareholders.

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

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

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

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 16. Accumulated Losses

	2011 $	2010 $
Balance at the beginning of the financial year	(373,826)	(64,200)
Net loss from ordinary activities after income tax	(224,310)	(309,626)
Balance at the end of the financial year	**(598,136)**	**(373,826)**

Notes to the financial statements continued

	2011 $	2010 $

Note 17. Statement of Cashflows

Reconciliation of loss from ordinary activities after tax to net cash used in operating activities

	2011 $	2010 $
Loss from ordinary activities after income tax	(224,310)	(309,626)
Non cash items:		
- depreciation	32,254	31,867
- amortisation	22,008	22,000
Changes in assets and liabilities:		
- increase in receivables	(16,404)	(4,694)
- increase in other assets	(90,267)	(128,707)
- decrease in payables	(1,068)	(57,734)
- increase in provisions	10,304	26,349
Net cashflows used in operating activities	**(267,483)**	**(420,545)**

Note 18. Leases

Finance lease commitments

	2011 $	2010 $
Payable - minimum lease payments		
- not later than 12 months	10,684	9,598
- between 12 months and 5 years	-	10,343
- greater than 5 years	-	-
Minimum lease payments	10,684	19,941
Less future finance charges	(384)	(882)
Present value of minimum lease payments	10,300	19,059

The Chattel Mortgage is repayable monthly with the final instalment due on May 2012. Interest is recognised at an annual rate of 8.801%.

	2011 $	2010 $

Note 18. Leases (continued)

Operating lease commitments

	2011 $	2010 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	56,500	55,300
- between 12 months and 5 years	115,300	171,800
- greater than 5 years	-	-
	171,800	**227,100**

The Business premises lease is a non-cancellable lease with a 5 year term, with rent payable monthly in advance. The current lease expires on 1 June 2014, with 2 further 5 year option.

Note 19. Auditors' Remuneration

Amounts received or due and receivable by the auditor of the company for:

	2011 $	2010 $
- audit and review services	3,400	3,400
- non audit services	1,310	1,231
	4,710	**4,631**

Note 20. Director and related party disclosures

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

Robert Francis Houwen

Paul James Adam

Wayne John Clarkson

Gary Bruce Clark

Paul Lawrence McKenzie

Harold McCashney

Gerard Dale Marquis (Appointed 19 July 2011)

Trina Michelle Vasic (Appointed 19 July 2011)

Robert William Jefferies (Resigned 19 April 2011)

Martin Theodore de Haas (Resigned 18 November 2010)

Karen Julie Godfrey (Resigned 25 August 2010)

	2011 $	2010 $

Note 20. Director and Related Party Disclosures (continued)

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

	2011 $	2010 $
R.L. Mitoke Pty Ltd, of which Robert Francis Houwen is a director, is the landlord of the branch premises at 79 Forest Street, the amount of rent and associated outgoings was	55,920	55,800
Paul Adam, in the capacity of Principal of Adam Hunter Pty Ltd, supplied accounting and share registry services to the value of	6,200	7,885
Gerard Marquis is the General Manager of the Geraldton Newspaper who provided advertising services to the value of	1,800	-

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

Directors Shareholdings	**2011**	**2010**
Robert Francis Houwen	50,001	50,001
Paul Lawrence McKenzie	13,001	13,001
Wayne John Clarkson	28,001	28,001
Gary Bruce Clark	7,001	7,001
Paul James Adam	10,151	10,151
Harold McCashney	30,001	30,001
Gerard Dale Marquis (Appointed 19 July 2011)	-	-
Trina Michelle Vasic (Appointed 19 July 2011)	4,000	4,000
Robert William Jefferies (Resigned 19 April 2011)	12,001	12,001
Martin Theodore de Haas (Resigned 18 November 2010)	8,001	8,001
Karen Julie Godfrey (Resigned 25 August 2010)	500	500

There was no movement in directors shareholdings during the year.

Note 21. Key Management Personnel Disclosures

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

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

	2011 $	2010 $

Note 22. Earnings Per Share

	2011 $	2010 $
(a) Loss attributable to the ordinary equity holders of the company used in calculating earnings per share		
	(224,310)	(309,626)
	Number	**Number**
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,400,009	1,400,009

Note 23. Events Occurring After the Balance Sheet Date

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

Note 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 Geraldton, Western Australia pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 26. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office	Principal Place of Business
Unit 1/31-33 Hosken Street	79 Forrest Street
Bluff Point WA 6530	Geraldton WA 6530

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

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	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 %	2010 %
Financial Assets												
Cash and cash equivalents	189,080	471,506	-	-	-	-	-	-	-	-	2.88	2.41
Receivables	-	-	-	-	-	-	-	-	43,187	32,706	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	-	-	10,300	7,917	-	11,142	-	-	-	-	8.80	9.00
Payables	-	-	-	-	-	-	-	-	29,843	36,609	N/A	N/A

Directors’ declaration

IIn accordance with a resolution of the directors of Midwest Community Enterprises Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company’s financial position as at 30 June 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.

Robert Francis Houwen, Chairman

Signed on the 22nd September 2011.

Independent audit report

Partners in success
Chartered Accountants

Independent Auditor's Report To The Members Of Midwest Community Enterprises Limited

Report on the Financial Report

We have audited the accompanying financial report of Midwest Community Enterprises 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.

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TAXATION - AUDIT - BUSINESS SERVICES - FINANCIAL PLANNING

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 Midwest Community Enterprises Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 30 June 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 Midwest Community Enterprises 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

22 September 2011

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