

Heidelberg District

Community Enterprise Limited

Financial Statements

as at

30 June 2011

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Directors' Report

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

Directors

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

Nancy Louise Caple

Chairman

Independent Non-executive Director

Age: 56

Retailer

Nan has been operating a successful retail business in East Ivanhoe for 20 years. She was heavily involved in the establishment of the East Ivanhoe branch. Nan plays an active role in many aspects of the community.

Sub Committee member: Human Resources (Chair),
Business Development and Marketing & Sponsorship.

Interest in shares: 22,077

Graham Peter Norman

Treasurer

Independent Non-executive Director

Age: 69

Chartered Accountant

Graham has practiced as a chartered accountant in Ivanhoe for 40 years. He has a strong interest in the local communities of Ivanhoe and Heidelberg and has been a member of the Rotary Club of Ivanhoe for 34 years.

Sub Committee member: Audit & Governance

Interest in shares: 33,930

Evelyn Stagg

Independent Non-executive Director

Director

Age: 61

Teacher

Lyndy holds a Graduate Diploma in Educational Administration and an Advanced Certificate in the Art and Science of Movement. She also holds senior teaching position at a local school and has considerable experience in the education field. She has many ties with community groups and is a Ivanhoe Sea Scouts Cub Leader and former Vice president of Hockey Victoria.

Sub Committee member: Marketing & Sponsorship
(Chair)

Interest in shares: 3,950

John Kenneth Nelson

Secretary

Independent Non-executive Director

Age: 62

Chartered Accountant (Retired)

John is a long term resident of Ivanhoe. He has a large amount of experience in finance roles in both private & public companies. He is committed to supporting community projects and activities.

Sub Committee member: Audit & Governance (Chair),
Human Resources and Property

Interest in shares: 1,150

Paul Anthony Gittings

Independent Non-executive Director

Age: 60

Retired Real Estate Agent

Retailer

Paul has extensive experience in the Real Estate field, including running his own successful Real Estate Agency with 44 employees and 2000 properties under management. He is involved with a number of community groups.

Sub Committee member: Business Development,
Marketing & Sponsorship, Property (Chair)

Interest in shares: 60,000

David John Mayne

Independent Non-executive Director

Age: 60

Communication Consultant

David has held management positions within several industries, including engineering, mining and communications. He is an active member of the Heidelberg community.

Sub Committee member: Business Development
(Chair)

Interest in shares: 32,000

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Directors' Report

Directors (continued)

Russell James Hutchins

Independent Non-executive Director

Age: 61

IT Consultant

Russell has more than 30 years commercial experience in the banking and information technology industries and holds degrees in Science and Business. He has a particular interest in the support of the disadvantaged members of our community.

Sub Committee member: Audit & Governance

Interest in shares: 13,000

Brett Straun Purchase

Independent Non-executive Director

Age: 52

Chartered Accountant

Brett is a principal of his own accounting firm and has been for over 25 years. He is a Certified Practicing Accountant with particular interest in management accounting. He has served as treasurer and board member of the Heidelberg Golf Club, is a member of the Heidelberg Traders Association and served on local basketball committees over the past 25 years.

Sub Committee member: Business Development, Audit & Governance

Interest in shares: 2,000

Brian Thomas Simpson

Independent Non-executive Director

Age: 62

Retired Bank Executive

Retailer

Brian has had a highly successful career in the banking sector spanning four decades. He has a particular interest in sporting organisations and Rotary.

Sub Committee member: Audit & Governance, Human Resource

Interest in shares: 10,000

Alexander Aaron Harris

Independent Non-executive Director

Director (*Resigned 25 July 2011*)

Age: 69

Building Contractor

Andy has been in the domestic building industry for over 40 years. He has been a steering committee member for both East Ivanhoe & Heidelberg branches.

He has strong interests in the local community and

Sub Committee member: Business Development.

Interest in shares: 22,077

Jennifer Sonia June Christiansen

Independent Non-executive Director (*Resigned 28 February 2011*)

Interest in shares: 500

Catherine Richmond

Director (*Resigned 23 August 2010*)

Interest in shares: 2,000

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

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

Company Secretary

The company secretary is John Kenneth Nelson. John was appointed to the position of secretary on 1 August 2007. John is a Chartered Accountant and has 35 years experience in industry accounting. He has extensive corporate secretariat knowledge including previously performing the role as Company Secretary for a public company.

Principal Activities

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

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

Operating Results

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

| Year ended 30 June 2011 | Year ended 30 June 2010 |
|----------------------------|----------------------------|
| \$ | \$ |
| 5,222 | (19,366) |

Heidelberg District Community Enterprise Limited
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Directors' Report

Remuneration Report

Remuneration Policy

The remuneration policy of Heidelberg District Community Enterprise Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the company's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the company, as well as create goal congruence between directors, executives and shareholders.

Key Management Personnel Remuneration Policy

Key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the board's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel also receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

Employment agreements were entered into with key management personnel.

Remuneration Structure

All directors are independent non-executive Directors and are paid Directors' fees as disclosed below.

Non-executive director remuneration policy:

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and regularly reviews the amount of fees paid, based on market practices, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive Directors requires approval by shareholders as required by the Corporations Act 2001 and BSX listing rules.

Fees for non-executive Directors are not linked to the performance of the Company.

Performance based remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Company and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Company's goals and shareholder wealth, before the KPIs are set for the following year.

The Company does not pay performance based remuneration to any Director.

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Remuneration Report (continued)

Relationship between Remuneration Policy and Company Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Performance-based bonus is based on key performance indicators as disclosed above.

Company performance, shareholder wealth and directors' and executives' remuneration

The following table shows the gross revenue, profits and dividends for the last 5 years for the entity, as well as the share prices at the end of the respective financial years. Analysis of the actual figures shows excellent growth in revenue, increased payments to community groups and projects as well as consistent returns to shareholders. The improvement in the company's performance over the last 5 years has been reflected in the company's share price with an increase each year, with the exception of 2009 when the share price fell in line with the business valuation and subsequent bonus share issue. The Board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall trend in shareholder wealth over the past 5 years.

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 1,928,462 | 1,503,807 | 1,155,436 | 1,125,559 | 925,121 | 790,995 |
| Net profit/(loss) | 5,222 | (19,366) | 84,834 | 194,740 | 192,202 | 117,994 |
| Share price at year end | 0.80 | 0.80 | 1.00 | 1.18 | 1.17 | 1.00 |
| Net dividend paid | 68,952 | 45,967 | - | 124,166 | 47,756 | 47,756 |

Directors Fees

For the year ended 30 June 2011, the directors received total remuneration including superannuation, as follows:

| | <u>\$</u> |
|--|-----------|
| Nancy Louise Caple | 5,000 |
| Graham Peter Norman | 5,000 |
| John Kenneth Nelson | 5,000 |
| Evelyn Stagg | - |
| Paul Anthony Gittings | 3,000 |
| Russell James Hutchins | 3,000 |
| David John Mayne | 3,000 |
| Brian Thomas Simpson | 3,000 |
| Brett Straun Purchase | 1,000 |
| Alexander Aaron Harris (Resigned 25 July 2011) | 1,500 |
| Jennifer Sonia June Christiansen (Resigned 28 February 2011) | - |
| Catherine Richmond (Resigned 23 August 2010) | - |

Fees and payments to directors reflect the demands which are made on and the responsibilities of the directors. Directors' fees are reviewed annually by the Board. The Chairman's, Secretary's and Treasurer's fees are determined independently to the fees of remaining directors.

Key management personnel compensation is disclosed in Note 19 to the financial statements.

Options issued as part of remuneration for the year ended 30 June 2011

No options have been issued as part of remuneration for the year ended 30 June 2011.

Employment Contracts of Directors

There are no employment contracts for Directors.

| | Year Ended 30 June 2011 | |
|-----------------------------|-------------------------|--------|
| Dividends | Cents | \$ |
| Dividends paid in the year: | 3.00 | 68,952 |

Heidelberg District Community Enterprise Limited
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Directors' Report

Significant Changes in the State of Affairs

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

Matters Subsequent to the End of the Financial Year

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

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest.

Indemnification and Insurance of Directors and Officers

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

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

Heidelberg District Community Enterprise Limited
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Directors' Report

Directors Meetings

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

| | Board Meetings Attended | | Committee Meetings Attended | | | | | | | |
|----------------------------------|----------------------------|----------|-----------------------------|----------|-------------------------|----------|----------------------------|----------|-----------------|----------|
| | | | Audit & Governance | | Business Development | | Marketing & Sponsorship | | Human Resources | |
| | <u>A</u> | <u>B</u> | <u>A</u> | <u>B</u> | <u>A</u> | <u>B</u> | <u>A</u> | <u>B</u> | <u>A</u> | <u>B</u> |
| Nancy Louise Caple | 11 | 10 | - | - | 10 | 8 | 11 | 10 | 7 | 7 |
| Graham Peter Norman | 11 | 9 | 6 | 6 | - | - | - | - | - | - |
| Evelyn Stagg | 11 | 9 | - | - | - | - | 11 | 10 | - | - |
| John Kenneth Nelson | 11 | 10 | 6 | 6 | - | - | - | - | 7 | 6 |
| Paul Anthony Gittings | 11 | 9 | - | - | 10 | 8 | 11 | 8 | - | - |
| David John Mayne | 11 | 9 | - | - | 10 | 9 | - | - | - | - |
| Russell James Hutchins | 11 | 9 | 6 | 5 | - | - | - | - | - | - |
| Brett Straun Purchase | 11 | 8 | 5 | 5 | 10 | 9 | - | - | - | - |
| Brian Thomas Simpson | 11 | 8 | 6 | 5 | - | - | - | - | 7 | 7 |
| Alexander Aaron Harris | 7 | 4 | - | - | 3 | 2 | - | - | - | - |
| Jennifer Sonia June Christiansen | 2 | 2 | - | - | 3 | 2 | 3 | 2 | - | - |
| Catherine Richmond | 1 | - | 1 | 1 | - | - | - | - | - | - |

A - Eligible to attend

B - Number attended

Non Audit Services

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

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


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

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

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

Signed in accordance with a resolution of the board of directors at Heidelberg, Victoria on 22 August 2011.



 Nancy Louise Caple, Chairman

**Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001
to the directors of Heidelberg District Community Enterprise Limited**

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

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



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

22nd August 2011

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Statement of Comprehensive Income
for the Year Ended 30 June 2011

| | <u>Notes</u> | 2011 \$ | 2010 \$ |
|--|--------------|--------------------------|--------------------------|
| Revenues from ordinary activities | 4 | 1,928,462 | 1,503,807 |
| Employee benefits expense | | (797,838) | (690,741) |
| Charitable donations, sponsorship, advertising and promotion | | (430,823) | (268,231) |
| Occupancy and associated costs | | (240,477) | (190,155) |
| Systems costs | | (96,580) | (66,597) |
| Depreciation and amortisation expense | 5 | (78,344) | (69,025) |
| Finance costs | 5 | (18,688) | (37,506) |
| General administration expenses | | (252,925) | (223,230) |
| Profit/(loss) before income tax (expense)/credit | | 12,787 | (41,678) |
| Income tax (expense)/credit | 6 | (7,565) | 22,312 |
| Profit/(loss) after income tax (expense)/credit | | 5,222 | (19,366) |
| Total comprehensive income for the year | | 5,222 | (19,366) |
| Earnings per share (cents per share) | | <u>c</u> | <u>c</u> |
| - basic profit for the year | 22 | 0.23 | (0.96) |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Balance Sheet
as at 30 June 2011

| | <u>Notes</u> | 2011 \$ | 2010 \$ |
|--------------------------------------|--------------|--------------------------|--------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 7 | 451,378 | 1,051,594 |
| Current tax assets | 11 | 23,461 | 22,374 |
| Trade and other receivables | 8 | 145,807 | 123,258 |
| Total Current Assets | | <u>620,646</u> | <u>1,197,226</u> |
| Non-Current Assets | | | |
| Property, plant and equipment | 9 | 1,406,983 | 1,331,724 |
| Intangible assets | 10 | 107,554 | 68,500 |
| Deferred tax assets | 11 | 30,040 | 37,605 |
| Total Non-Current Assets | | <u>1,544,577</u> | <u>1,437,829</u> |
| Total Assets | | <u>2,165,223</u> | <u>2,635,055</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 12 | 193,562 | 38,189 |
| Borrowings | 13 | 717 | 29,123 |
| Provisions | 14 | 76,234 | 61,563 |
| Total Current Liabilities | | <u>270,513</u> | <u>128,875</u> |
| Non-Current Liabilities | | | |
| Borrowings | 13 | - | 546,081 |
| Provisions | 14 | 8,168 | 9,827 |
| Total Non-Current Liabilities | | <u>8,168</u> | <u>555,908</u> |
| Total Liabilities | | <u>278,681</u> | <u>684,783</u> |
| Net Assets | | <u>1,886,542</u> | <u>1,950,272</u> |
| Equity | | | |
| Issued capital | 15 | 1,641,165 | 1,641,165 |
| Retained earnings | 16 | 245,377 | 309,107 |
| Total Equity | | <u>1,886,542</u> | <u>1,950,272</u> |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Statement of Changes in Equity
for the Year Ended 30 June 2011

| | Issued Capital \$ | Retained Earnings \$ | Total Equity \$ |
|--|----------------------------------|-------------------------------------|--------------------------------|
| Balance at 1 July 2009 | <u>441,165</u> | <u>374,440</u> | <u>815,605</u> |
| Total comprehensive income for the year | <u>-</u> | <u>(19,366)</u> | <u>(19,366)</u> |
| Transactions with owners in their capacity as owners: | | | |
| Shares issued during period | 1,200,000 | - | 1,200,000 |
| Costs of issuing shares | - | - | - |
| Dividends provided for or paid | - | (45,967) | (45,967) |
| Balance at 30 June 2010 | <u><u>1,641,165</u></u> | <u><u>309,107</u></u> | <u><u>1,950,272</u></u> |
| Balance at 1 July 2010 | <u>1,641,165</u> | <u>309,107</u> | <u>1,950,272</u> |
| Total comprehensive income for the year | <u>-</u> | <u>5,222</u> | <u>5,222</u> |
| Transactions with owners in their capacity as owners: | | | |
| Shares issued during period | - | - | - |
| Costs of issuing shares | - | - | - |
| Dividends provided for or paid | - | (68,952) | (68,952) |
| Balance at 30 June 2011 | <u><u>1,641,165</u></u> | <u><u>245,377</u></u> | <u><u>1,886,542</u></u> |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Statement of Cashflows
for the Year Ended 30 June 2011

| | <u>Notes</u> | 2011 \$ | 2010 \$ |
|---|--------------|-------------------|-------------------|
| Cash Flows From Operating Activities | | | |
| Receipts from customers | | 2,038,192 | 1,452,553 |
| Payments to suppliers and employees | | (1,953,157) | (1,414,217) |
| Interest received | | 39,637 | 34,975 |
| Interest paid | | (18,688) | (37,506) |
| Income taxes paid | | (1,087) | (40,869) |
| Net cash provided by/(used in) operating activities | 17 | <u>104,897</u> | <u>(5,064)</u> |
| Cash Flows From Investing Activities | | | |
| Payments for property, plant and equipment | | (3,567) | (315,717) |
| Payments for intangible assets | | (57,851) | (80,000) |
| Net cash used in investing activities | | <u>(61,418)</u> | <u>(395,717)</u> |
| Cash Flows From Financing Activities | | | |
| Proceeds from issues of shares | | - | 1,200,000 |
| Payment for share issue costs | | - | (15,705) |
| Repayment of borrowings | | (574,487) | (28,264) |
| Dividends paid | | (69,208) | (45,967) |
| Net cash provided by/(used in) financing activities | | <u>(643,695)</u> | <u>1,110,064</u> |
| Net increase/(decrease) in cash held | | (600,216) | 709,283 |
| Cash and cash equivalents at the beginning of the financial year | | 1,051,594 | 342,311 |
| Cash and cash equivalents at the end of the financial year | 7(a) | <u>451,378</u> | <u>1,051,594</u> |

The accompanying notes form part of these financial statements

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Financial statement presentation

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

Historical cost convention

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

Comparative figures

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

Adoption of new and revised Accounting Standards

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

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

AASB 101 Presentation of Financial Statements

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

Disclosure impact

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

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

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

Heidelberg District Community Enterprise Limited
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Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

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

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

New Accounting Standards for application in future periods

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

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

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

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

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at East Ivanhoe and Heidelberg, Victoria.

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

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

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

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

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (continued)

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

b) Revenue

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

Revenue calculation

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

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (ie 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank@** partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank@** companies remain balanced.

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

c) Income Tax

Current tax

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

Deferred tax

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

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

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

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

Heidelberg District Community Enterprise Limited
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Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (*continued*)

c) Income Tax (*continued*)

Current and deferred tax for the period

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

d) Employee Entitlements

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

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

e) Cash and Cash Equivalents

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

f) Trade Receivables and Payables

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

g) Property, Plant and Equipment

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

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

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

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

h) Intangibles

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

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Notes to the Financial Statements
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Note 1. Summary of Significant Accounting Policies (*continued*)

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

(i) *Loans and receivables*

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

(ii) *Held-to-maturity investments*

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

(iii) *Financial liabilities*

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

Impairment

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

l) Leases

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

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

m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions 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.

Heidelberg District Community Enterprise Limited
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Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 1. Summary of Significant Accounting Policies (*continued*)

n) Contributed Equity

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

o) Earnings Per Share

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

p) Goods and Services Tax

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

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

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

Note 2. Financial Risk Management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

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Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 2. Financial Risk Management (continued)

(vi) Capital management

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

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

- (i) the distribution limit is the greater of:
 - (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
 - (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and
- (ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

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

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

Note 3. Critical Accounting Estimates and Judgements

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Heidelberg District Community Enterprise Limited
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Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets

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

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

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

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

| | 2011 \$ | 2010 \$ |
|---|-------------------------|-------------------------|
| Note 4. Revenue from Ordinary Activities | | |
| Operating activities: | | |
| - services commissions | 1,847,859 | 1,424,338 |
| - other revenue | - | 386 |
| Total revenue from operating activities | <u>1,847,859</u> | <u>1,424,724</u> |
| Non-operating activities: | | |
| - interest received | 38,515 | 38,280 |
| - rental revenue | 42,088 | 40,803 |
| Total revenue from non-operating activities | <u>80,603</u> | <u>79,083</u> |
| Total revenues from ordinary activities | <u><u>1,928,462</u></u> | <u><u>1,503,807</u></u> |

Note 5. Expenses

| | | |
|---------------------------------------|---------------|---------------|
| Depreciation of non-current assets: | | |
| - plant and equipment | 16,503 | 21,662 |
| - leasehold improvements | 43,044 | 32,030 |
| Amortisation of non-current assets: | | |
| - franchise agreement | 4,026 | 3,666 |
| - franchise establishment/renewal fee | 14,771 | 11,667 |
| | <u>78,344</u> | <u>69,025</u> |
| Finance costs: | | |
| - interest paid | <u>18,688</u> | <u>37,506</u> |
| Bad debts | <u>1,244</u> | <u>6,060</u> |

The following significant expense items, included as part of general administration expenses, are relevant in explaining financial performance:

| | | |
|---|-------|---|
| - loss on disposal of property, plant and equipment | 8,828 | - |
|---|-------|---|

The loss on disposal of property, plant and equipment relates to items replaced or removed as part of the refurbishment of the East Ivanhoe branch.

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Notes to the Financial Statements
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| | 2011 | 2010 |
|--|--------------|-----------------|
| | \$ | \$ |
| Note 6. Income Tax Expense/(Credit) | | |
| The components of tax expense comprise: | | |
| - Current tax | - | - |
| - Future income tax benefit attributed to losses | - | (17,641) |
| - Movement in deferred tax | (4,239) | (4,671) |
| - Recoupment of prior year tax losses | 11,804 | - |
| | <u>7,565</u> | <u>(22,312)</u> |

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

| | | |
|---|---------------|-----------------|
| Operating profit/(loss) | 12,787 | (41,678) |
| Prima facie tax on profit from ordinary activities at 30% | 3,836 | (12,503) |
| Add tax effect of: | | |
| - non-deductible expenses | 5,639 | 4,600 |
| - timing difference expenses | 4,240 | 4,670 |
| - investment deduction | - | (12,497) |
| - other deductible expenses | (1,911) | (1,911) |
| | <u>11,804</u> | <u>(17,641)</u> |
| Movement in deferred tax | 11 (4,239) | (4,671) |
| | <u>7,565</u> | <u>(22,312)</u> |

Note 7. Cash and Cash Equivalents

| | | |
|--------------------------|----------------|------------------|
| Cash at bank and on hand | 221,128 | 271,344 |
| Term deposits | 230,250 | 780,250 |
| | <u>451,378</u> | <u>1,051,594</u> |

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

Note 7.(a) Reconciliation of cash

| | | |
|--------------------------|----------------|------------------|
| Cash at bank and on hand | 221,128 | 271,344 |
| Term deposits | 230,250 | 780,250 |
| | <u>451,378</u> | <u>1,051,594</u> |

Note 8. Trade and Other Receivables

| | | |
|--------------------------------|----------------|----------------|
| Trade receivables | 137,572 | 106,147 |
| Other receivables and accruals | 3,724 | 4,845 |
| Prepayments | 4,511 | 12,266 |
| | <u>145,807</u> | <u>123,258</u> |

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| Note 9. Property, Plant and Equipment | 2011 \$ | 2010 \$ |
|--|------------------|------------------|
| <u>Plant and equipment</u> | | |
| At cost | 65,212 | 76,394 |
| Less accumulated depreciation | (41,099) | (41,817) |
| | <u>24,113</u> | <u>34,577</u> |
| <u>Leasehold improvements</u> | | |
| At cost | 506,538 | 419,329 |
| Less accumulated depreciation | (86,294) | (103,508) |
| | <u>420,244</u> | <u>315,821</u> |
| <u>Land and buildings</u> | | |
| Land - at cost | 361,000 | 361,000 |
| Buildings - at cost | 747,997 | 747,997 |
| Less: accumulated amortisation | (46,724) | (28,024) |
| Less: impairment (<i>Director valuation</i>) | (99,647) | (99,647) |
| | <u>962,626</u> | <u>981,326</u> |
| Total written down amount | <u>1,406,983</u> | <u>1,331,724</u> |
| Movements in carrying amounts: | | |
| <u>Plant and equipment</u> | | |
| Carrying amount at beginning | 34,577 | 13,434 |
| Additions | 9,971 | 36,635 |
| Disposals | (3,932) | - |
| Less: depreciation expense | (16,503) | (15,492) |
| Carrying amount at end | <u>24,113</u> | <u>34,577</u> |
| <u>Leasehold improvements</u> | | |
| Carrying amount at beginning | 315,821 | 56,265 |
| Additions | 133,663 | 279,082 |
| Disposals | (4,896) | - |
| Less: depreciation expense | (24,344) | (19,526) |
| Carrying amount at end | <u>420,244</u> | <u>315,821</u> |
| <u>Land and buildings</u> | | |
| Carrying amount at beginning | 981,326 | 1,000,000 |
| Additions | - | - |
| Disposals | - | - |
| Less: amortisation expense | (18,700) | (18,674) |
| Carrying amount at end | <u>962,626</u> | <u>981,326</u> |
| Total written down amount | <u>1,406,983</u> | <u>1,331,724</u> |
| Note 10. Intangible Assets | | |
| <u>Franchise fee</u> | | |
| At cost | 31,570 | 20,000 |
| Less: accumulated amortisation | (13,860) | (9,834) |
| | <u>17,710</u> | <u>10,166</u> |
| <u>Establishment/Renewal processing fee</u> | | |
| At cost | 116,282 | 70,000 |
| Less: accumulated amortisation | (26,438) | (11,666) |
| | <u>89,844</u> | <u>58,334</u> |
| Total written down amount | <u>107,554</u> | <u>68,500</u> |

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Notes to the Financial Statements
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| | 2011 \$ | 2010 \$ |
|---|----------------|----------------|
| Note 11. Tax | | |
| Current: | | |
| Income tax refundable | <u>23,461</u> | <u>22,374</u> |
| Non-Current: | | |
| <u>Deferred tax assets</u> | | |
| - accruals | | |
| - employee provisions | 25,321 | 21,417 |
| - tax losses carried forward | 5,837 | 17,642 |
| | <u>31,158</u> | <u>39,059</u> |
| <u>Deferred tax liability</u> | | |
| - accruals | 1,118 | 1,454 |
| | <u>1,118</u> | <u>1,454</u> |
| Net deferred tax asset/(liability) | <u>30,040</u> | <u>37,605</u> |
| Movement in deferred tax charged to statement of comprehensive income | <u>(4,239)</u> | <u>(4,671)</u> |
| Note 12. Trade and Other Payables | | |
| Trade creditors | 189,010 | 31,486 |
| Other creditors and accruals | 4,552 | 6,703 |
| | <u>193,562</u> | <u>38,189</u> |
| Note 13. Borrowings | | |
| Current: | | |
| Bank loans | <u>717</u> | <u>29,123</u> |
| Non-Current: | | |
| Bank loans | <u>-</u> | <u>546,081</u> |
| Note 14. Provisions | | |
| Current: | | |
| Provision for annual leave | 30,072 | 24,623 |
| Provision for long service leave | 39,688 | 31,209 |
| Provision for sick leave | 6,474 | 5,731 |
| | <u>76,234</u> | <u>61,563</u> |
| Non-Current: | | |
| Provision for long service leave | <u>8,168</u> | <u>9,827</u> |

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| | 2011 | 2010 |
|--|------------------|------------------|
| | \$ | \$ |
| Note 15. Contributed Equity | | |
| <i>East Ivanhoe</i> | | |
| 1,098,386 Ordinary shares fully paid (2010: 1,098,386) | 473,010 | 473,010 |
| A bonus share issue on a 1.3:1 basis (620,826 shares) was issued to all existing shareholders on 17 June 2009. | | |
| <i>Heidelberg</i> | | |
| 1,200,000 Ordinary shares fully paid (2010: 1,200,000) | 1,200,000 | 1,200,000 |
| Less: equity raising expenses | (31,845) | (31,845) |
| | <u>1,168,155</u> | <u>1,168,155</u> |
| | <u>1,641,165</u> | <u>1,641,165</u> |

Rights attached to shares

(a) *Voting rights*

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

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

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

(b) *Dividends*

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

(c) *Transfer*

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 206. As at the date of this report, the company had 442 shareholders.

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

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

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Note 15. Contributed Equity (continued)

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

The Bendigo Stock Exchange (BSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not as a result the base number clause does not operate whilst the company remains listed on the BSX.

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

| | 2011 \$ | 2010 \$ |
|---|----------------|----------------|
| Note 16. Retained Earnings/Accumulated Losses | | |
| Balance at the beginning of the financial year | 309,107 | 374,440 |
| Net profit/(loss) from ordinary activities after income tax | 5,222 | (19,366) |
| Dividends paid or provided for | (68,952) | (45,967) |
| Balance at the end of the financial year | <u>245,377</u> | <u>309,107</u> |

Note 17. Statement of Cashflows

Reconciliation of profit/(loss) from ordinary activities after tax to net cash provided by/(used in) operating activities

| | | |
|--|----------------|----------------|
| Profit/(loss) from ordinary activities after income tax | 5,222 | (19,366) |
| Non cash items: | | |
| - depreciation | 59,547 | 53,692 |
| - amortisation | 18,797 | 15,333 |
| - loss on disposal of non-current assets | 8,828 | - |
| Changes in assets and liabilities: | | |
| - (increase)/decrease in receivables | (22,549) | (2,815) |
| - (increase)/decrease in other assets | 6,478 | (40,503) |
| - increase/(decrease) in payables | 15,562 | (30,278) |
| - increase/(decrease) in provisions | 13,012 | 18,873 |
| Net cashflows provided by/(used in) operating activities | <u>104,897</u> | <u>(5,064)</u> |

Note 18. Leases

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments

| | | |
|---------------------------------|----------------|----------------|
| - not later than 12 months | 186,173 | 161,623 |
| - between 12 months and 5 years | 499,683 | 357,500 |
| - greater than 5 years | - | - |
| | <u>685,856</u> | <u>519,123</u> |

The lease on the East Ivanhoe branch premises is a five year lease with the option of one additional five year term. The lease commenced on 1 April 2011 with annual rent of \$72,763 plus GST.

The lease on the Heidelberg branch premises is a five year lease with the option of two additional five year terms. The lease commenced on 1 July 2009 with annual rent of 113,410 plus GST.

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| Note 19. Auditors' Remuneration | 2011 | 2010 |
|---|--------------|---------------|
| | \$ | \$ |
| Amounts received or due and receivable by McBain McCartin & Co for: | | |
| - audit and review services | - | 13,650 |
| - non audit services | - | - |
| | <u>-</u> | <u>13,650</u> |
| Amounts received or due and receivable by Andrew Frewin & Stewart for: | | |
| - audit and review services | 4,500 | - |
| - non audit services | 1,080 | - |
| | <u>5,580</u> | <u>-</u> |

Note 20. Director and Related Party Disclosures

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

Nancy Louise Caple
Graham Peter Norman
John Kenneth Nelson
Evelyn Stagg
Paul Anthony Gittings
Russell James Hutchins
David John Mayne
Brian Thomas Simpson
Brett Straun Purchase
Alexander Aaron Harris (*Resigned 25 July 2011*)
Jennifer Sonia June Christiansen (*Resigned 28 February 2011*)
Catherine Richmond (*Resigned 23 August 2010*)

No director or related entity has entered into a material contract with the company. No director's fees paid for the financial year are outlined in the Directors' Report.

| Directors Shareholdings | 2011 | 2010 |
|---|-------------|-------------|
| Nancy Louise Caple | 22,077 | 22,077 |
| Graham Peter Norman | 33,930 | 33,930 |
| John Kenneth Nelson | 1,150 | 1,150 |
| Evelyn Stagg | 3,950 | 3,950 |
| Paul Anthony Gittings | 60,000 | 60,000 |
| Russell James Hutchins | 13,000 | 13,000 |
| David John Mayne | 32,000 | 32,000 |
| Brian Thomas Simpson | 10,000 | 10,000 |
| Brett Straun Purchase | 2,000 | 2,000 |
| Alexander Aaron Harris (<i>Resigned 25 July 2011</i>) | 22,077 | 22,077 |
| Jennifer Sonia June Christiansen (<i>Resigned 28 February 2011</i>) | 500 | 500 |
| Catherine Richmond (<i>Resigned 23 August 2010</i>) | 2,000 | 2,000 |

There was no movement in directors shareholdings during the year.

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| | 2011 | 2010 |
|--|----------------|----------------|
| | \$ | \$ |
| Note 21. Dividends Paid or Provided | | |
| a. Dividends paid during the year | | |
| Dividend paid | | |
| 100% (2010: 100%) franked dividend - 3 cents (2010: 2 cents) per share | <u>68,952</u> | <u>45,967</u> |
| The tax rate at which dividends have been franked is 30% (2010: 30%). | | |
| b. Franking account balance | | |
| Franking credits available for subsequent reporting periods are: | | |
| - franking account balance as at the end of the financial year | 242,179 | 270,643 |
| - franking credits that will arise from payment of income tax payable as at the end of the financial year | - | - |
| - franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year | <u>-</u> | <u>-</u> |
| Franking credits available for future financial reporting periods: | 242,179 | 270,643 |
| - franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period | <u>-</u> | <u>-</u> |
| Net franking credits available | <u>242,179</u> | <u>270,643</u> |
| | 2011 | 2010 |
| | \$ | \$ |
| Note 22. Earnings Per Share | | |
| (a) Profit/(loss) attributable to the ordinary equity holders of the company used in calculating earnings per share | 5,222 | (19,366) |
| | Number | Number |
| (b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 2,298,386 | 2,022,224 |

Note 23. Events Occurring After the Balance Sheet Date

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

Note 24. Contingent Liabilities

Estimates of the potential financial effect of contingent liabilities which may become payable are as follows:

The company has entered into an agreement with the Ivanhoe East Primary School to contribute \$200,000 towards the re-development of the Space Centre Educational Community Centre. A total of \$140,000 has been contributed to date via three instalments paid in June 2010, December 2010 and July 2011. The remaining contribution of \$60,000 is payable via the following instalments:

| | | |
|-----------|----|--------|
| July 2012 | \$ | 30,000 |
| July 2013 | \$ | 30,000 |

The payment of the remaining instalments is reliant upon delivery of the following benefits to the company upon completion of the facility:

- The naming rights of two conference rooms in the facility;
- The opportunity for a senior executive of the company to be involved in the opening ceremony and launch event;
- The right to secure a plaque in the foyer acknowledging the significant contribution made by the company to the facility;
- The right to have the company recognised as a major sponsor at all public events, media releases and newsletters; and
- The right for a representative from the company to address parent group meetings at least twice a year to share the Community Bank story.

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Notes to the Financial Statements
for the Year Ended 30 June 2011

Note 25. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in East Ivanhoe and Heidelberg suburbs of Melbourne, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 26. Registered Office/Principal Place of Business

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

| <u>Registered Office</u> | <u>Principal Place of Business</u> |
|--|--|
| 233-235 Lower Heidelberg Road Ivanhoe East VIC 3079 | 233-235 Lower Heidelberg Road Ivanhoe East VIC 3079 |
| | 164 Burgundy Street Heidelberg VIC 3084 |

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Notes to the Financial Statements for the Year Ended 30 June 2011

Note 27. Financial Instruments

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

| Financial instrument | Floating interest rate | | Fixed interest rate maturing in | | | | | | Non interest bearing | | Weighted average effective interest rate | |
|---------------------------|------------------------|---------|---------------------------------|---------|-------------------|---------|---------|---------|----------------------|---------|--|--------|
| | | | 1 year or less | | Over 1 to 5 years | | | | | | | |
| | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | 2011 % | 2010 % |
| Financial Assets | | | | | | | | | | | | |
| Cash and cash equivalents | 220,728 | 270,944 | 230,250 | 780,250 | - | - | - | - | 400 | 400 | 5.40 | 3.78 |
| Receivables | - | - | - | - | - | - | - | - | 145,807 | 123,258 | N/A | N/A |
| Financial Liabilities | | | | | | | | | | | | |
| Borrowings | - | - | 717 | 29,123 | - | - | - | 285,701 | - | - | 7.09 | 6.38 |
| Payables | - | - | - | - | - | - | - | - | 193,562 | 38,189 | N/A | N/A |

Heidelberg District Community Enterprise Limited
ABN 62 095 312 744
Directors' Declaration

In accordance with a resolution of the directors of Heidelberg District Community Enterprise Limited, we state that:

In the opinion of the directors:

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

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



Nancy Louise Caple, Chairman

Signed on the 22nd of August 2011.

Independent Auditor's Report To The Members Of Heidelberg District Community Enterprise Limited

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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

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

Independence

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

Auditor's Opinion on the Financial Report

In our opinion:

- 1) The financial report of Heidelberg District Community Enterprise Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 30 June 2011 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
- 2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

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

Auditor's Opinion

In our opinion, the Remuneration Report of Heidelberg District Community Enterprise Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.



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

22nd August 2011