

annual report 2010

Heathcote & District
Financial Services Limited
ABN 44 112 376 986

Heathcote & District **Community Bank**[®] Branch

Contents

Chairman's report	2-3
Manager's report	4-5
Directors' report	6-9
Auditor's independence declaration	10
Financial statements	11-14
Notes to the financial statements	15-34
Directors' declaration	35
Independent audit report	36-37

Chairman's report

For year ending 30 June 2010

THIS has been our breakthrough year.

The Board of Directors of Heathcote and District Financial Services Ltd this year has been able to not only declare a dividend for our shareholders but also distribute profits back into our community.

This is reason to celebrate. This is the foundation stone on which your **Community Bank**[®] branch is built.

About eight years ago, a group of Heathcote based business and community leaders set out to establish a **Community Bank**[®] branch which would achieve a number of goals: It would ensure banking services in the town; it would create employment through the establishment of a new business; it would return profit back to the community.

Since its opening on July 1 2005, your **Community Bank**[®] branch has grown and thrived with the support of its community. The branch is now an established part of the Heathcote business landscape, employing three full-time and three part-time bank officers. And now, the community is about to benefit as profit from its operation is returned.

So it is with much pleasure that the Directors of Heathcote and District Financial Services Ltd, the operators of the Heathcote & District **Community Bank**[®] Branch, have been able to declare a dividend for our shareholders, to be paid out of the profit made in the fifth year of operation.

For the financial year 2009/2010, the Heathcote & District **Community Bank**[®] Branch was able to report, from business funds of more than \$60 million, a profit of \$73,133 (up from the 2009 figure of \$38,336).

The Board is pleased to announce that \$40,000 was put into community grants, which effectively lowered the profit figure, and sufficient funds were left to fund an increased dividend from last year.

The Heathcote & District **Community Bank**[®] Branch this year is taking part in its first grants program, in conjunction with the Bendigo and Adelaide Bank Ltd's Community Enterprise Foundation™.

Local community groups and organisations have been invited to apply for grants through the program, for projects which will benefit the community. The successful groups will receive their cheques during a special ceremony immediately following the H&DFS annual general meeting on 25 October. This is a most satisfying achievement for the Board of management, the staff and shareholders.

For the Board, it has again been a year of some change, with two Directors departing after making excellent contributions to the Company. Board member Carolyn James also held the position of Company secretary for a number of years and her contribution through difficult times will always be valued. Bryan Wearne reluctantly drew his tenure as a Board member to a close in order to pursue a lifelong ambition to join the professional golf circuit. Bryan had fulfilled the role of chairman of the important marketing sub-committee with skill and enthusiasm. Both Directors will be missed and the Board wishes them well.

We are fortunate to have gained the services of a new Board member with considerable marketing skill and expertise in Rachel Paterson and we look forward to her contribution to the Board.

Chairman's report continued

All of our Board members bring experience and professional attributes to the Boardroom table in a variety of fields and our Company is fortunate to have a dedicated and enthusiastic group of people prepared to spend countless hours making a contribution for their community.

Company secretary Kathryn Gilmore, who had moved with her family to live in Bendigo, also resigned during the year. Kathryn was an original Board member and great supporter of the **Community Bank**[®] branch and her contribution to the success of the Company will be remembered. The Board is pleased to have been able to appoint Helen Bethune to the position of Company Secretary and she has already shown great enthusiasm for the role through some challenging times.

A particularly pleasing aspect of the past year of operation has been the performance of the Branch Manager, Les Owens, and his staff. Les has been tireless in his pursuit of growth in the business and the Board is extremely pleased with his efforts. He has had the benefit of a dedicated team behind him and the staff of Jodie Rowe, Heidi Planta-Cook, Jo Jacobs, Krystal Eickert and Teri Johnson have earned the highest possible ranking from a Bendigo Bank operations audit.

The Heathcote & District **Community Bank**[®] Branch once again has been able to support a number of local organisations and groups through donations and minor sponsorships during the past year.

The Directors are also pleased to be able to report continuing growth in our agency in Nagambie. This is an area the Board intends to devote some energy to in the coming year.

The operation of your **Community Bank**[®] branch would not be possible without the assistance and guidance of our partners, Bendigo and Adelaide Bank and I take this opportunity to personally thank the staff at the regional office for their untiring assistance.

This year was a breakthrough for your **Community Bank**[®] branch. Money from the profit of the business is starting to flow back to the community. Your Directors are working to ensure that this continues in the years to come.

So we are encouraging everyone to play a part – we encourage all of our shareholders to be customers, all of our customers to be ambassadors.

Working together, the community can make it happen.



Barry Cail
Chairman

Manager's report

For year ending 30 June 2010

As we slowly climb out of the global financial crisis, it is rewarding to present our fifth full year trading results.

Another strong performance saw the branch total business grow by 13.34% from \$53.598 million at 30/06/2009 to \$60.800 million by 30/06/2010, an excellent effort by the staff considering the economic environment we've been through.

Deposit and lending account numbers continue to increase and we now have 2,894 accounts against 2,667 held at 30/06/2009. Also, our over the counter transactions now average 2,500 per month, again increasing from an average of 2,329 last financial year.

Our ATM (automatic teller machine), which is operational 24 hours a day, 7 days a week, is still averaging 6,500 per month. Now that we have some water in our lake, it will be interesting how this will affect transaction numbers.

We have had a changing of the guard with our Financial Planner Melissa Butler taking maternity leave - congratulations from the staff. We wish her all the best for the future. Melissa's good work has continued with her replacement Tim Tremain Dip FS (FP), a qualified Bendigo and Adelaide Bank Ltd Financial Planner. Tim has taken over Melissa's existing portfolio and is assisting new clients. Tim's knowledge and experience in financial planning is a great asset for the branch, thanks Tim.

We have had a few staff changes since my last report with Heidi's part time Customer Service Officer (CSO) job being filled by Jo Jacobs, a previous part time CSO at Heathcote, welcome back Jo. Marie, our part time CSO has chosen a different career path. Marie was a valuable staff member and we wish her well in the future. Marie's replacement was Krystal Eickert, a former volunteer staff member at Heathcote Tourism, welcome aboard Krystal.

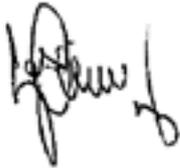
Just when I thought staff movements had settled, we were greeted by the news that Heidi was pregnant and would be taking six months maternity leave, from January 2010. Congratulations Heidi and Bryce on the safe arrival of their son Hudson. Krystal stepped up to Heidi's full time position whilst she was on maternity leave and former National Bank employee Teri Johnson was appointed to fill Krystal's job. Teri's previous banking experience has assisted in a smooth transition for the branch. While these changes were being put in place, the branch continued to offer quality service with no disruptions to our customers. Thank you Jodie on managing and assisting Krystal and Teri during their introduction to the Bendigo Bank way of banking. Congratulations and welcome to all three girls. Also congratulation to Jodie on receiving her five year service award. Jodie has been an asset to the bank since its opening.

On 12 January this year the Bendigo Bank and the Heathcote & District **Community Bank**[®] Branch opened an Agency in the shop dwelling of G. V. Tech at 346 High Street Nagambie. Michael Mitchell operates the Agency with his wife Joanne and they have made a successful start to their agency career with 57 accounts and account balances of \$1.286, million to 30/06/2010. Michael and Joanne are very enthusiastic about the agency and we wish them all the best.

Manager's report continued

I would personally like to thank our **Community Bank**[®] Board members, my State support team in Bendigo for their continued support and encouragement for myself and the staff to achieve our team goals. I would also like to thank my staff on their professional approach to their duties and our customers.

With the continued support from existing customers and potential new customers, our **Community Bank**[®] branch will further grow our balances which in turn will benefit the community in the form of donations, sponsorships and the Heathcote and District Community Grants Program, a tremendous result for the whole community.

A handwritten signature in black ink, appearing to read 'Les Owens', written in a cursive style.

Les Owens
Branch Manager.

Directors' report

For the financial year ended 30 June 2010

Your directors submit the financial statements of the company for the financial year ended 30 June 2010.

Directors

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

Barry Maxwell Cail

Chairman

Age: 57

Occupation: Journalist/Business Owner

Experience & expertise: Career in journalism

Interests in shares: 2,001

Joseph Zurek

Deputy Chairman

Age: 62

Occupation: Retired

Experience & expertise: Corporate accountant,
Supermarket proprietor

Interests in shares: 10,001

Keith Macpherson Chambers

Director

Age: 57

Occupation: Retired

Experience & expertise: Education

Interests in shares: 1,001

Ian Douglas Cordiner

Director

Age: 70

Occupation: Company Director

Experience & expertise: Senior management

Interests in shares: 6,001

Eleanor Louise Johnson Dempster

Director

Age: 50

Occupation: Self employed

Experience & expertise: Small business, agriculture

Interests in shares: Nil

Gregory Ian Speirs

Director

Age: 60

Occupation: Retired

Experience & expertise: Local Government

Interests in shares: 5,000

Rachel Alice Patterson

Director (Appointed 30 August 2010)

Age: 38

Occupation: Public Relations Officer

Experience & expertise: Public Relations

Interests in shares: Nil

Bryan Rutherford Wearne

Director (Resigned 26 July 2010)

Colin Bernard Stobaus

Director (Resigned 7 December 2009)

Patrick Joseph Connally

Director (Resigned 31 July 2009)

Caroline FitzGerald James

Director (Resigned 26 July 2010)

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

Directors' report continued

Company Secretary

The Company Secretary is Helen Christina Bethune. Helen was appointed to this position on the 1 July 2010 upon the resignation of Kathryn Gilmore. Helen has had extensive administration and service industry experience.

Principal Activities

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

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

Operating Results

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

	Year ended 30 June 2010 \$	Year ended 30 June 2009 \$
	49,787	26,268

Remuneration Report

No director of the Company receives remuneration for services as a Company Director or Committee Member.

The Board's policy in respect of the Branch Manager is to maintain remuneration at parity within the **Community Bank**[®] network and local market rates for comparable roles.

There are no Company executives who are directly accountable and responsible for the strategic direction and operation management of the entity. This is wholly a Board role (who act in a voluntary capacity).

Therefore the board is of the view that there are no Senior Managers as defined by the Corporations Act.

Dividends	Year Ended 30 June 2010	
	Cents	\$
Dividends paid in the year	6	35,695

Significant Changes in the State of Affairs

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

Matters Subsequent to the End of the Financial Year

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

Directors' report continued

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest except as disclosed in note 19 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and Insurance of Directors and Officers

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

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

Directors Meetings

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

	Number of Board Meetings	
	Eligible to attend	Number attended
Barry Maxwell Cail	11	8
Joseph Zurek	11	10
Keith Macpherson Chambers	11	5
Ian Douglas Cordiner	11	7
Eleanor Louise Johnson Dempster	11	6
Gregory Ian Speirs	11	9
Rachel Alice Patterson (Appointed 30 August 2010)	-	-
Bryan Rutherford Wearne (Resigned 26 July 2010)	11	9
Caroline FitzGerald James (Resigned 26 July 2010)	11	8
Colin Bernard Stobaus (Resigned 7 December 2009)	6	-
Patrick Joseph Connally (Resigned 31 July 2009)	1	-

Directors' report continued

Directors Meetings (continued)

The Board has sub-committees for Audit, Marketing & Sponsorship, Risk & Strategy and Human Resources. Sub-committees met on an adhoc basis and do not maintain official records and report to Board meetings as required.

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 10.

Signed in accordance with a resolution of the board of directors at Heathcote, Victoria on 23 September 2010.



Barry Maxwell Cail,
Chairman



Joseph Zurek,
Deputy Chairman

Auditor's independence declaration



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Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Heathcote & District Financial Services Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 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.



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

Dated this 23rd day of September 2010

Financial statements

Statement of Comprehensive Income for the year ended 30 June 2010

	Note	2010 \$	2009 \$
Revenues from ordinary activities	4	594,993	480,648
Employee benefits expense		(271,350)	(249,951)
Charitable donations, sponsorship, advertising and promotion		(70,490)	(33,474)
Occupancy and associated costs		(38,155)	(34,695)
Systems costs		(20,729)	(22,004)
Depreciation and amortisation expense	5	(22,476)	(19,218)
General administration expenses		(98,660)	(82,970)
Profit before income tax credit		73,133	38,336
Income tax expense	6	(23,346)	(12,068)
Profit after income tax expense		49,787	26,268
Total comprehensive income for the year		49,787	26,268
Earnings per share (cents per share)			
		c	c
- basic for profit for the year	22	8.37	4.42
- dividends per share	22	6	-

The accompanying notes form part of these financial statements.

Financial statements continued

Balance sheet as at 30 June 2010

	Note	2010 \$	2009 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	245,406	262,075
Trade and other receivables	8	35,904	27,139
Total Current Assets		281,310	289,214
Non-Current Assets			
Property, plant and equipment	9	70,839	79,849
Intangible assets	10	78,153	20,402
Deferred tax assets	11	27,991	51,337
Total Non-Current Assets		176,983	151,588
Total Assets		458,293	440,802
LIABILITIES			
Current Liabilities			
Trade and other payables	12	16,837	15,146
Provisions	13	1,708	-
Total Current Liabilities		18,545	15,146
Total Liabilities		18,545	15,146
Net Assets		439,748	425,656
Equity			
Issued capital	14	558,357	558,357
Accumulated losses	15	(118,609)	(132,701)
Total Equity		439,748	425,656

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of Changes in Equity for the year ended June 2010

	Issued Capital \$	Retained Earnings \$	Total Equity \$
Balance at 1 July 2008	558,357	(158,969)	399,388
Total comprehensive income for the year	-	26,268	26,268
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2009	558,357	(132,701)	425,656
Balance at 1 July 2009	558,357	(132,701)	425,656
Total comprehensive income for the year	-	49,787	49,787
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(35,695)	(35,695)
Balance at 30 June 2010	558,357	(118,609)	439,748

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of Cashflows for the year ended 30 June 2010

	Note	2010 \$	2009 \$
Cash Flows From Operating Activities			
Receipts from customers		630,298	501,992
Payments to suppliers and employees		(549,081)	(466,744)
Interest received		9,387	16,213
Net cash provided by operating activities	16	90,604	51,461
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(1,827)	(26,092)
Payments for intangible assets		(69,751)	-
Net cash used in investing activities		(71,578)	(26,092)
Cash Flows From Financing Activities			
Dividends paid		(35,695)	-
Net cash used in financing activities		(35,695)	-
Net increase/(decrease) in cash held		(16,669)	25,369
Cash and cash equivalents at the beginning of the financial year		262,075	236,706
Cash and cash equivalents at the end of the financial year	7(a)	245,406	262,075

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2010

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 IFRS 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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**[®] branch at Heathcote, Victoria.

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

All deposits are made with Bendigo Bank, and all personal and investment products are products of Bendigo Bank, 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 Bank, must be approved by Bendigo Bank. All credit transactions are made with Bendigo Bank, and all credit products are products of Bendigo Bank.

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

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

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

b) Revenue

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

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

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 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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

h) Intangibles (continued)

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

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

k) Financial Instruments (continued)

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.

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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

p) Goods and Services Tax (continued)

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.

Notes to the financial statements continued

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 2010 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.

Notes to the financial statements continued

Note 3. Critical Accounting Estimates and Judgements (continued)

Taxation (continued)

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

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

Estimation of useful lives of assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

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.

Notes to the financial statements continued

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets (continued)

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.

	2010 \$	2009 \$
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Note 4. Revenue from Ordinary Activities

Operating activities:

- services commissions	583,115	464,384
- other revenue	-	950
Total revenue from operating activities	583,115	465,334

Non-operating activities:

- interest received	11,878	15,314
Total revenue from non-operating activities	11,878	15,314
Total revenues from ordinary activities	594,993	480,648

Note 5. Expenses

Depreciation of non-current assets:

- plant and equipment	3,694	2,578
- leasehold improvements	6,782	4,640

Amortisation of non-current assets:

- franchise agreement	12,000	12,000
	22,476	19,218

Loss on disposal of non-current assets	361	-
Bad debts	1,043	-

Notes to the financial statements continued

	Note	2010 \$	2009 \$
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Note 6. Income Tax Expense

The components of tax expense comprise:

- Current tax		-	-
- Future income tax benefit attributed to losses		-	-
- Movement in deferred tax		(467)	2,153
- Recoup of prior year tax loss		23,813	9,915
		23,346	12,068

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Operating profit		73,133	38,336
Prima facie tax on profit from ordinary activities at 30%		21,940	11,501
Add tax effect of:			
- non-deductible expenses		3,600	3,600
- timing difference expenses		466	322
- other deductible expenses		(2,193)	(5,508)
		23,813	9,915
Movement in deferred tax	11	(467)	2,153
Under/(Over) provision of income tax in the prior year		-	-
		23,346	12,068

Note 7. Cash and Cash Equivalents

Cash at bank and on hand		15,486	39,223
Term deposits		229,920	222,852
		245,406	262,075

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		15,486	39,223
Term deposits		229,920	222,852
		245,406	262,075

Notes to the financial statements continued

	2010 \$	2009 \$
Note 8. Trade and Other Receivables		
Trade receivables	28,575	19,963
Other receivables & accruals	2,661	2,144
Prepayments	4,668	5,032
	35,904	27,139

Note 9. Property, Plant and Equipment

Plant and equipment

At cost	45,990	44,890
Less accumulated depreciation	(23,986)	(20,658)
	22,004	24,232

Leasehold improvements

At cost	74,553	74,553
Less accumulated depreciation	(25,718)	(18,936)
	48,835	55,617

Total written down amount **70,839** **79,849**

Movements in carrying amounts:

Plant and equipment

Carrying amount at beginning	24,232	20,713
Additions	1,827	6,096
Disposals	(361)	-
Less: depreciation expense	(3,694)	(2,577)
Carrying amount at end	22,004	24,232

Leasehold improvements

Carrying amount at beginning	55,617	40,262
Additions	-	19,996
Disposals	-	-
Less: depreciation expense	(6,782)	(4,641)
Carrying amount at end	48,835	55,617

Total written down amount **70,839** **79,849**

Notes to the financial statements continued

	2010 \$	2009 \$
Note 10. Intangible Assets		
Franchise fee		
At cost	71,625	60,000
Less: accumulated amortisation	(60,000)	(48,000)
	11,625	12,000
Renewal processing fee		
At cost	58,126	-
Less: accumulated amortisation	-	-
	58,126	-
Goodwill		
At cost	8,402	8,402
	8,402	8,402
Total written down amount	78,153	20,402

Note 11. Tax

Deferred tax assets		
- accruals	-	-
- employee provisions	513	-
- tax losses carried forward	29,677	53,490
	30,190	53,490
Deferred tax liability		
- accruals	2,199	2,153
- deductible prepayments	-	-
	2,199	2,153
Net deferred tax asset/(liability)	27,991	51,337
Movement in deferred tax charged to statement of comprehensive income	23,346	12,068

Notes to the financial statements continued

	2010 \$	2009 \$
Note 12. Trade and Other Payables		
Trade creditors	12,537	10,346
Other creditors & accruals	4,300	4,800
	16,837	15,146

Note 13. Provisions

Current:

Provision for annual leave	1,708	-
Number of employees at year end	1	-

Note 14. Contributed Equity

594,910 Ordinary shares fully paid (2009: 594,910)	594,910	594,910
Less: equity raising expenses	(36,553)	(36,553)
	558,357	558,357

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.

Notes to the financial statements continued

Note 14. Contributed Equity (continued)

Rights attached to shares (continued)

(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").

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

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

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

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

Notes to the financial statements continued

	2010 \$	2009 \$
Note 15. Accumulated Losses		
Balance at the beginning of the financial year	(132,701)	(158,969)
Net profit from ordinary activities after income tax	49,787	26,268
Dividends paid or provided for	(35,695)	-
Balance at the end of the financial year	(118,609)	(132,701)

Note 16. Statement of Cashflows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities

Profit from ordinary activities after income tax	49,787	26,268
Non cash items:		
- depreciation	10,476	7,218
- amortisation	12,000	12,000
- loss on disposal of non-current assets	361	-
Changes in assets and liabilities:		
- increase in receivables	(8,765)	(9,791)
- decrease in other assets	23,346	12,068
- increase in payables	1,691	3,698
- increase in provisions	1,708	-
Net cashflows provided by operating activities	90,604	51,461

Notes to the financial statements continued

	2010 \$	2009 \$
Note 17. 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	21,890	19,556
- between 12 months and 5 years	85,737	-
- greater than 5 years	-	-
	107,627	19,556

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The extension option has been taken up in June 2010, there is one more 5 year option available.

Note 18. Auditors' Remuneration

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

- audit & review services	4,500	4,500
- share registry services	3,110	1,558
- non audit services	1,700	2,713
	9,310	8,771

Note 19. Director and Related Party Disclosures

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

Barry Maxwell Cail

Joseph Zurek

Keith Macpherson Chambers

Ian Douglas Cordiner

Eleanor Louise Johnson Dempster

Gregory Ian Speirs

Rachel Alice Patterson (Appointed 30 August 2010)

Bryan Rutherford Wearne (Resigned 26 July 2010)

Caroline FitzGerald James (Resigned 26 July 2010)

Colin Bernard Stobaus (Resigned 7 December 2009)

Patrick Joseph Connally (Resigned 31 July 2009)

Notes to the financial statements continued

Note 19. Director and Related Party Disclosures (continued)

The Company has entered into an agreement with Mitbro Trust to lease the property at 2/119 High St. Heathcote for a five year period terminating on 25 August 2010. Director Joseph Zurek is a trustee of the Mitbro Trust. The contract was approved by the Board with Mr Zurek declaring a pecuniary interest and excluding himself from board discussions and approval processes undertaken by the Board. Total payments made under this contract were \$23,321 (2009: \$20,593).

	2010 \$	2009 \$
Barry Cail, in the capacity of Part-owner of Bendigo Copy Centre, supplied printing services to the value of	562	-

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

Directors Shareholdings	2010	2009
Barry Maxwell Cail	2,001	2,001
Joseph Zurek	10,001	10,001
Keith Macpherson Chambers	1,001	1,001
Ian Douglas Cordiner	6,001	6,001
Eleanor Louise Johnson Dempster	-	-
Gregory Ian Speirs	5,000	5,000
Rachel Alice Patterson (Appointed 30 August 2010)	-	-
Bryan Rutherford Wearne (Resigned 26 July 2010)	-	-
Caroline FitzGerald James (Resigned 26 July 2010)	500	500
Colin Bernard Stobaus (Resigned 7 December 2009)	3,001	3,001
Patrick Joseph Connally (Resigned 31 July 2009)	10,001	10,001

There was no movement in directors shareholdings during the year.

Notes to the financial statements continued

	2010 \$	2009 \$
Note 20. Dividends Paid		
Dividends paid during the year		
Unfranked - 6 cents per share (2009: Nil cents per share)	35,695	-

Note 21. Key Management Personnel Disclosures

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

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

	2010 \$	2009 \$
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Note 22. Earnings Per Share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	49,787	26,268
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	2010 Number	2009 Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	594,910	594,910

Note 23. Events Occurring After the Balance Sheet Date

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

Note 24. Contingent Liabilities

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

Note 25. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank**[®] services in Heathcote and Nagambie and their surrounding districts pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Notes to the financial statements continued

Note 26. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office	Principal Place of Business
Shop 2, 119 High Street	Shop 2, 119 High Street
Heathcote VIC 3523	Heathcote VIC 3523

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		Over 5 years					
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial Assets												
Cash and cash equivalents	15,361	39,223	229,920	222,852	-	-	-	-	125	1	4.17	6.64
Receivables	-	-	-	-	-	-	-	-	35,904	27,139	N/A	N/A
Financial Liabilities												
Payables	-	-	-	-	-	-	-	-	16,837	15,146	N/A	N/A

Directors' declaration

In accordance with a resolution of the directors of Heathcote & District Financial Service 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 2010 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB174 Related Party Disclosures and the Corporations Regulations 2001.

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



Barry Maxwell Cail,
Chairman



Joseph Zurek,
Deputy Chairman

Signed on the 23th of September 2010.

Independent audit report



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INDEPENDENT AUDITOR'S REPORT

To the members of Heathcote & District Financial Services Limited

We have audited the accompanying financial report of Heathcote & District Financial Services Limited, which comprises the balance sheet as at 30 June 2010, 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 (including the Australian Accounting Interpretations) 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Liability limited by a scheme approved under Professional Standards Legislation

Independent audit report continued

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 Heathcote & District Financial Services 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 2010 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 2010. 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 Heathcote & District Financial Services Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.



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

Dated this 23rd day of September 2010

Heathcote & District **Community Bank**[®] Branch
Shop 2, 119 High Street, Heathcote VIC 3523
Phone: (03) 5433 3115

Franchisee: Heathcote & District Financial Services Limited
Shop 2, 119 High Street, Heathcote VIC 3523
ABN: 44 112 376 986

www.bendigobank.com.au/heathcote
Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(BMPAR10001) (05/10)