Ormond-McKinnon
Community Enterprises Limited

ABN 62 131 468 703

# annual report 2011


Ormond-McKinnon **Community Bank®** Branch

# Contents


| | |
|---|---|
| Chairman's report | 2-3 |
| Manager's report | 4 |
| Bendigo and Adelaide Bank Ltd report | 5-6 |
| Directors' report | 7-10 |
| Financial statements | 11-14 |
| Notes to the financial statements | 15-28 |
| Directors' declaration | 29 |
| Independent audit report | 30-31 |

# Chairman's report

## For year ending 30 June 2011

It is with pleasure that I present my 3rd Annual Report for the Ormond-McKinnon Community Enterprises Limited (OMCEL). The 12 months to 30 June 2011 was effectively the conclusion of the first full year of operation of Ormond-McKinnon **Community Bank®** Branch, following the opening of the branch on 21 June 2010.

The year was both a joyous period for the Board and one that also provided a number of challenges. The OMCEL Directors and the 229 shareholders that formally started the journey together in February 2010 should be proud of the achievement of your primary goal to return direct banking services to North Road, Ormond. The challenge for the Board and the staff during the first year of operation was to grow the banking business in line with expectations and forecasts outlined in our Company prospectus.

**Position of the Company as at 30 June 2011**

The financial performance of OMCEL for the period 1 July 2010 – 30 June 2011 was below expectations, mainly due to the inability of the branch to grow the required amount of business on the books.

The Company made a loss of $236,926 for the year. Notwithstanding this significant loss, it has been pleasing to see real growth beginning to emerge in the first couple of months of the current financial year, which can be partly attributable to the very hard work of the Directors, the Branch Manager and the branch staff, and also the emerging support from our sponsored groups and their membership.

Somewhat frustrating for the Directors is the low percentage of shareholders who actually bank with the Ormond-McKinnon **Community Bank®** Branch, whether this is personal banking, business banking or loans. I cannot stress strongly enough that all shareholders have a significant stake in seeing the enterprise succeed, so please consider transferring some or all of your banking business to our branch to assist it to turn the enterprise into profit.

The Directors recommend that no dividend be paid to shareholders for the current period.

**Community grants and sponsorships**

The real advantage and benefit of the **Community Bank®** model is the capability to support community groups and projects. I am pleased to report that during the first full year of operation, our Company has committed financial support to the following community groups in the form of grants and sponsorships:

| | |
|---|---|
| • Glen Eira College | $1,000 |
| • Glen Eira Sports and Aquatic Centre | $500 |
| • Kilvington Grammar School | $500 |
| • Oakleigh State Emergency Service | $500 |
| • McKinnon Cricket Club | $500 |
| • McKinnon Primary School | $1,000 |
| • Ormond Amateur Football Club | $750 |
| • Ormond Junior Football Club | $750 |
| • Ormond Cricket Club | $750 |
| • Ormond Glenhuntly Baseball Club | $500 |
| Total | $6,750 |

# Chairman's report continued

Generally, the sponsorships and grants are to support specific projects nominated by the recipient group and the Board looks forward to seeing these projects come to fruition. There are more sponsorships in the pipeline and the number and value of these arrangements will expand exponentially as the banking business continues to grow.

**Branch staff**

The Board is proud of our staff, led by Branch Manager, Lauren Tuff, and of the contribution they are making to establish the branch in Ormond.

We had one staff change during the reporting period with Customer Relationship Officer Louise Marshall, departing to pursue a new career with the Country Fire Authority. Her replacement, Ben Zygadlo-Phillips, has made a big impression already and we look forward to Ben's continued enthusiasm and involvement. I would also like to thank our other staff members, Gail Walsh, Kariyanna Johnson and Robyn McKenna, for their continued 'front of house' service to our customers.

**Board members**

Your Board met on a monthly basis during the financial year and has functioned well and worked hard to grow the business. The Board welcomed two new Directors in November last year, Colin Geldart and Noel Will. Both have made significant contributions in their first terms.

It is with regret that I inform shareholders of the decision of three Directors to retire at the Annual General Meeting. Barbara Douglas, Phillip Vazirani and Brad Coates have all served the Board with great energy and enthusiasm and will be missed. I want to particularly acknowledge the contribution of Barbara and Phillip who have been involved with this **Community Bank®** branch venture since 2006 when the initial steering committee was formed to garner local support for the return of direct banking services to the Ormond and McKinnon area.

I would also like to acknowledge the tremendous amount of work and effort provided to the Company during the past 12 months by the other Directors: Geoff Gartly (Treasurer), Penny Armes, and Jenny King. Also, I would like to thank the non-Director sub-committee members, Marlies Krummenacher, Alan Winn, Maria Schwartz and Jamie Hyams, whose contributions are appreciated and valued.

I also acknowledge the support and assistance of our legal advisor, David Rush, and financial services provider, Richmond Sinnott Delahunty, and the Bendigo and Adelaide Bank Ltd Eastern Region staff, including Michael Petering, Chris Salm and Clint Allwood.

Finally, I am confident that the Board will facilitate significant business growth for the branch and for OMCEL during the next 12 months. We will do this with ongoing assistance from our branch staff and from the Bendigo and Adelaide Bank Ltd staff for the ultimate benefit of our community.

**Richard Simon**
**Chairman**

# Manager's report

## For year ending 30 June 2011

I am pleased to provide my report for the 2011 Ormond-McKinnon Community Enterprises Ltd Annual Report.

Our first year of operation has been challenging, but at the same time often very rewarding.

It was a pleasure to welcome 544 new customers to the Ormond-McKinnon **Community Bank®** Branch during the reporting period and the staff have enjoyed assisting them with all their banking needs.

The Branch has had a relatively stable group of staff with only one change since opening. Louise Marshall left the branch to pursue an opportunity with the CFA, where she has been a keen volunteer for a few years. We welcomed Ben Zygadlo-Phillips as her replacement. Ben came from one of the major banks and is now enjoying banking at a local level and being able to contribute to the community.

In last year's Annual Report, I wrote that our aim was to provide $50,000 in sponsorships over the next two years. Well, 12 months in, I am proud of the fact that we have been able to provide $8,750 in sponsorships to 12 community groups in our area, which includes the two groups that each received a $500 grant at our branch opening in June 2010. It is also fantastic to hear that **Community Bank®** Companies across Australia have now reached a milestone of $60 million in grants and sponsorships to their communities.

You can help us reach our goal by supporting your branch with your banking, as any banking you hold with Ormond-McKinnon **Community Bank®** Branch will benefit our community for years to come.

Lastly, I would like to thank the Board of the Ormond-McKinnon Community Enterprises Ltd for all their efforts. They give up so much of their time to ensure this branch becomes profitable and therefore a valuable contributor to this community.

**Lauren Tuff**
**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.

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.

# Bendigo and Adelaide Bank Ltd report continued

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 are:

**Richard James Simon**
Chairman
Recreation Planning Consultant

**Barbara Dawn Douglas**
Director
Public Accountant

**Penelope Jane Armes**
Director
Proprietor Health Foods

**Jennifer Wendy King**
Director
Medical Practitioner

**Pradeep Vazirani**
Director
Proprietor IGA Supermarket

**Noel Will** (appointed 15 November 2010)
Director
Former Teacher now retired

**Margaret Jane Bradley** (resigned 15 November 2010)
Director
Retired Teacher

**Bradley Christopher Coates**
Director
Proprietor Melbourne Music Centre

**Geoffrey John Gartly**
Treasurer
Chartered Accountant

**Marie-Louise Krummenacher** (resigned 15 November 2010)
Director
Proprietor Ormond Meat and Small Goods

**John Lindsay Lord** (resigned 15 November 2010)
Director
Property Consultant

**Colin Geldart** (appointed 15 November 2010)
Director
Former Banker now retired

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

No Directors have material interests in contracts or proposed contracts with the Company other than John Lord, who is the owner of the property in which the Company has entered into an exercisable lease at 485 North Road Ormond, payments of $35,243 were payable during the year.

**Principal activities**

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

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

### Review of operations

The loss of the Company for the financial year after provision for income tax was $236,926 (2010: $55,554).

### Dividends

The Directors recommend that no dividend be paid for the current year (2010: nil).

### Significant changes in the state of affairs

In the opinion of the Directors there was no significant change in the state of affairs of the Company that occurred during the financial year under review.

### Significant events after the balance date

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 financial year. The Company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

### Likely developments

The Company will continue its policy of providing banking services to the community.

### Remuneration report

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. 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 agreed to indemnify each Officer (Director, Secretary or employee) out of assets of the Company to the relevant extent against any liability incurred by that person arising out of the discharge of their duties, except where the liability arises out of conduct involving dishonesty, negligence, breach of duty or the lack of good faith. The Company also has Officers Insurance for the benefit of Officers of the Company against any liability occurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the Company or in or arising out of the discharge of the Officer's duties.

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' report continued

**Directors' meetings**

The number of Directors' meetings attended during the year were:

| Director | Board meetings # | Audit committee meetings # |
|---|---|---|
| Richard James Simon | 12 (13) | 4 (4) |
| Margaret Jane Bradley (resigned 15 November 2010) | 0 (5) | N/A |
| Barbara Dawn Douglas | 13 (13) | N/A |
| Bradley Christopher Coates | 11 (13) | N/A |
| Penelope Jane Armes | 12 (13) | 4 (4) |
| Geoffrey John Gartly | 11 (13) | N/A |
| Jennifer Wendy King | 11 (13) | N/A |
| Marie-Louise Krummenacher (resigned 15 November 2010) | 5 (5) | N/A |
| John Lindsay Lord (resigned 15 November 2010) | 0 (5) | N/A |
| Pradeep Vazirani | 10 (13) | N/A |
| Noel Will (appointed 15 November 2010) | 8 (8) | N/A |
| Colin Geldart (appointed 15 November 2010) | 7 (8) | N/A |

# The first number is the meetings attended while in brackets is the number of meetings eligible to attend.
N/A - not a member of that Committee.

**Company Secretary**

Barbara Dawn Douglas has been the Company Secretary of Ormond-McKinnon Community Enterprises Limited since 2008 unitil her resignation. Barbara's qualifications include Certified Practicing Accountant and Chartered Secretary and she has had over 50 years of accountancy experience in public practice.

Noel Will was appointed Company Secretary at 30 June 2011. Noel's qualifications include a Bach. Ed'n, Grad. Dip. Marketing, Dip. Of Financial Planning. Noel is a resident of Ormond and was a member of the initial steering committee. Prior to retirement, Noel had 16 years experience in post primary teaching and 16 years experience as a financial planner.

**Corporate governance**

The Company has implemented various corporate governance practices, which include:

(a) The establishment of an audit committee. Members of the audit committee are Richard Simon, Jamie Hyams, Penelope Armes and Maria Schwartz;

(b) Director approval of operating budgets and monitoring of progress against these budgets;

(c) Ongoing Director training; and

(d) Monthly Director meetings to discuss performance and strategic plans.

**Auditor independence declaration**

The Directors received the following declaration from the Auditor of the Company:

Richmond Sinnott & Delahunty
Chartered Accountants

30 September 2011

The Directors
Ormond-McKinnon Community Enterprises Limited
485 North Road
Ormond Vic 3204

Dear Directors

**Auditor's Independence Declaration**

In relation to our audit of the financial report of Ormond-McKinnon Community Enterprises Limited for the year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

**Warren Sinnott**
**Partner**
**Richmond Sinnott & Delahunty**

Signed in accordance with a resolution of the Board of Directors at Ormond on 30 September 2011.

**Richard James Simon, Chairman**

# Financial statements

## Statement of comprehensive income for the year ended 30 June 2011

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| Revenue from continuing operations | 2 | 105,457 | 2,801 |
| Employee benefits expense | 3 | (266,279) | (27,321) |
| Charitable donations and sponsorship | | (714) | - |
| Depreciation and amortisation expense | 3 | (37,801) | (2,058) |
| Finance costs | 3 | - | (256) |
| Other expenses | | (128,935) | (53,339) |
| **Loss before income tax benefit** | | **(328,272)** | **(80,173)** |
| Income tax benefit | 4 | 91,346 | 24,619 |
| **Loss after income tax benefit** | | **(236,926)** | **(55,554)** |
| Other comprehensive income | | - | - |
| **Total comprehensive income** | | **(236,926)** | **(55,554)** |
| | | | |
| **Earnings per share (cents per share)** | | | |
| - basic for loss for the year | 21 | (28.58) | (6.70) |
| - diluted for loss for the year | 21 | (28.58) | (6.70) |

The accompanying notes form part of these financial statements.

# Financial statements continued

## Statement of financial position as at 30 June 2011

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 33,552 | 338,318 |
| Receivables | 7 | 5,880 | 1,396 |
| **Total current assets** | | **39,432** | **339,714** |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 305,143 | 303,330 |
| Deferred tax assets | 4 | 116,913 | 25,567 |
| Intangible assets | 9 | 86,222 | 108,222 |
| **Total non-current assets** | | **508,278** | **437,119** |
| **Total assets** | | **547,710** | **776,833** |
| **Current liabilities** | | | |
| Payables | 10 | 25,943 | 23,607 |
| Provisions | 11 | 5,331 | - |
| **Total current liabilities** | | **31,274** | **23,607** |
| **Total liabilities** | | **31,274** | **23,607** |
| **Net assets** | | **516,436** | **753,226** |
| **Equity** | | | |
| Share capital | 12 | 811,128 | 810,992 |
| Retained earnings / (accumulated losses) | 13 | (294,692) | (57,766) |
| **Total equity** | | **516,436** | **753,226** |

The accompanying notes form part of these financial statements.

## Statement of cash flows
## for the year ended 30 June 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts in the course of operations | | 108,370 | 1,044 |
| Cash payments in the course of operations | | (398,561) | (60,892) |
| Interest paid | | - | (256) |
| Interest received | | 2,903 | 1,471 |
| **Net cash flows from/(used in) operating activities** | **14b** | **(287,288)** | **(58,633)** |
| **Cash flows from investing activities** | | | |
| Payment for intangible assets | | - | (110,000) |
| Payments for property, plant and equipment | | (17,614) | (303,610) |
| **Net cash flows from/(used in) investing activities** | | **(17,614)** | **(413,610)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 828,736 |
| Equity raising costs | | 136 | (16,175) |
| **Net cash flows from/(used in) financing activities** | | **136** | **812,561** |
| **Net increase/(decrease) in cash held** | | **(304,766)** | **340,318** |
| Cash and cash equivalents at start of year | | 338,318 | (2,000) |
| **Cash and cash equivalents at end of year** | **14a** | **33,552** | **338,318** |

The accompanying notes form part of these financial statements.

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

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| **Share capital** | | | |
| Balance at start of year | | 810,992 | (15,205) |
| Issue of share capital | | - | 828,736 |
| Share issue costs | | - | (2,539) |
| **Balance at end of year** | | **810,992** | **810,992** |
| **Retained earnings / (accumulated losses)** | | | |
| Balance at start of year | | (57,766) | (2,212) |
| Dividends paid | 20 | - | - |
| Loss after income tax benefit | | (236,926) | (55,554) |
| **Balance at end of year** | | **(294,692)** | **(57,766)** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

For year ended 30 June 2011

## Note 1. Basis of preparation of the financial report

**(a) Basis of preparation**

Ormond-McKinnon Community Enterprises Limited ('the Company') is domiciled in Australia. The financial statements for the year ending 30 June 2011 are presented in Australian dollars. The Company was incorporated in Australia and the principal operations involve providing **Community Bank®** services.

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The financial statements require judgements, estimates and assumptions to be made that affect the application of accounting policies. Actual results may differ from these estimates.

The financial statements were authorised for issue by the Directors on 30 September 2011.

**(b) Statement of compliance**

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Company complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report. These changes are not expected to have a material impact on the Company's financial statements.

**(c) Significant accounting policies**

The following is a summary of the material accounting policies adopted. The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2010 financial statements.

**Income tax**

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

## Note 1. Basis of preparation of the financial report (continued)

**Property, plant and equipment**

Property, plant and equipment are brought to account at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

| Class of asset | Depreciation rate |
|---|---|
| Leasehold improvements | 2.5 - 15% |
| Office equipment | 40% |

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater 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.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalue amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

**Recoverable amount of assets**

At each reporting date, the Company assesses whether there is any indication that an asset is impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

**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.

# Notes to the financial statements continued

## Note 1. Basis of preparation of the financial report (continued)

**Goods and services tax (continued)**

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. 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 operating cash flows.

**Employee benefits**

The provision for employee benefits to wages, salaries and annual leave represents the amount which the Company has a present obligation to pay resulting from employees' services provided up to the reporting date. The provision has been calculated on undiscounted amounts based on wage and salary rates expected to be paid and includes related on-costs.

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

**Intangibles**

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum.

**Cash**

Cash on hand and in banks are stated at nominal value.

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.

**Revenue**

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of goods and services tax (GST).

**Receivables and payables**

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days. Receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. 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.

**Loans and borrowings**

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

# Notes to the financial statements continued

## Note 1. Basis of preparation of the financial report (continued)

**Provisions**

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

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.

**Share capital**

Issued and paid up capital is 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.

**Comparative figures**

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

| | **2011 $** | **2010 $** |
|---|---|---|
| **Note 2. Revenue from continuing operations** | | |
| **Operating activities** | | |
| - services commissions | 102,555 | 1,330 |
| - other revenue | - | - |
| | **102,555** | **1,330** |
| **Non-operating activities:** | | |
| - interest received | 2,902 | 1,471 |
| - other revenue | - | - |
| | **2,902** | **1,471** |
| | **105,457** | **2,801** |

| | 2011<br>$ | 2010<br>$ |
|---|---|---|

## Note 3. Expenses

| | | |
|---|---|---|
| **Employee benefits expense** | | |
| - wages and salaries | 211,997 | 22,418 |
| - superannuation costs | 21,533 | 2,612 |
| - workers' compensation costs | 1,133 | 16 |
| - other costs | 31,616 | 2,275 |
| | **266,279** | **27,321** |
| **Depreciation of non-current assets:** | | |
| - office equipment | 442 | 62 |
| - leasehold improvements | 15359 | 218 |
| **Amortisation of non-current assets:** | | |
| - intangibles | 22,000 | 1,778 |
| | **37,801** | **2,058** |
| **Finance costs:** | | |
| - Interest paid | - | 256 |

## Note 4. Income tax expense

The prima facie tax on loss before income tax is reconciled to the income tax expense as follows:

| | | |
|---|---|---|
| Prima facie tax on loss before income tax at 30% | (98,482) | (24,052) |
| Add / (less) tax effect of: | | |
| - Prior year under provision of tax | - | 450 |
| - Non-deductible expenses | 7,136 | (1,017) |
| **Current income tax benefit** | **(91,346)** | **(24,619)** |
| **Income tax benefit** | **(91,346)** | **(24,619)** |
| **Deferred tax assets** | | |
| **Future income tax benefits arising from tax losses are recognised at reporting date as realisation of the benefit is regarded as probable.** | **116,913** | **25,567** |

| | 2011 $ | 2010 $ |
|---|---|---|

## Note 5. Auditors' remuneration

Amounts received or due and receivable by Richmond, Sinnott & Delahunty for:

| | 2011 $ | 2010 $ |
|---|---|---|
| - Audit or review of the financial report of the Company | 3,900 | 3,900 |
| - Accounting work for prospectus | - | 2,500 |
| | **3,900** | **6,400** |

## Note 6. Cash and cash equivalents

| | 2011 $ | 2010 $ |
|---|---|---|
| **Cash at bank and on hand** | **33,552** | **338,318** |

## Note 7. Receivables

| | 2011 $ | 2010 $ |
|---|---|---|
| GST receivable | 1,941 | 718 |
| Other receivables | 612 | 678 |
| Prepayments | 3,327 | - |
| | **5,880** | **1,396** |

## Note 8. Property, plant and equipment

| | 2011 $ | 2010 $ |
|---|---|---|
| **Leasehold improvements** | | |
| At cost - Leasehold improvements | 319,328 | 302,524 |
| Less accumulated depreciation | (15,577) | (218) |
| | **303,751** | **302,306** |
| **Office equipment** | | |
| At cost | 1,896 | 1,086 |
| Less accumulated depreciation | (504) | (62) |
| | **1,392** | **1,024** |
| **Total written down amount** | **305,143** | **303,330** |

# Notes to the financial statements continued

| | 2011<br>$ | 2010<br>$ |
|---|---|---|

## Note 8. Property, plant and equipment (continued)

**Movements in carrying amounts**

| | 2011 $ | 2010 $ |
|---|---|---|
| **Leasehold improvements** | | |
| Carrying amount at beginning of year | 302,306 | - |
| Additions | 17,022 | 302,524 |
| Disposals | - | - |
| Depreciation expense | (15,359) | (218) |
| **Carrying amount at end of year** | **303,969** | **302,306** |
| **Office equipment** | | |
| Carrying amount at beginning of year | 1,024 | - |
| Additions | 810 | 1,086 |
| Disposals | - | - |
| Depreciation expense | (442) | (62) |
| **Carrying amount at end of year** | **1,392** | **1,024** |

## Note 9. Intangible assets

| | 2011 $ | 2010 $ |
|---|---|---|
| **Franchise fee** | | |
| At cost | 10,000 | 10,000 |
| Less accumulated amortisation | (2,162) | (162) |
| | **7,838** | **9,838** |
| **Preliminary expenses** | | |
| At cost | 100,000 | 100,000 |
| Less accumulated amortisation | (21,616) | (1,616) |
| | **78,384** | **98,384** |
| | **86,222** | **108,222** |

## Note 10. Payables

| | 2011 $ | 2010 $ |
|---|---|---|
| Trade creditors | 22,097 | 19,299 |
| Other creditors and accruals | 3,846 | 4,308 |
| | **25,943** | **23,607** |

# Notes to the financial statements continued

| | 2011<br>$ | 2010<br>$ |
|---|---|---|

## Note 11. Provisions

| | | |
|---|---|---|
| **Employee benefits** | **5,331** | **-** |
| **Movement in employee benefits** | | |
| Opening balance | - | - |
| Additional provisions recogised | 5,331 | - |
| Amounts utilised during the year | - | - |
| **Closing balance** | **5,331** | **-** |

## Note 12. Share capital

| | | |
|---|---|---|
| Ordinary shares fully paid | 828,860 | 828,746 |
| Equity raising costs | (17,732) | (17,754) |
| | **811,128** | **810,992** |
| **Movement in share capital** | | |
| Opening balance | 828,746 | 10 |
| Additional capital raised | 114 | 828,736 |
| **Closing balance** | **828,860** | **828,746** |

## Note 13. Retained earnings/(accumulated losses)

| | | |
|---|---|---|
| Balance at the beginning of the financial year | (57,766) | (2,212) |
| Profit/(loss) after income tax | (236,926) | (55,554) |
| Dividends | - | - |
| **Balance at the end of the financial year** | **(294,692)** | **(57,766)** |

| | 2011<br>$ | 2010<br>$ |
|---|---|---|

## Note 14. Statement of cash flows

**(a) Cash and cash equivalents**

| | | |
|---|---|---|
| **Cash assets** | **33,552** | **338,318** |

| | | |
|---|---|---|
| **(b) Reconciliation of loss after tax to net cash provided from/(used in) operating activities** | | |
| Loss after income tax | (236,926) | (55,554) |
| Non cash items | | |
| - Depreciation | 15,801 | 280 |
| - Amortisation | 22,000 | 1,778 |
| Changes in assets and liabilities | | |
| - (Increase) decrease in deferred income tax asset | (91,346) | (24,619) |
| - (Increase) decrease in receivables | (4,484) | 5,035 |
| - Increase (decrease) in payables | (164) | 14,447 |
| - Increase (decrease) in provisions | 7,831 | - |
| **Net cash flows from/(used in) operating activities** | **(287,288)** | **(58,633)** |

## Note 15. Director and related party disclosures

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

Richard James Simon
Margaret Jane Bradley (resigned 15 November 2010)
Barbara Dawn Douglas
Bradley Christopher Coates
Penelope Jane Armes
Geoffrey John Gartly
Jennifer Wendy King
Marie-Louise Krummenacher (resigned 15 November 2010)
John Lindsay Lord (resigned 15 November 2010)
Pradeep Vazirani
Noel Will (appointed 15 November 2010)
Colin Geldart (appointed 15 November 2010)

No Directors have material interests in contracts or proposed contracts with the Company other than John Lord, who is the owner of the property in which the Company has entered into an exercisable lease at 485 North Road Ormond, payments of $35,243 were payable during the year.

No Directors' fees have been paid as the positions are held on a voluntary basis.

## Note 15. Director and related party disclosures (continued)

| Directors' shareholdings | 2011 | 2010 |
|---|---|---|
| Richard James Simon | 2,501 | 2,501 |
| Margaret Jane Bradley (resigned 15 November 2010) | 10,001 | 10,001 |
| Barbara Dawn Douglas | 20,001 | 20,001 |
| Bradley Christopher Coates | 15,081 | 15,081 |
| Penelope Jane Armes | 2,501 | 2,501 |
| Geoffrey John Gartly | 8,251 | 8,251 |
| Jennifer Wendy King | 5,001 | 5,001 |
| Marie-Louise Krummenacher (resigned 15 November 2010) | 10,001 | 10,001 |
| John Lindsay Lord (resigned 15 November 2010) | 2,001 | 2,001 |
| Pradeep Vazirani | 20,001 | 20,001 |
| Noel Will (appointed 15 November 2010) | 2,500 | 2,500 |
| Colin Geldart (appointed 15 November 2010) | 10,000 | 10,000 |

There was no movement in Directors' shareholdings during the year. Each share held has a paid up value of $1 and is fully paid and are held either directly or via related parties.

## Note 16. Subsequent events

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 financial year. The Company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

## Note 17. Contingent liabilities and assets

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

## Note 18. Segment reporting

The economic entity operates in the financial services sector were it provides banking services to its clients. The economic entity operates in one geographic area being Ormond-McKinnon, Victoria.

## Note 19. Corporate information

Ormond-McKinnon Community Enterprises Limited is a Company limited by shares incorporated in Australia.

The registered office and principal place of business is: 485 North Road,
Ormond VIC 3204

## Note 20. Dividends paid or provided for on ordinary shares

The Directors recommend that no dividend be paid for the current year.

| | 2011 $ | 2010 $ |
|---|---|---|

## Note 21. Earnings per share

Basic earnings per share amounts are calculated by dividing loss after income tax by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing loss after income tax by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of any dilutive options or preference shares).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | 2011 $ | 2010 $ |
|---|---|---|
| **Loss after income tax expense** | **(236,926)** | **(55,554)** |
| **Weighted average number of ordinary shares for basic and diluted earnings per share** | **828,746** | **828,746** |

## Note 22. Financial risk management

The Company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit Committee which reports regularly to the Board. The Audit Committee is assisted in the area of risk management by an internal audit function.

**(a) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For the Company it arises from receivables and cash assets.

## Note 22. Financial risk management (continued)

**(a) Credit risk (continued)**

The maximum exposure to credit risk at reporting date to recognised financial assets is the carrying amount of those assets as disclosed in the Statement of Financial Position and notes to the financial statements. The Company's maximum exposure to credit risk at reporting date was:

| | Carrying amount | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| Cash assets | 33,552 | 338,318 |
| Receivables | 5,880 | 1,396 |
| | **39,432** | **339,714** |

The Company's exposure to credit risk is limited to Australia by geographic area.

None of the assets of the Company are past due (2010: nil past due) and based on historic default rates, the Company believes that no impairment allowance is necessary in respect of assets not past due.

The Company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Ltd.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures it will have enough liquidity to meet its liabilities when due under both normal and stressed conditions. Liquidity management is carried out within the guidelines set by the Board.

Typically, the Company maintains sufficient cash on hand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the estimated contractual maturities of financial liabilities, including estimated interest payments.

| | Carrying amount $ | Contractual cash flows $ | 1 year or less $ | Over 1 to 5 years $ | More than 5 years $ |
|---|---|---|---|---|---|
| **30 June 2011** | | | | | |
| Payables | 25,943 | (25,943) | (25,943) | – | – |
| | **25,943** | **(25,943)** | **(25,943)** | **–** | **–** |
| **30 June 2010** | | | | | |
| Payables | 23,607 | (23,607) | (23,607) | – | – |
| | **23,607** | **(23,607)** | **(23,607)** | **–** | **–** |

## Note 22. Financial risk management (continued)

**(c) Market risk**

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest rate risk

Interest rate risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company reviews the exposure to interest rate risk as part of the regular Board meetings.

Sensitivity analysis

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| **Fixed rate instruments** | | |
| Financial assets | - | - |
| Financial liabilities | - | - |
| | **-** | **-** |
| **Variable rate instruments** | | |
| Financial assets | 33,552 | 338,318 |
| Financial liabilities | - | - |
| | **33,552** | **338,318** |

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed interest rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have no impact on profit or retained earnings. For the analysis performed on the same basis as at 30 June 2010 there was also no impact. As at both dates this assumes all other variables remain constant.

**(d) Net fair values**

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. The Company does not have any unrecognised financial instruments at year end.

## Note 22. Financial risk management (continued)

**(e) 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 Statement of Financial Position.

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

(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.

# Directors' declaration

In accordance with a resolution of the Directors of Ormond-McKinnon Community Enterprises Limited, I 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 their performance for the year ended on that date; and

 (ii) complying with Accounting Standards in Australia, International Financial Reporting Standards and Corporations Regulations 2001; 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.

**Richard James Simon, Chairman**

Signed at Ormond on 30 September 2011.

Richmond Sinnott & Delahunty
Chartered Accountants

*INDEPENDENT AUDIT REPORT*
*TO THE MEMBERS OF ORMOND-McKINNON*
*COMMUNITY ENTERPRISES LIMITED*

***SCOPE***
The financial report comprises the statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Ormond-McKinnon Community Enterprises Limited, for the year ended 30 June 2011.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are established to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Audit approach*
We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant account estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

**Partners: Kenneth J Richmond • Warren J Sinnott • Philip P Delahunty • Brett A Andrews**
**Level 2, 10–16 Forest Street, Bendigo 3550. PO Box 30 Bendigo 3552**
**Ph: 03 5443 1177 Fax: 03 5444 4344 Email: rsd@rsdadvisors.com.au**
**ABN 60 616 244 309**

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

***INDEPENDENCE***

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

***AUDIT OPINION***

In our opinion, the financial report of Ormond-McKinnon Community Enterprises Limited is in accordance with:

(a) 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 year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Richmond Sinnott & Delahunty

**RICHMOND SINNOTT & DELAHUNTY**
Chartered Accountants

**W. J. SINNOTT**
Partner
Bendigo

Date: 30 September 2011



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(BMPAR11077) (08/11)

Bendigo Bank