

AUSTRALIAN COMMUNITIES FOUNDATION
ABN - 57 967 620 066

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2011

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AUSTRALIAN COMMUNITIES FOUNDATION

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

The Directors of Australian Communities Foundation Limited (ACN 077 830 347), the Trustee of the Australian Communities Foundation (formerly known as Melbourne Community Foundation), present their report together with the financial report of the Australian Communities Foundation (the "Fund") for the financial year ended 30 June 2011 and the auditor's report thereon.

1. Directors

The Directors of Australian Communities Foundation Limited (the "Trustee") at any time during or since the end of the financial year are:

Chris Lovell (Chair) LLB, BA, LLM - appointed 1 February 2005

Sue Dahn BCom, MBA, Grad Dip Applied Fin & Investment, FFin, FAICD, FASFA, FAIST, FSCPA - appointed 20 November 2010

Sandra de Wolf AM BA (Hons) , DipSocStud, MSW, FAIM, FAICD, AASW - appointed 26 August 2008

Annie Duncan PhD - appointed 30 March 2006

Jo Grigg BA- appointed 16 June 2007

Peter Hero BA, MA, MBA (USA) - appointed 31 May 2007

Tim James BBus, Dip Fin Pla – appointed 1 September 2009

Gregory Larsen BCA (NZ), FCPA, - appointed 30 June 2005 - Retired 2010

Karen Mahlab BEcon - appointed 12 June 2001

Ian McHutchison OAM LLB - appointed 30 March 2006

David Murray BA, DipCrim, MA – appointed 1 September 2009

His Honor Judge David Parsons SC LLB (Hons) - appointed 11 September 1997

Elana Rubin BA (Hons), MA FFin, FAICD, FAIM, FAIST – appointed 1 September 2009

Casey Tan BCom, MMgt, FCA, FAIM, FIPAAV, FAICD, PHF - appointed 1 July 2007

Marion Webster OAM, BA Monash, DipSocStud - appointed 12 March 1997

2. Fund secretary

Ian McHutchison was appointed to the position of Fund secretary on 31 May 2007.

3. Principal activities

The Australian Communities Foundation is a charitable organisation.

4. Operating and financial review

The profit for the year was \$4,051,797 (2010: \$1,878,578), comprising the Community Funds profit for the year of \$4,049,537 (2010: \$1,933,633) and the Administration Funds profit for the year of \$2,260 (2010 Loss: \$55,085). Community Funds are invested for the provision of future grants to Deductible Gift Recipients (DGR's). Administration Funds are used for the operation and administration of the Fund. No income tax is payable by the Fund.

5. 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 Fund that occurred during the financial year under review.

6. Distributions

Distributions paid during the 2011 financial year are grants made to Deductible Gift Recipients (DGR) and Tax Concession Charity (TCC) status recipients of \$2,135,120 (2010: \$2,630,067).

AUSTRALIAN COMMUNITIES FOUNDATION

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

7. Directors' meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Trustee during the financial year are:

Director	Board Meetings	
	A	B
Chris Lovell (Chair)	8	7
Sue Dahn	5	5
Sandra de Wolf AM	8	4
Annie Duncan	8	7
Jo Grigg	8	7
Peter Hero	8	-
Tim James	8	6
Greg Larsen	3	2
Karen Mahlab	8	6
David Murray	8	6
Ian McHutchison OAM	8	6
His Honor Judge David Parsons SC	8	6
Elana Rubin	8	6
Casey Tan	8	7
Marion Webster OAM	8	6

A Number of meetings held during the time the Director held office during the year

B Number of meetings attended

8. Directors' benefits

The Directors act in an honorary capacity unless otherwise stated. During the financial year, no Director of the Trustee company has received or become entitled to receive a benefit because of a contract that the Director, or firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, made with the Fund, or an entity that the Fund controlled, or a body corporate that was related to the Fund, when the contract was made or when the Director received, or became entitled to receive the benefit, with the exception of Marion Webster. Marion Webster received payment for professional services provided at arms length.

9. Environmental regulation

The Fund's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

10. Events subsequent to reporting date

Due to the volatility in global equity markets, the fair value of investments have deteriorated further since 30 June 2011.

AUSTRALIAN COMMUNITIES FOUNDATION

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

11. Indemnification

The Fund is entitled to be indemnified in respect of liabilities, out of the assets of the Fund.

Signed in accordance with a resolution of the Board of Directors:

Chris Lovell
Chair

Ian McHutchison OAM
Director

Melbourne
25 October 2011

AUSTRALIAN COMMUNITIES FOUNDATION

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
CONTINUING OPERATIONS			
REVENUE			
Donations		4,158,789	3,752,417
Investment income	2	2,491,996	1,167,284
Administration fee income		35,166	32,349
Other income		91,168	172,206
Net realised gain/(loss) on sale of investments		(680,674)	(825,174)
Net gain/(loss) on revaluation of financial assets		947,074	1,125,467
		<u>7,043,519</u>	<u>5,424,549</u>
EXPENSES			
Audit fees	10	(30,000)	(30,000)
Employee benefits expense		(475,539)	(451,059)
Investment fee		(160,611)	(128,601)
Consulting costs		(37,145)	(75,765)
Marketing costs		(32,623)	(91,211)
Occupancy costs		(15,579)	(15,901)
Depreciation expense		(2,167)	(2,000)
Other expenses	3	(102,938)	(121,367)
		<u>(856,602)</u>	<u>(915,904)</u>
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		6,186,917	4,508,645
Distributions paid		<u>(2,135,120)</u>	<u>(2,630,067)</u>
PROFIT/(LOSS) FOR THE YEAR		4,051,797	1,878,578
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>4,051,797</u></u>	<u><u>1,878,578</u></u>

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 9 to 27

AUSTRALIAN COMMUNITIES FOUNDATION

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	9(b)	1,289,904	3,292,248
Receivables	4	1,110,947	409,309
Other assets	5	464	-
TOTAL CURRENT ASSETS		<u>2,401,315</u>	<u>3,701,557</u>
NON CURRENT ASSETS			
Investments	6	31,129,028	26,216,308
Plant and equipment	7	33,090	31,095
TOTAL NON CURRENT ASSETS		<u>31,162,118</u>	<u>26,247,403</u>
TOTAL ASSETS		<u><u>33,563,433</u></u>	<u><u>29,948,960</u></u>
CURRENT LIABILITIES			
Payables	8	166,176	591,366
TOTAL CURRENT LIABILITIES		<u>166,176</u>	<u>591,366</u>
NON CURRENT LIABILITIES			
Payables	8	40,989	53,123
TOTAL NON CURRENT LIABILITIES		<u>40,989</u>	<u>53,123</u>
TOTAL LIABILITIES		<u><u>207,165</u></u>	<u><u>644,489</u></u>
NET ASSETS		<u><u>33,356,268</u></u>	<u><u>29,304,471</u></u>
EQUITY			
Corpus		200	200
Retained earnings		33,356,068	29,304,271
TOTAL EQUITY		<u><u>33,356,268</u></u>	<u><u>29,304,471</u></u>

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 9 to 27

AUSTRALIAN COMMUNITIES FOUNDATION

STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2011

	Corpus \$	Retained Earnings \$	Total \$
Balance at 1 July 2009	200	27,425,693	27,425,893
Total comprehensive income for the period			
Profit or loss	-	1,878,578	1,878,578
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	1,878,578	1,878,578
Balance at 30 June 2010	200	29,304,271	29,304,471
Total comprehensive income for the period			
Profit or loss	-	4,051,797	4,051,797
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	4,051,797	4,051,797
Balance at 30 June 2011	200	33,356,068	33,356,268

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 9 to 27

AUSTRALIAN COMMUNITIES FOUNDATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends and imputation credits received		1,256,300	1,052,037
Trust distributions received		254,121	183,243
Interest received		319,123	425,179
Other income		112,724	237,161
Donations received		4,158,789	3,752,417
Distributions paid		(2,135,120)	(2,630,067)
GST refunded/(paid) from ATO		(25,576)	-
Cash paid to suppliers and employees		(825,204)	(913,583)
Net cash from operating activities	9(a)	<u>3,115,157</u>	<u>2,106,388</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments		(21,061,059)	(29,135,062)
Proceeds from sale of investments		15,947,720	19,467,126
Acquisition of plant and equipment		(4,162)	(1,415)
Buyback proceeds		-	-
Net cash from investing activities		<u>(5,117,501)</u>	<u>(9,669,351)</u>
Net (decrease) / increase in cash and cash equivalents		(2,002,344)	(7,562,963)
Cash and cash equivalents at 1 July 2010		<u>3,292,248</u>	<u>10,855,212</u>
Cash and cash equivalents at 30 June 2011	9(b)	<u><u>1,289,904</u></u>	<u><u>3,292,248</u></u>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 9 to 27

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. Significant accounting policies

The Australian Communities Foundation (the "Fund") is a Fund domiciled in Australia. The Trustee of the Fund is Australian Communities Foundation Limited (the "Trustee"). The address of the Fund's and the Trustee's registered office is Suite 6, 19 - 35 Gertrude Street, Fitzroy, Victoria 3065.

The financial report was authorised for issue by the Directors on 25 October 2011.

The significant policies which have been adopted in the preparation of this Financial Report are:

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ("AASB"). The financial report of the Fund also complies with the IFRSs and interpretations adopted by the International Accounting Standards

(b) Basis of measurement

The financial report is presented in Australian dollars.

The financial report has been prepared on the historical cost basis except for certain financial instruments which are stated at their fair value.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss.

(d) Revenue recognition

(i) Finance Income and finance costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Fund's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Foreign currency gains and losses are reported on a net basis.

(ii) Franking credits

Imputation tax credits in respect of dividends and distributions received are recognised as revenue as at the date the share is quoted ex-dividend. As the application for the refund of excess imputation credits can only be made after year end, the applicable revenue is accrued for at year end.

(iii) Donations

Donations are recognised when received.

(e) Financial Instruments

(i) Non-derivative financial assets

The Fund initially recognises loans and receivables and deposits on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that are created or retained by the Fund are recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Fund has the following financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Held-to-maturity financial assets

If the Fund has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Fund from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Fund's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities

The Fund initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Fund has the following non-derivative financial liability: trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(f) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Fund on terms that the Fund would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Fund considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Fund uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(g) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits

The Fund's net obligation in respect of long-term employee benefits other than defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated or government bonds that have maturity dates approximating the terms of the Fund's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the fund has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Fund, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- plant and equipment 5 - 12 years
- fixtures and fittings 5 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(i) Income tax

The fund is exempt from income tax under Section 50-5 of the Income Tax Assessment Act 1997. The fund is a deductible gift recipient.

(j) Goods and services tax

Revenue, 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 ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 1 July 2011, and have not been applied in preparing the financial report. None of these are expected to have a significant effect on the financial report of the Fund, except for AASB 9 'Financial instruments' which becomes mandatory for the Fund's 2014 financial report and could change the classification and measurement of financial assets. The Fund does not plan to adopt this standard early and the extent of the impact has not been determined.

(l) Distributions

Distributions paid are grants made by the Fund, to approved Deductible Gift Recipient (DGR) and Tax Concession Charity (TCC) status recipients and are recorded on a cash basis.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(m) Financial risk management

Overview

The Fund has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Fund's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report. The Board has overall responsibility for the establishment and oversight of the risk management framework and for developing and monitoring risk management policies.

The Finance & Investment Committee oversees how the Fund's manager monitors compliance with the Funds risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

Credit risk

Credit risk is the risk of financial loss to the Fund if a counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's investment securities and receivables from investment securities. Other credit risk arises from cash and cash equivalents holdings of the Fund.

The Fund's exposure to credit risk is influenced mainly by the individual characteristics of each investment security. Approximately 64 percent (2010: 57 percent) of the Fund's investment revenue is attributable to transactions with ASX 200 companies.

The Fund's manager has established a credit policy based on the present investment mandate set by the Finance & Investment Committee that complies with the Fund's risk tolerance level and investment objectives.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is disclosed in Note 11(b).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due and by maintaining sufficient cash and cash equivalents to meet normal operating requirements.

The Fund ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 60 days.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Market risk

Market risk is the risk that changes in market prices, such as movements in interest rates and equity prices will affect the Fund'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, while optimising returns.

a) Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows will fluctuate due to changes in market interest rates.

b) Other market price risk

Equity price risk arises from fluctuations in the fair value of investment securities. The minimum and maximum asset mix of cash, equity, fixed interest, listed and unlisted trusts are set by the Investment & Finance Committee based on market conditions. Material investments within the portfolio are managed on an individual basis by the Fund's manager and all buy and sell decisions are at the discretion of the Fund manager.

c) Currency risk

The Fund is exposed to currency risk on investments that are denominated in a currency other than the respective functional currencies of the Fund, primarily the Australian dollar (AUD). The currencies in which these transactions primarily are denominated are AUD and USD.

The primary goal of the Fund's investment strategy is to maximise investment returns with the assumption that a high proportion of funds will be retained in perpetuity. The investment objective of the Long Term Growth portfolio is to achieve a total rate of return of at least 4% (after investment fees) greater than the Consumer Price Index ("CPI") over a rolling seven year period. The investment objective of the Medium Term Income portfolio is to achieve a total rate of return in excess of the UBS Bank Bill Index (after investment fees) over a rolling three year period. In accordance with this strategy investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain the fund's capital contribution and to sustain future development. The Board monitors the return on capital on three, six, nine and twelve month rolling periods based on movements in investment security unit prices.

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

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
2. Investment income		
Dividends	1,252,750	411,200
Franking credits	471,813	187,587
Interest	319,123	365,882
Trust distributions	448,310	202,615
	<u>2,491,996</u>	<u>1,167,284</u>
3. Other Expenses		
Accountancy fees	50,022	50,020
Other	52,916	71,347
	<u>102,938</u>	<u>121,367</u>
4. Receivables		
Accrued imputation credits	659,400	187,587
Dividends and distributions receivable	352,359	161,721
Trade debtors	66,335	52,725
GST receivable	32,853	7,276
	<u>1,110,947</u>	<u>409,309</u>
5. Other Assets		
Prepayments	464	-
	<u>464</u>	<u>-</u>
6. Investments		
Ordinary shares	13,762,185	11,441,923
Property trusts	2,968,922	1,786,073
Interest bearing	6,829,023	6,045,703
International shares	7,134,104	5,368,184
Other investments	434,794	1,574,425
	<u>31,129,028</u>	<u>26,216,308</u>

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
7. Plant and equipment		
Cost		
Balance at 1 July	46,557	45,142
Additions	4,161	1,415
Disposals	-	-
Balance at 30 June	<u>50,718</u>	<u>46,557</u>
Depreciation		
Balance at 1 July	15,462	13,462
Depreciation for the year	2,166	2,000
Balance at 30 June	<u>17,628</u>	<u>15,462</u>
Carrying amounts		
At 1 July	31,095	31,680
At 30 June	33,090	31,095
8. Trade and other payables		
<i>Current</i>		
Trade payables	8,675	3,350
Employee entitlements	48,108	20,877
Accrued expenses	33,000	33,000
Unsettled investment transactions	-	480,263
Other payables	76,393	53,876
	<u>166,176</u>	<u>591,366</u>
<i>Non Current</i>		
Employee entitlements	40,989	53,123
	<u>40,989</u>	<u>53,123</u>
(a) Financial liabilities at amortised cost classified as trade and other payables		
Trade and other payables		
- Total current	166,176	591,366
- Total non-current	40,989	53,123
	<u>207,165</u>	<u>644,489</u>
Less employee benefits	(89,097)	(74,000)
Financial liabilities as trade and other payables	<u>118,068</u>	<u>570,489</u>

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
9. Notes to statement of cash flows		
(a) Reconciliation of cash flows from operating activities		
Profit/(loss) for the year	4,051,797	1,878,578
<i>Adjustments for</i>		
Net changes in fair value of investments	(947,074)	(1,125,467)
Net gain/(loss) on sale of investments	680,674	825,174
Depreciation	2,167	2,000
	<u>3,787,564</u>	<u>1,580,285</u>
Change in receivables	(701,638)	501,488
Change in payables	29,231	24,614
Net cash from operating activities	<u><u>3,115,157</u></u>	<u><u>2,106,387</u></u>
(b) Cash and cash equivalents		
Cash on hand	1,471	871
Cash at bank - cash management account	1,057,146	3,089,988
Cash at bank	231,287	201,390
Bank bills	-	-
	<u><u>1,289,904</u></u>	<u><u>3,292,249</u></u>
10. Auditor remuneration		
<i>KPMG Australia</i>		
Audit Services	30,000	30,000
Other Services	-	-
	<u><u>30,000</u></u>	<u><u>30,000</u></u>
11. Financial instruments		
(a) Terms, conditions and accounting policies		
The Fund's accounting policies, including terms and conditions of each class of financial asset and financial liability, both recognised and unrecognised at balance date are as follows:		
<i>(i) Financial assets</i>		
Cash assets	Cash at bank is stated at cost. Interest is recognised when earned.	Cash at bank is at call with effective interest rate of 4.75% (2010: 4.5%)
Receivables	Amounts receivable are carried at nominal amount	No interest is charged on outstanding balances.
Investments	Investments are measured at fair value through the statement of comprehensive income.	

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(ii) Financial liabilities

Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received.

Trade liabilities are normally settled on 30 day terms.

(b) Exposure to credit risk

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount	
		2011 \$	2010 \$
Financial assets at fair value through profit or loss		31,129,028	26,216,308
Trade and other receivables		1,110,947	409,309
Cash and cash equivalents		1,289,904	3,292,248
		33,529,879	29,917,865

The Fund's maximum exposure to credit risk at the reporting date is \$33,529,879 (2010: \$29,917,865). The Fund operates within Australia with the maximum exposure in the Australian geographic region.

The Fund's most significant receivable, the Australian Tax Office, accounts for \$659,400 of the Trade and other receivables carrying amount at 30 June 2011 (2010: \$187,587).

The Fund has no Trade receivables that are overdue as at the reporting date.

The Fund has no collateral held as security.

The Fund's maximum exposure to credit risk by instrument type at the reporting date was:

	Carrying amount	
	2011 \$	2010 \$
Ordinary shares	13,762,185	11,441,923
Property trusts	2,968,922	1,786,073
Interest Bearing	6,829,023	6,045,703
International shares	7,134,104	5,368,184
Other Investments	434,794	1,574,429
	31,129,028	26,216,308

AUSTRALIAN COMMUNITIES FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

(c) Interest rate risk

At the reporting date the interest rate profile of the Fund's interest bearing financial instruments were:

	Carrying amount	
	2011	2010
	\$	\$
Fixed rate instruments		
Financial assets	<u>6,798,129</u>	<u>5,419,489</u>
	<u>6,798,129</u>	<u>5,419,489</u>
Variable rate instruments		
Financial assets	<u>1,320,798</u>	<u>3,918,461</u>
	<u>1,320,798</u>	<u>3,918,461</u>

Fair value sensitivity for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would increase the surplus and deficit by the amounts shown below. The analysis is performed on the same basis for 2009.

	Profit or (loss)	
30 June 2011	100bp increase	100bp decrease
	\$	\$
Variable rate instruments	<u>13,208</u>	<u>(13,208)</u>
Cash flow sensitivity (net)	<u>13,208</u>	<u>(13,208)</u>
	<u>13,208</u>	<u>(13,208)</u>
30 June 2010	100bp increase	100bp decrease
	\$	\$
Variable rate instruments	<u>39,185</u>	<u>(39,185)</u>
Cash flow sensitivity (net)	<u>39,185</u>	<u>(39,185)</u>
	<u>39,185</u>	<u>(39,185)</u>

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(d) Liquidity risk

The following are the contractual maturities of financial liabilities of the Fund:

30 June 2011	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	118,068	118,068	118,068	-	-	-	-

30 June 2010	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	570,489	570,489	570,489	-	-	-	-

(e) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

30 June 2011	Carrying amount	Fair value
	\$	\$
Financial assets designated at fair value through profit or loss	31,129,028	31,129,028
Trade and other receivables	1,110,947	1,110,947
Cash and cash equivalents	1,289,904	1,289,904
Trade and other payables	118,068	118,068
	<u>33,647,947</u>	<u>33,647,947</u>

30 June 2010	Carrying amount	Fair value
	\$	\$
Financial assets designated at fair value through profit or loss	26,216,308	26,216,308
Trade and other receivables	409,309	409,309
Cash and cash equivalents	3,292,249	3,292,249
Trade and other payables	570,489	570,489
	<u>30,488,355</u>	<u>30,488,355</u>

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2011	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss	31,129,028	-	-	31,129,028
	<u>31,129,028</u>	<u>-</u>	<u>-</u>	<u>31,129,028</u>

30 June 2010

Financial assets designated at fair value through profit or loss	26,216,308	-	-	26,216,308
	<u>26,216,308</u>	<u>-</u>	<u>-</u>	<u>26,216,308</u>

Included within Level 1 of the hierarchy are listed investments and investments with an active secondary market. The fair value of these financial assets have been based on the closing quoted bid prices at the end of the reporting period, excluding transaction costs. All the fund's financial assets are included within Level 1.

(f) Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices whether caused by factors specific to an individual security or all factors affecting all securities traded in the market.

As the majority of financial instruments are carried at fair value with fair values changes recognised in the income statement, all changes in market conditions will directly affect Net investment income.

Under normal circumstances the Fund will invest in the following instruments:

<u>Asset Class</u>	<u>Investment Range</u>
Property (Direct/Listed and Unlisted)	0%-20%
Australian equities	40%-60%
International and Alternative Investments	0%-30%
Fixed interest	5%-40%
Cash	0%-30%

Sensitivity analysis

More than 62% of the Fund's equity instruments are listed on the Australian Stock Exchange. A 15% increase in the Australian Stock Exchange at the reporting date would have increased net assets attributable to unit holders and the surplus from operating activities by \$2,908,211 (2010: an increase of \$2,656,605); an equal change in the opposite direction would have decreased the net assets attributable to unit holders by an equal but opposite amount.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(g) Currency risk

Exposure to currency risk

The Fund's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	USD 2011	USD 2010
Investments	135,023	478,849
Gross balance sheet exposure	135,023	478,849

The following significant exchange rates applied during the year:

<i>AUD</i>	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD 1	0.9436	1.1060	1.0139	1.1450

Sensitivity analysis

A strengthening of the AUD, of 3%, against the USD at 30 June 2011 would have increased equity and profit or loss by \$3,882. This analysis is based on foreign currency exchange rate variances that the trustee considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A weakening of the AUD against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

12. Key Management Personnel Compensation

The key management personnel consists of the Chief Executive Officer, General Manager and Manager of Community and Donor services.

	Short-term Benefits	Post- employ- ment Benefits	Other Long-term Benefits	Total
	\$	\$	\$	\$
2011				
Key Management Personnel	319,497	91,697	-	411,194
2010				
Key Management Personnel	257,177	20,041	-	277,218

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13. Related parties

(a) Directors' and key management personnel

Directors of Australian Communities Foundation Ltd, the Trustee of the Fund, since the beginning of the financial year to the date of this report:

Chris Lovell (Chair) LLB, BA, LLM - appointed 1 February 2005

Sue Dahn BCom, MBA, Grad Dip Applied Fin & Investment, FFin, FAICD, FASFA, FAIST, FSCPA - appointed 20 November 2010

Sandra de Wolf AM BA (Hons) , DipSocStud, MSW, FAIM, FAICD, AASW - appointed 26 August 2008

Annie Duncan PhD - appointed 30 March 2006

Jo Grigg BA- appointed 16 June 2007

Peter Hero BA, MA, MBA (USA) - appointed 31 May 2007

Tim James BBus, Dip Fin Pla – appointed 1 September 2009

Gregory Larsen BCA (NZ), FCPA, - appointed 30 June 2005 - Retired 2010

Karen Mahlab BEcon - appointed 12 June 2001

Ian McHutchison OAM LLB - appointed 30 March 2006

David Murray BA, DipCrim, MA – appointed 1 September 2009

His Honor Judge David Parsons SC LLB (Hons) - appointed 11 September 1997

Elana Rubin BA (Hons), MA FFin, FAICD, FAIM, FAIST – appointed 1 September 2009

Casey Tan BCom, MMgt, FCA, FAIM, FIPAAB, FAICD, PHF - appointed 1 July 2007

Marion Webster OAM, BA Monash, DipSocStud - appointed 12 March 1997

Finance Committee

Ian McHutchison OAM LLB (Chair)

Sue Dahn BCom, MBA, Grad Dip Applied Fin & Investment, FFin, FAICD, FASFA, FAIST, FSCPA

Michael Gilmore B Econ, GradDip Fin. Planning

Tim James BBus, DipFinPla

George Krithis BBus, CPA (FPS), CFP

Elana Rubin BA (Hons), MA FFin, FAICD, FAIM, FAIST

Casey Tan BCom, MMgt, FCA, FAIM, FIPAAB, FAICD, PHF

Audit Committee

Hugh Parkes BA MBA, FCA, CISA (Chair)

Chris Arnold BCom, MBA, FCPA, FAIM, MAICD

Hayden Raysmith DipSocStud

Casey Tan BCom, MMgt, FCA, FAIM, FIPAAB, FAICD, PHF

(b) Directors' compensation

The Directors act in an honorary capacity unless otherwise stated. During the financial year, no Director of the Trustee has received or become entitled to receive a benefit because of a contract that the Director, or firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, made with the Fund, or an entity that the Fund controlled, or a body corporate that was related to the Fund, when the contract was made or when the Director received, or became entitled to receive the benefit, with the exception of Marion Webster. Marion Webster received payment of \$20,620 for professional services provided at arms length. There was no outstanding balance at 30 June 2011.

14. Segment reporting

The Fund is organised into one main segment which operates solely as a charitable organisation in Australia.

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

15. Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or capital and other commitments as at 30 June 2011.

16. Events subsequent to reporting date

Due to the volatility in global equity markets, the fair value of investments have deteriorated further since 30 June 2011. The change in investment between the reporting date and 30 September 2011 is indicated below:

30 June 2011	31,129,028
30 September 2011	28,196,069
% movement:	-9.42%

No adjustment has been made to the investment held at 30 June 2011.

No other significant events have occurred since the end of the financial year which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2011 or on the results and cash flows of the Fund for the reporting period ended on that date.

17. Other information

	Community Funds 2011 \$	Adminis- tration Fund 2011 \$	Adjustment (Note A) 2011 \$	Total 2011 \$
REVENUE				
Donations	4,007,764	151,025	-	4,158,789
Investment income	2,491,996	-	-	2,491,996
Administration fee income	-	456,058	(420,892)	35,166
Other income	-	91,168	-	91,168
Net realised loss on sale of investments	(680,674)	-	-	(680,674)
Net changes in fair value of investments	947,074	-	-	947,074
	6,766,160	698,251	(420,892)	7,043,519
EXPENSES				
Audit fees	-	(30,000)	-	(30,000)
Employee benefits expense	-	(475,539)	-	(475,539)
Administration fee	(420,892)	-	420,892	-
Investment fee	(160,611)	-	-	(160,611)
Consulting costs	-	(37,145)	-	(37,145)
Marketing costs	-	(32,623)	-	(32,623)
Occupancy costs	-	(15,579)	-	(15,579)
Depreciation expense	-	(2,167)	-	(2,167)
Other expenses	-	(102,938)	-	(102,938)
	(581,503)	(695,991)	420,892	(856,602)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6,184,657	2,260	-	6,186,917
Distributions paid	(2,135,120)	-	-	(2,135,120)
PROFIT/(LOSS) FOR THE YEAR	4,049,537	2,260	-	4,051,797

Note A - The Administration Fund charges the Community Funds an administration fee of 1.35% of total portfolio value and accrued income (calculated daily).

AUSTRALIAN COMMUNITIES FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

17. Other information (continued)

	Community Funds 2010 \$	Adminis- tration Fund 2010 \$	Adjustment (Note A) 2010 \$	Total 2010 \$
REVENUE				
Donations	3,615,656	136,761	-	3,752,417
Investment income	1,167,284	-	-	1,167,284
Administration fee income	-	423,251	(390,902)	32,349
Other income	-	172,206	-	172,206
Net realised loss on sale of investments	(825,174)	-	-	(825,174)
Net changes in fair value of investments	1,125,467	-	-	1,125,467
	<u>5,083,233</u>	<u>732,218</u>	<u>(390,902)</u>	<u>5,424,549</u>
EXPENSES				
Audit fees	-	(30,000)	-	(30,000)
Employee benefits expense	-	(451,059)	-	(451,059)
Administration fee	(390,902)	-	390,902	-
Investment fee	(128,601)	-	-	(128,601)
Consulting costs	-	(75,765)	-	(75,765)
Marketing costs	-	(91,211)	-	(91,211)
Occupancy costs	-	(15,901)	-	(15,901)
Depreciation expense	-	(2,000)	-	(2,000)
Other expenses	-	(121,367)	-	(121,367)
	<u>(519,503)</u>	<u>(787,303)</u>	<u>390,902</u>	<u>(915,904)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4,563,730	(55,085)	-	4,508,645
Distributions paid	(2,630,067)	-	-	(2,630,067)
PROFIT/(LOSS) FOR THE YEAR	<u>1,933,663</u>	<u>(55,085)</u>	<u>-</u>	<u>1,878,578</u>

Note A - The Administration Fund charges the Community Funds an administration fee of 1.35% of total portfolio value and accrued income (calculated daily).

	2011 \$	2010 \$
COMMUNITY FUNDS		
Opening retained earnings	29,161,684	27,228,021
Profit/(loss) for the year	4,049,537	1,933,663
Closing retained earnings	<u>33,211,221</u>	<u>29,161,684</u>
ADMINISTRATION FUND		
Opening retained earnings	142,587	197,672
Profit/(loss) for the year	2,260	(55,085)
Closing retained earnings	<u>144,847</u>	<u>142,587</u>

AUSTRALIAN COMMUNITIES FOUNDATION

DIRECTORS' DECLARATION

In the opinion of the Directors of Australian Communities Foundation Limited, the Trustee of the Australian Communities Foundation (formerly known as Melbourne Community Foundation, the "Fund"):

- (a) the financial statements and notes, set out on pages 5 to 27, are drawn up in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), so as to present fairly the financial position of the Fund as at 30 June 2011 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a); and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors:

Chris Lovell
Director

Ian McHutchison OAM
Director

Melbourne
25 October 2011