Tongala & District Financial Services Limited

ABN 22 094 331 665

annual report 2011

Tongala & District **Community Bank®** Branch

Contents

Chairman's report

For year ending 30 June 2011

As I write my first report, I would like to start by thanking Richard Herbert for the fantastic job he has done in getting a **Community Bank®** branch established in our town and leading the Company through its first ten years of banking. He along with his Board has seen the business grow to what it is today and something we can all be very proud of.

With our tenth birthday celebrations behind us it is an interesting time to be leading Tongala & District Financial Services and it gives me great pleasure to present this annual report. We are at a very exciting stage of the Company's life and the recent strong growth presents great opportunities for further investment into the local community, building on the significant contributions that have already been made. This year we have continued to support many local groups and organisations including the bowls club, junior football club, swimming club, primary schools and contributed to Power Country FM to assist them with the purchase of a new outside broadcast van.

The recent addition of the Kyabram agency presents us with the ability to promote the benefits of the **Community Bank®** model to a larger audience and the Board and I look forward to being able to contribute to the growth of that town as their support for our business grows. The agencies location in Allan St together with the soon to be installed ATM will help raise the profile and provide a better service to all customers.

We continue to work closely with the Mathoura agency and look forward to this part of our business growing. Like our local area the Mathoura district has been impacted by the prolonged drought however the recent return of seasonal rainfall augurs well for the future.

Restoring the balance

In February, members of our Board meet with senior staff and Executives from Bendigo and Adelaide Bank Ltd to hear about the findings of a review it conducted of the **Community Bank®** financial model.

The review examined how the model has performed since its inception in 1998 and reaffirmed the success, strength and potential of the banking initiative. It also assessed how relevant the mechanics of the model are given all the structural change that has occurred over time, including the impact of the Global Financial Crisis.

The internal review, conducted with the oversight of a representative board of Australia's 270 **Community Bank®** branches concluded:

- The model, in which communities own and operate franchised Bendigo Bank branches, had assisted communities achieve the broad range of outcomes they sought to achieve by partnering with the bank. These range from simply returning banking services to the community, through to actively building the community's balance sheet by aggregating the banking business within a community.
- The fundamental principles on which the **Community Bank®** model was established were sound and relevant – including equal responsibility and equal income share for the bank and each of its partners.
- There are impacts on the revenue mechanisms as a result of structural changes in the industry but, in the main, the model has stood up well to the stresses imposed by the GFC.

However, while the GFC had no impact on the responsibilities of each of the partners in the **Community Bank®** branch network, it did result in a lasting change to margins on two core banking products (fixed rate home loans and term deposits greater than 90 days).

This has resulted in the income share being tilted in favour of us, the community partners, and following discussions with the **Community Bank®** Strategic Advisory Board, and an independent review of the income sharing arrangements, we are moving to restore the income share back to the 50/50 principle which has always underpinned the model.

This means some commission payments to **Community Bank®** Companies, including our own, were reduced from 1 April 2011, in an effort to rebalance the income over the next two years.

The alteration will have no impact on our customers and an insignificant effect on our Company as we have a plan to meet growth targets which will counter any reduction in commissions earned on these two products.

Addressing the imbalance places both our **Community Bank®** Company and the Bank, in the best possible position to maintain development. By successfully addressing this issue together with our partner, we will all be in a better position to grow our joint businesses.

Fairfax article

In May, the Fairfax group published an article on Bendigo and Adelaide Bank Ltd's **Community Bank®** model. We believe the article to be dishonest by omission with a lack of balance.

In particular the assertion that "legions of shareholders" are unhappy. The bank has had less than 20 complaints in 11 years and there are more than 67,000 shareholders, so that is a miniscule 0.03 percent.

Capital is raised to establish the business and it is meant to be drawn down. Technically, once the business is trading at a consistent profit it doesn't need capital. This usually takes about four years.

There are more than 61 branches four years of age or younger that are not expected to be making a profit yet. In reality there are only 48 branches in that position.

Bendigo and Adelaide Bank Ltd released a comprehensive study of the entire **Community Bank®** branch network to the ASX on Friday 6 May. The data is available on the ASX website and is an open and honest account of the network's performance.

It shows a very robust business model that is making significant contributions to the prosperity of the communities in which the **Community Bank®** Companies operate and is a great reflection of what can be achieved through our partnerships.

Ben and the team in the branch have done a great job and continue to provide exceptional customer service. They justly deserve the many compliments they receive from customers and I thank them all.

Yours sincerely

Neil Pankhurst
Chairman

Manager’s report

For year ending 30 June 2011

The Tongala & District **Community Bank®** Branch achieved a significant milestone throughout the financial year when it reached $50 million in business with total business now sitting at $57 million. This was a significant milestone and through the continued support of our community we look forward to further growth of our business.

Over the past 10 years the Tongala & District **Community Bank®** Branch has contributed over $300,000 to our local community through sponsorships, donations and grants. It is very rewarding to make such a contribution to our community. The **Community Bank®** message is simple, the more banking done locally, the more profit generated and therefore a larger contribution can be passed on to the community.

Once again we have been active in the community during the last 12 months with several contributions made to local organisations. We look forward to being able to assist further projects in our community and your support will enhance our ability to distribute further funds in our local community.

Earlier this year Tongala & District **Community Bank®** Branch became aligned with the Bendigo Bank Agency in Kyabram. This connection now means we can provide a strong banking presence in Kyabram and provide a service to new and existing Kyabram based customers. We also have an Agency based in Mathoura so our scope to attract more banking business is not just limited to the Tongala region.

I would like to take this opportunity to thank the staff and Board for their support and efforts throughout the last 12 months. As a team we are looking to build our business by developing strong relationships with our customers through our full range of banking products.

Ben Langley
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.

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 the financial 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:

Neil Pankhurst
Chairman
Farmer

Ken Chapman
Director
Farmer

Jean Courtney
Director
Director of Nursing

David Blanchard
Director / Company Secretary
Public Accountant

Ian Taylor
Director
Retired

Lyn Cosham (appointed 23 November 2010)
Director
Retired

Richard Herbert
Director
Baker

Ian Johnstone
Director
Retired

Ammie Grundy (resigned 24 August 2010)
Director
Bank Officer

Jill Regan
Director
Farmer

Marlene Wallace (resigned 27 July 2010)
Director
Retired

David Newman (appointed 22 March 2011)
Director
Newsagent

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

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.

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

Review of operations

The profit/(loss) of the Company for the financial year after provision for income tax was $7,442 (2010: ($35,464)).

Dividends

No dividends were declared or paid during the 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.

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

Other than detailed below, 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.

Director Ian Johnstone was paid $9,600 (2010: $9,527) in rent payments for lease of property for the year ended 30 June 2011. Company Secretary David Blanchard was paid $9,000 (2010: $12,000) for professional accounting and secretarial duties for the year ended 30 June 2011. These payments were made under normal commercial terms and conditions.

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.

Company Secretary

David Blanchard was appointed the Company Secretary on 5 September 2007. Over the past thirty six years his occupation has been Public Accountant.

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 David Blanchard, Ian Johnstone, Ken Chapman, Jill Regan, Jean Courtney and David Newman;

(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.

Directors' meetings

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

Director	Board meetings #
Number of meetings held	
Neil Pankhurst	8 (11)
Richard Herbert	8 (11)
Ian Johnstone	9 (11)
Jean Courtney	8 (11)
David Blanchard	5 (11)
Ken Chapman	8 (11)
Jill Regan	6 (11)
Ian Taylor	5 (11)
Marlene Wallace (resigned 27 July 2010)	1 (1)
Ammie Grundy (resigned 24 August 2010)	0 (2)
Lyn Cosham (appointed 23 November 2010)	6 (7)
David Newman (appointed 22 March 2011)	3 (4)

The first number is the meetings attended while in brackets is the number of meetings eligible to attend.

Non audit services

Details of amounts paid or payable to the Auditor for non-audit services provided during the financial year by the Auditor are outlined in note 5 to the financial statements.

Non audit services (continued)

The Directors have considered the non-audit services provided during the year by the Auditor and are satisfied the provision of these services is compatible with the general standards of independence for Auditors imposed by the Corporations Act 2001 for the following reasons:

(a) all non audit services have been reviewed to ensure they do not impact the integrity and objectivity of the Auditor; and

(b) none of the services undermine the general principles relating to Auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing the Auditors own work, acting in management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Auditor Independence Declaration

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

Richmond Sinnott & Delahunty
CHARTERED ACCOUNTANTS

Level 2, 10 -16 Forest Street
PO Box 30
Bendigo. 3552
Ph. 03 5443 1177
Fax. 03 5444 4344
E-mail: rsd@rsdadvisors.com.au

Auditor's Independence Declaration

In relation to our audit of the financial report of Tongala & District Financial Services Limited for the financial 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.

Philip Delahunty
Partner

Richmond Sinnott & Delahunty

14 September 2011

Signed in accordance with a resolution of the Board of Directors at Tongala, Victoria on 14 September 2011

David Blanchard, Director

Financial statements

Statement of comprehensive income for the year ended 30 June 2011

	Note	2011 $	2010 $
Revenue from continuing operations	2	565,312	501,266
Employee benefits expense	3	(280,545)	(226,086)
Charitable donations and sponsorship		(25,964)	(97,634)
Depreciation and amortisation expense	3	(28,066)	(30,764)
Finance costs	3	(5,446)	(6,228)
Other expenses		(217,433)	(185,466)
Profit / (loss) before income tax expense / (benefit)		**7,858**	**(44,912)**
Income tax expense / (benefit)	4	416	(9,448)
Profit / (loss) after income tax expense / (benefit)		**7,442**	**(35,464)**
Other comprehensive income		-	-
Total comprehensive income		**7,442**	**(35,464)**
Earnings per share (cents per share)			
- basic for profit / (loss) for the year	23	2.18	(10.39)
- diluted for profit / (loss) for the year	23	2.18	(10.39)

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2011

	Note	2011 $	2010 $
Current assets			
Cash and cash equivalents	6	164,222	178,782
Receivables	7	25,704	28,464
Total current assets		**189,926**	**207,246**
Non-current assets			
Property, plant and equipment	8	13,319	31,989
Deferred tax assets	4	13,861	14,277
Intangible assets	9	45,000	4,396
Total non-current assets		**72,180**	**50,662**
Total assets		**262,106**	**257,908**
Current liabilities			
Payables	10	20,840	20,623
Loans and borrowings	11	15,256	17,071
Provisions	12	33,460	24,062
Total current liabilities		**69,556**	**61,756**
Non-current liabilities			
Loans and borrowings	11	44,346	55,390
Total non-current liabilities		**44,346**	**55,390**
Total liabilities		**113,902**	**117,146**
Net assets		**148,204**	**140,762**
Equity			
Share capital	13	341,350	341,350
Accumulated losses	14	(193,146)	(200,588)
Total equity		**148,204**	**140,762**

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			
Cash receipts in the course of operations		618,343	541,596
Cash payments in the course of operations		(570,173)	(556,276)
Interest received		5,575	6,007
Interest expense		(5,446)	(6,228)
Income tax paid		-	1,578
Net cash flows from / (used in) operating activities	**15b**	**48,299**	**(13,323)**
Cash flows from investing activities			
Purchase of intangible assets		(50,000)	-
Net cash flows used in investing activities		**(50,000)**	**-**
Cash flows from financing activities			
Proceeds from / (repayments of) borrowings		(12,859)	49,816
Net cash flows from / (used in) financing activities		**(12,859)**	**49,816**
Net increase / (decrease) in cash held		**(14,560)**	**36,493**
Cash and cash equivalents at start of year		178,782	142,289
Cash and cash equivalents at end of year	**15a**	**164,222**	**178,782**

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		341,350	341,350
Issue of share capital		-	-
Share issue costs		-	-
Balance at end of year		**341,350**	**341,350**
Accumulated losses			
Balance at start of year		(200,588)	(165,124)
Profit/(loss) after income tax expense		7,442	(35,464)
Dividends paid	22	-	-
Balance at end of year		**(193,146)**	**(200,588)**

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

Tongala & District Financial Services 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 14 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.

Notes to the financial statements continued

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
Plant & equipment	10-20%
Motor vehicles	25%

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.

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.

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.

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

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.

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.

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

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	559,737	495,259
- other revenue	-	-
	559,737	**495,259**
Non-operating activities:		
- interest received	5,575	6,007
- other revenue	-	-
	5,575	**6,007**
	565,312	**501,266**
Note 3. Expenses		
Employee benefits expense		
- wages and salaries	265,029	211,338
- superannuation costs	15,089	14,239
- workers' compensation costs	427	509
	280,545	**226,086**
Depreciation of non-current assets:		
- plant and equipment	15,096	13,066
- motor vehicle	3,574	7,148
Amortisation of non-current assets:		
- intangibles	9,396	10,550
	28,066	**30,764**
Finance costs:		
- interest paid	5,446	6,228
Bad debts	327	817

Notes to the financial statements continued

	2011 $	2010 $

Note 4. Income tax expense

The prima facie tax on profit/(loss) before income tax is reconciled to the income tax expense/(benefit) as follows:

Prima facie tax on profit/(loss) before income tax at 30%	2,357	(13,474)
Add tax effect of:		
- Non-deductible expenses	4,139	3,850
- Prior year under / (over) provision	(6,080)	176
Current income tax expense/(benefit)	**416**	**(9,448)**
Income tax expense/(benefit)	**416**	**(9,448)**
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.	**13,861**	**14,277**

Note 5. Auditors' remuneration

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

- Audit or review of the financial report of the Company	3,900	3,900
- Preparation and lodgement of taxation return	500	450
- Share registry services	1,600	275
	6,000	**4,625**

Note 6. Cash and cash equivalents

Cash assets	**164,222**	**178,782**

Note 7. Receivables

Trade debtors	**25,704**	**28,464**

	2011 $	2010 $

Note 8. Property, plant and equipment

	2011 $	2010 $
Furniture & fittings		
At cost	65,766	65,766
Less accumulated depreciation	(65,766)	(59,111)
	-	**6,655**
Plant & equipment		
At cost	42,200	42,200
Less accumulated depreciation	(28,881)	(20,440)
	13,319	**21,760**
Leased motor vehicle		
At cost	28,592	28,592
Less accumulated depreciation	(28,592)	(25,018)
	-	**3,574**
Total written down amount	**13,319**	**31,989**
Movements in carrying amounts		
Furniture & fittings		
Carrying amount at beginning of year	6,655	13,232
Additions	-	-
Disposals	-	-
Depreciation expense	(6,655)	(6,577)
Carrying amount at end of year	**-**	**6,655**
Plant & equipment		
Carrying amount at beginning of year	21,760	28,249
Additions	-	-
Disposals	-	-
Depreciation expense	(8,441)	(6,489)
Carrying amount at end of year	**13,319**	**21,760**

	2011 $	2010 $

Note 8. Property, plant and equipment (continued)

Leased motor vehicle

Carrying amount at beginning of year	3,574	10,722
Additions	-	-
Disposals	-	-
Depreciation expense	(3,574)	(7,148)
Carrying amount at end of year	**-**	**3,574**

Note 9. Intangible assets

Establishment costs

At cost	50,000	52,750
Less accumulated amortisation	(5,000)	(48,354)
	45,000	**4,396**

Note 10. Payables

Trade creditors	**20,840**	**20,623**

Note 11. Loans and borrowings

Current

Bank loan	8,724	8,724
Lease liability	6,532	8,347
	15,256	**17,071**

Non-current

Bank loan	43,339	47,831
Lease liability	1,007	7,559
Total non-current	**44,346**	**55,390**

	2011 $	2010 $

Note 12. Provisions

	2011 $	2010 $
Employee benefits	**33,460**	**24,062**
Movement in employee benefits		
Opening balance	24,062	21,781
Additional provisions recognised	13,109	7,622
Amounts utilised during the year	(3,711)	(5,341)
Closing balance	**33,460**	**24,062**

Note 13. Share capital

	2011 $	2010 $
341,350 Ordinary Shares fully paid of $1 each	**341,350**	**341,350**

Note 14. Accumulated losses

	2011 $	2010 $
Balance at the beginning of the financial year	(200,588)	(165,124)
Profit / (loss) after income tax	7,442	(35,464)
Balance at the end of the financial year	**(193,146)**	**(200,588)**

Note 15. Statement of cash flows

	2011 $	2010 $
(a) Cash and cash equivalents		
Cash assets	**164,222**	**178,782**
(b) Reconciliation of profit / (loss) after tax to net cash provided from / (used in) operating activities		
Profit / (loss) after income tax	7,442	(35,464)
Non cash items		
- Depreciation	18,670	20,214
- Amortisation	9,396	10,550

	2011 $	2010 $
Note 15. Statement of cash flows (continued)		
Changes in assets and liabilities		
- (Increase) decrease in receivables	2,760	(2,269)
- Increase (decrease) in income tax payable	-	1,754
- Increase (decrease) in payables	217	(765)
- Increase (decrease) in provisions	9,398	2,281
- (Increase) decrease in deferred income tax asset	416	(9,624)
Net cash flows from / (used in) operating activities	**48,299**	**(13,323)**

Note 16. Director and related party disclosures

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

Neil Pankhurst

Richard Herbert

Ian Johnstone

Jean Courtney

David Blanchard

Ken Chapman

Jill Regan

Ian Taylor

Marlene Wallace (resigned 27 July 2010)

Ammie Grundy (resigned 24 August 2010)

Lyn Cosham (appointed 23 November 2010)

David Newman (appointed 22 March 2011)

Director Ian Johnstone was paid $9,600 (2010: $9,527) in rent payments for lease of property for the year ended 30 June 2011. Company Secretary David Blanchard was paid $9,000 (2010: $12,000) for professional accounting and secretarial duties for the year ended 30 June 2011. These payments were made under normal commercial terms and conditions.

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

Note 16. Director and related party disclosures (continued)

Directors' shareholdings	**2011**	**2010**
Neil Pankhurst	1,500	1,500
Richard Herbert	2,000	2,000
Ian Johnstone	5,000	5,000
Jean Courtney	528	528
David Blanchard	1,500	1,500
Ken Chapman	8,000	8,000
Jill Regan	2,000	2,000
Ian Taylor	1,000	1,000
Marlene Wallace (resigned 27 July 2010)	-	-
Ammie Grundy (resigned 24 August 2010)	-	-
Lyn Cosham (appointed 23 November 2010)	1,000	1,000
David Newman (appointed 22 March 2011)	-	-

There was no movement in Directors' shareholdings during the year. Each share held has a paid up value of $1 and is fully paid.

Note 17. 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 financial statements.

Note 18. Contingent liabilities and assets

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

Note 19. Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates in one geographic area being Tongala, Victoria.

Note 20. Corporate information

Tongala & District Financial Services Limited is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Bendigo Stock Exchange.

The registered office and principal place of business is:
35 Mangan Street,
Tongala VIC 3621

	2011 $	2010 $

Note 21. Lease commitments

Finance leases are capitalised in the accounts in accordance with the accounting policies outlined in Note 1.

	2011 $	2010 $
Payable:		
No later than 1 year	6,532	9,380
Later than 1 year & not later than 5 years	1,962	8,430
Later than 5 years	-	-
Minimum lease payments	8,494	17,810
Less future finance charges	(955)	(1,904)
	7,539	**15,906**

Note 22. Dividends paid or provided for on ordinary shares

(a) Franking credit balance

	2011 $	2010 $
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year	9,258	9,258
- Franking debits that will arise from the payment of income tax payable as at the end of the financial year	-	-
	9,258	**9,258**

	2011 $	2010 $

Note 23. Earnings per share

Basic earnings per share amounts are calculated by dividing profit / (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 profit / (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 $
Profit / (loss) after income tax expense	**7,442**	**(35,464)**
Weighted average number of ordinary shares for basic and diluted earnings per share	**341,350**	**341,350**

Note 24. 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.

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	164,222	178,782
Receivables	25,704	28,464
	189,926	**207,246**

Note 24. Financial risk management (continued)

(a) Credit risk (continued)

The Company's exposure to credit risk is limited to Australia by geographic area. The majority of the balance of receivables are due from Bendigo and Adelaide Bank Ltd.

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	20,840	(20,840)	(20,840)	–	–
Loans and borrowings	59,602	(78,068)	(15,256)	(28,134)	(34,678)
	80,442	**(98,908)**	**(36,096)**	**(28,134)**	**(34,678)**
30 June 2010					
Payables	20,623	(20,623)	(20,623)	–	–
Loans and borrowings	72,461	(96,108)	(18,104)	(34,602)	(43,402)
	93,084	**(116,731)**	**(38,727)**	**(34,602)**	**(43,402)**

(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.

Note 24. Financial risk management (continued)

(c) Market risk (continued)

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	60,000	62,700
Financial liabilities	(59,602)	(72,461)
	398	**(9,761)**
Variable rate instruments		
Financial assets	104,222	116,082
Financial liabilities	-	-
	104,222	**116,082**

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.

(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.

Note 24. Financial risk management (continued)

(e) Capital management (continued)

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 Tongala & District Financial Services 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; and

(c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2011.

David Blanchard, Director

Signed at Tongala, Victoria on 14 September 2011.

Independent audit report

Richmond Sinnott & Delahunty
Chartered Accountants

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF TONGALA & DISTRICT FINANCIAL SERVICES 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 Tongala & District Financial Services 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.

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

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.

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 Tongala & District Financial Services 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
Chartered Accountants

Philip Delahunty
Partner
Bendigo

Date: 14 September 2011

BSX report

Additional information required by the Bendigo Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 14 September 2011.

A. Corporate governance statement

The Board guides and monitors the business and affairs on behalf of the shareholders to whom they are accountable

The Board recognises the importance of a strong corporate governance focus and methodology. The Board is currently working towards adopting policies and procedures that will govern our Company into the future.

We believe that building policy framework will assist clarify the future direction of our local Company, provide accountability and transparency and ensure there are guiding principles in place for future decision making.

B. Substantial shareholders - ten largest shareholders

	Ordinary shares	Number of ord shares
1. Mr Frederick C Birtles	30,000	8.79%
2. Mr Bruce Owen	10,000	2.93%
3. Mr Richard E Thorne	10,000	2.93%
4. Mr Kenneth W & Mrs Frances R Chapman	8,000	2.34%
5. Mrs Lorraine Lister	8,000	2.34%
6. Mr John L McLeod & Mrs Dorothy S R McLeod	8,000	2.34%
7. Mr Gerald F Pauley & Mr Michael J Pauley (Pauley Super Fund)	8,000	2.34%
8. Winpar Holdings Ltd	6,500	1.90%
9. Mr Lance H Tomkins	6,000	1.76%
10. Mr Raymond E & Mrs Lynette M Walsh	6,000	1.76%
	100,500	**29.44%**

C. Voting rights

Each shareholder is entitled one vote, irrespective of the number of shares held.

D. Distribution of shareholders

The following table shows the number of shareholders, broken into various categories showing the total number of shares held:

	Ordinary shares	
	Number of holders	**Number of shares**
1 - 1,000	202	125,878
1,001 - 5,000	40	109,972
5,001 - 10,000	10	75,500
10,001 - 100,000	1	30,000
100,000 and over	0	0
Total	**253**	**341,350**

E. Monitoring of the Board's performance and communication to shareholders

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the chairperson. Director's whose performance is unsatisfactory are asked to retire.

The Board and Director's aims to ensure that shareholders, on behalf of whom they act, are informed of all information necessary to access the performance of the Directors.

The Board does have an Audit Committee.

F. Annexure 3A

Following the audit of the Company's accounts a difference has not arisen between the information in the Company's Annexure 3A and the information in the financial documents in its annual report

G. Address and telephone number of the office which securities register is kept:

Richmond Sinnott & Delahunty
PO Box 30,
Bendigo VIC 3552
Phone: +61 3 5443 1177

H. Tongala & District Financial Services Limited

David Blanchard
Company Secretary
35 Mangan Street,
Tongala VIC 3621
Phone: (03) 5859 1401



Tongala & District **Community Bank**® Branch
35 Mangan Street, Tongala VIC 3621
Phone: (03) 5859 1401 Fax: (03) 5859 1407

Franchisee: Tongala & District Financial Services Limited
35 Mangan Street, Tongala VIC 3621
Phone: (03) 5859 1401 Fax: (03) 5859 1407
ABN: 22 094 331 665

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Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(BMPAR11032) (07/11)

Bendigo Bank