

# annual report 2010



Valley Community  
Financial Services Limited  
ABN 86 092 399 730

Diamond Creek **Community Bank**<sup>®</sup> Branch  
Hurstbridge & Districts **Community Bank**<sup>®</sup> Branch  
Kinglake branch

# Contents

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# Chairman's report

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For year ending 30 June 2010

On behalf of your Board I am able to report another busy and successful year for the Company.

There have been many changes throughout the year and we are now seeing the projects reported last year reaching their final stages.

## **Business growth and development**

In July 2009 we opened the Kinglake sub branch and in February we relocated the Diamond Creek branch to larger modern premises. As at 30 June we were on target to launch a prospectus to raise up to \$2 million for the two new branches at Eltham and Doreen. Also, as at 30 June, the Eltham and District **Community Bank**<sup>®</sup> Branch was expected to open in September 2010 and we should have the Doreen Mernda **Community Bank**<sup>®</sup> Branch open by December 2010, provided the building is ready.

The Kinglake branch generated losses of nearly \$110,000 to 30 June which is to be expected when establishing a new business. The business is growing well and we are expecting the branch to start generating profits on a monthly basis from the middle of 2011.

Similarly the two new branches at Eltham and Doreen will impact on our profit and loss statement until they begin making profits, but the long term prospects for the business with five profitable branches is very good.

The banking book continues to achieve steady growth and our income was up for the year more than \$400,000. We have experienced significant increases in costs for the year brought about by the implementation of some decisions taken by the Board to ensure the business is ready and equipped to deal with the Company structure in the future.

We have relocated the Diamond Creek **Community Bank**<sup>®</sup> Branch to new premises. It had become increasingly difficult for staff to perform their duties in the cramped environment of the original branch and there was nowhere to accommodate extra staff that were required. When the new building was under construction we were presented with an ideal opportunity to move into a building that would enable us to install the banks latest fit out, accommodate all of our staff and offer customers state of the art in store banking services. The rear of the new site has also been set up with a meeting room and office facilities for our administration staff. I would encourage shareholders to drop in and checkout both the new branch and what is now our administration headquarters. Along with the new fit out we have a one off, write-off in the 2010 financial year for the obsolete fittings and fixtures in the old building.

Secondly we have put in place a staff structure to better resource the branches so that the managers can get out of the office and go to the customers. This is in keeping with our philosophy of offering exemplary service to our customers, a key to our success from the day we opened. We have also had to prepare for two new branches to open in the second half of 2010. The Eltham Manager, Cheryl Meikle joined the Company in May and she put a team together in June. This has ensured the staff are fully trained before opening and has given Cheryl a chance to start generating business before the doors are open in Eltham.

## Chairman's report continued

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We have also appointed a Senior Manager, Michael Maloney, to manage our entire banking business. With five branches by the end of the 2011 financial year it is imperative we have someone to manage and oversee the branches, to ensure best use of staff and identify business opportunities. Michael has extensive experience in both banking and the **Community Bank**<sup>®</sup> concept and a strong track record of success.

Our staff and the quality of service they offer our customers will always be the strength of our business. That is why it is pleasing to see them recognised for the wonderful work they do. Our Branch Manager for Hurstbridge and the Kinglake branch, Dion Shirley, was awarded the 2010 Pride in Workmanship award from the Diamond Creek Rotary Club. This is an award well deserved and we all congratulate Dion on the great results he has achieved at both his branches.

I would like to thank all of our staff for the professional and friendly way they conduct business and for the contribution they make outside of banking hours. Many will have noticed them at the Diamond Creek Fair and the Wattle Festival in Hurstbridge. They also regularly attend meetings for us out of hours and are great ambassadors for our business.

A special mention to our three administration staff who work in the office area at the rear of the Diamond Creek **Community Bank**<sup>®</sup> Branch. Colleen and Melinda have a job share arrangement and Melissa works part time to staff the office Monday to Fridays. They help to manage Board matters take minutes for most meetings and organize sponsorship and grants agreements, signage and publicity. Through their work the Company has significantly increased the promotional value of each dollar spent in the community.

### **Community benefits**

We continue to participate in many and varied projects which includes some bushfire relief and rebuilding as well as helping fund sporting facilities and offering financial assistance to community groups who have never had access to funding at all.

In February the book written by two local authors Jim Usher and Mac Gudgeon was launched at Bridges Restaurant in Hurstbridge. We contributed \$25,000 to fund the book and launch. This was an enormous success with the Premier John Brumby introducing the book and the then Deputy Prime Minister Julia Gillard launching it. The event was covered by the major television networks and close to 500 local people attended. It was an incredible event providing a healing opportunity for people, a funding opportunity for local communities and plenty of promotional opportunity for our business. There were 5,000 books printed and sold for \$25 each raising as much as \$125,000 for the local CFA's.

We now become involved in projects that can use our grants to leverage funding from local, state and federal governments. A good example of this is a grant made to the Diamond Creek Tennis club. With a little advice from us this club was able to add a \$25,000 grant to their own money, access funding from Nillumbik council, drought relief funding from Victorian State Government and build four new synthetic grass courts at a cost of \$130,000, creating an outcome they would never have thought possible. At the other end of the scale we provided \$7,000 to the Queenstown Cemetery Trust to pay for two projects. The first was a computer data and software system to record the burial information of the cemetery. The second was for a Bronze Plaque of the original burial index of the cemetery 1861 to 1951. The plaque has been erected on stone over the memorial cairn. In each of these projects, and every sponsorship and grant, we look for promotional opportunities and enter written, performance based agreements to ensure we grow our business as a result of the contributions we make.

# Chairman's report continued

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The Nillumbik Council have appointed a successful tenderer to build the Community Bank Stadium and we have reached a verbal agreement with state government and council for a ten year naming rights agreement for the facility. Our respective legal representatives are currently working to finalise the written agreement before proceeding. This is the biggest project ever undertaken by Nillumbik Shire Council and is expected to service some 6,000 people a week. The building will service two school communities; the huge participation sports of netball and basketball, accommodate a gymnastics club and have meeting rooms and entertainment facilities for amateur theatre and singers. It will provide a facility to people from Kinglake to Eltham, Kangaroo Ground to South Morang and is located in the heartland of our Diamond Creek business. We made a donation to the project in June 2009 of \$250,000 and will contribute another \$750,000 over the next two and a half years for the naming rights. Our total contribution is \$1,000,000 which represents the funding shortfall after contributions of \$9.5 million from each tier of government. We have ensured that a great project for our communities will be completed in full and secured a long term promotional opportunity for our business. We have developed ongoing relationships with the clubs of the stadium's user groups to encourage their members to support our business so that we can continue to support them.

## **Board of Directors**

Once again a big thank you to my colleagues, the Board of Directors. The Company is fortunate to have such a dedicated and well qualified group of people to oversee the Company. I think it is safe to say that most members of the Board would put in 12 to 15 hours a week and often more. As the Company grows the work load grows too and they have met the challenge. We now have quite a few committees plus community engagement meetings to attend. A special acknowledgement to our Treasurer, David Wheeler who has undertaken an extraordinary workload this financial year having taken responsibility for the Diamond Creek **Community Bank**<sup>®</sup> Branch relocation and fit out. David has also organised the office fit out and made a massive contribution to the preparation of the prospectus for launch in July 2010.

## **Steering committees**

I would like to thank the Eltham and Doreen Steering Committees who were the grass roots people that identified the need and have worked long and hard to achieve **Community Bank**<sup>®</sup> branches for their communities. The Hurstbridge and Diamond Creek **Community Bank**<sup>®</sup> branches have a long history of supporting customers, clubs and groups in these communities. A Valley Financial Community Services branch presence in each community will enable these branches to reach profit quicker than they otherwise would have and to offer even more benefit to those communities in a well coordinated way.

## **Company awards**

During the year the Company has been recognized as a well operated business and by our peers in the community. The Nillumbik Shire Council selected Valley Community Financial Services (VCFS) as one of the two businesses that council can nominate for the Northern Business Achievement Awards 2010. The winner will be announced in December 2010.

## Chairman's report continued

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In May at the State **Community Bank**<sup>®</sup> Conference held at Lorne, VCFS was announced the recipient of the 2010 **Community Bank**<sup>®</sup> Hall of Fame award Victoria/Tasmania. Our **Community Bank**<sup>®</sup> Group has and will continue to blaze a trail in the field and has now been recognized for the work we do. We have developed a Company with an inherent quality of community conscience and service as well as created a business that returns solid dividends to shareholders. We retain almost one hundred percent of our profits in the region we do business. Add to that the benefits of employing local people and offering income streams to local clubs and groups and improving community assets with our promotional dollar.

I believe the Company is in good shape to meet the challenges ahead. We have planned and prepared for the projects before us and expect both community and shareholders to reap the rewards as we continue to grow our business for all.



**Barry Henwood**  
**Chairman**

# Diamond Creek Manager's report

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For year ending 30 June 2010

Diamond Creek has now completed six years of trading, and has undertaken some major improvements within the last year.

Our community is still recovering from the February bushfires, and the economic climate has proven to be a challenge, but these have not prevented us from achieving some great results.

This financial year, Diamond Creek **Community Bank**<sup>®</sup> Branch has reported banking business totalling \$87,926,313, which is a growth of \$7,846,062 from the previous year. The total number of accounts this financial year has grown from 3,662 last financial year to 4,057 this year. This is a great result.

I replaced Greg Arnott as Branch Manager in November 2009. Shortly after, on 7 December 2009, the branch moved into our new premises across the road. Some of our staff have been promoted and/or moved to our other branches, so there are now several new faces in the branch. Our branch now has seven staff members, and if you have not met them all, please come in and say hello. Although major changes such as these can have a negative effect on branch performance, our results indicate that this has had the opposite effect in our branch. I attribute this great results to the hard work and dedication of both the past and present staff members. This could not have been achieved without their commitment and belief that successful customers make successful communities. Our staff are always happy to participate in community events and attend local community functions, no doubt because they are all part of our local community.

Our move to the new premises has not only given us more space, but also the opportunity to give our customers the attention they deserve, along with a better, more holistic banking experience.

Exciting challenges lie ahead of us. Our involvement in the Community Bank Stadium in Diamond Creek is an enormous commitment to our community. The challenge lies in continuing to fund both the organisations that we have been funding over the last six years, and to fund our commitment to the stadium. This can be achieved if our community increases their support of our business – the more business we do, the more profits we make; and the more profits we make, the more money we have to put back into the community.

As a relatively new member of the Diamond Creek **Community Bank**<sup>®</sup> Branch, I feel privileged to be able to contribute to, and assist in, bringing about positive changes in the Diamond Creek community, and I believe that my 30 years of banking experience will enable me to do so.

I would like to take this opportunity to thank the Board Members for the support they have given to the branch staff and me, and acknowledge the tireless work they each do to tell our story and promote the benefits of the **Community Bank**<sup>®</sup> model within our community. I am truly enjoying my exciting new career with the Diamond Creek **Community Bank**<sup>®</sup> Branch and will strive to ensure its continued success.



**Tina Elmer**  
**Branch Manager**

# Hurstbridge Manager's report

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For year ending 30 June 2010

Hurstbridge & Districts **Community Bank**<sup>®</sup> Branch has now completed nine years of trading. Last year, I reported banking business worth \$150 million with over 7,997 accounts as at 30 June 2009. This year we have operated in a tough banking environment due to the economic downturn and the aftermath of the 7 February bushfires. However, due to the hard work and dedication of our staff, the Hurstbridge & District **Community Bank**<sup>®</sup> Branch has grown its total business to \$157 million and 8,149 accounts. This is a remarkable feat by anyone's standard. This can be attributed to the support of the Hurstbridge community and the hard work of our wonderful staff during the past 12 months.

This year we have gone through a complete restructure of staff at the Hurstbridge **Community Bank**<sup>®</sup> Branch to accommodate the newly opened sub branch at Kinglake. The sub branch initially commenced operation in June 2009 as an information centre to help locals affected by the bushfires to access funding. However, it quickly converted to a full banking service, which was officially launched as a sub-branch of Hurstbridge & Districts **Community Bank**<sup>®</sup> Branch in July 2009. I am pleased to report that our business volume in Kinglake, as at 30 June 2010, totalled \$7 million, with 264 accounts. Of course, we still have a long way to go to meet our budgets, but we are certainly off to a good start. The community has been supportive since Kinglake opened, keeping the staff busy with loan applications and new accounts. This includes both accounts transferred from other banks, and new loans for the construction of homes in the area.

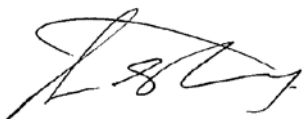
We have had restricted trading hours in Kinglake, as well as an ATM in the shopping precinct, but we will soon be extending our hours. As support for the sub branch grows, there may be an opportunity to convert the business to a full **Community Bank**<sup>®</sup> branch in its own right, which will provide the Kinglake community with an income stream and greater control over their prosperity.

I would like to thank the staff of the Kinglake branch, as well as the staff of the Hurstbridge **Community Bank**<sup>®</sup> Branch, for their hard work in setting up the sub branch and keeping it open.

We now employ 10 staff for Hurstbridge and Kinglake, and this number will continue to grow. We are providing employment opportunities in the district that would not exist if the bank was not here, and, in turn, the bank would not be here without our shareholders and customers.

I would like to again thank the staff, Directors, shareholders and the community for their support over the past 12 months. The coming year will again be challenging for both branches, but with the ongoing support of the community we will continue to grow, as will our support for community organisations.

I look forward to the new challenges and goals that are ahead.



**Dion Shirley**  
**Branch Manager**



# Treasurer's report

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For year ending 30 June 2010

Financial year ended 30 June 2010, has been a year of transformation for our Company. The business has outgrown being a small business, and could properly now be deemed mid-size.

Income increased by	\$436,003	to	\$2,563,920
Operating expenses increased by	\$717,746	to	\$2,000,454
Operating profit decreased by	\$281,744	to	\$563,465
Donations/sponsorships decreased by	\$313,688	to	\$322,944
Trading profit increased by	\$31,944	to	\$240,521

Net profit after tax for this year was \$169,330.44.

Income growth of over 20% for the year was excellent, our margins improved and our total banking book continued to grow.

Operating expenses were particularly high this financial year due to 4 main factors. Firstly we closed our Diamond Creek **Community Bank**<sup>®</sup> Branch and moved it to new premises, this resulted in the write-off of the existing fit out at the old location. Total Cost \$208,600. Secondly our Occupancy Costs increased by \$152,470 for the year. We have been unable to find acceptable sub-tenants for our old premises, and have been paying a higher rent for the new much larger branch premises as well. Our lease on the old branch expires in March 2011, so we have almost reached the end of this commitment.

The decision to move Diamond Creek **Community Bank**<sup>®</sup> Branch was one that the Board felt was imperative to allow for the further growth of both Diamond Creek **Community Bank**<sup>®</sup> Branch, and also VCFS Ltd. The rear part of the premises is now the Administration Office for the Company.

Thirdly our Staff Costs increased by \$204,442 for the year, this is a combination of hiring more staff, and of pay increases for all staff. We also paid Payroll Tax of \$23,281 for the first time.

The total of these first 3 main items represent 80% of the total increase in operating expenses, the write off of our old premises is a one off, and we will stop paying rent on our old branch premises once our lease expires.

The balance of increased costs is due to us opening a third site in Kinglake in July 2009. Total Kinglake operating expenses were \$149,000 for the year. Total Kinglake Income was \$41,252 for the year. Kinglake monthly income has now grown to over \$8,000 per month, and is increasing strongly, we are budgeting for Kinglake to reach break- even during the 2010/2011 financial year.

The support of the Kinglake community for their own bank has been excellent, we intend to market shares within Kinglake from our current Prospectus, in order to convert Kinglake into another **Community Bank**<sup>®</sup> franchise once it reaches sufficient size.

The other major change in the above figures is in Donations/Sponsorships. Last financial year the Company made its first \$250,000 contribution to the Community Bank Stadium project in Diamond Creek, and we also had the tragic bushfires of Black Saturday in February 2009. Combined these made up \$423,832 of our total

## Treasurer's report continued

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Community dividends of \$ 636,631. Other Community Grants/Sponsorships totalled therefore \$212,799. These Grants/Sponsorships increased to \$322,944 or by over 50% for the year. One of the main purposes of the **Community Bank**<sup>®</sup> concept is to give back to our community and a 50% increase in one year is an excellent result.

It is going to be difficult to compare next year's result with this year. On 13 September 2010, we opened the doors at 1036 Main Road Eltham, and we intend to open at 101 Hazel Glen Drive Doreen, mid financial year. Both of these new sites are full **Community Bank**<sup>®</sup> branches. We are very confident that in future years the Company will benefit greatly by holding 5 **Community Bank**<sup>®</sup> franchises.

Our financial result for year ended 30 June 2011, will reflect all of the costs of opening two new businesses less than six months apart.

The Board has considered carefully the pluses and minuses of our involvement with both Eltham and Doreen **Community Bank**<sup>®</sup> projects. In both cases we believe that in time, both will be excellent investments for our shareholders, both old and new. To allow either **Community Bank**<sup>®</sup> branch to open as a stand alone project, would have damaged our existing business, and would have been of great detriment to the new bank branch. By combining and opening as one larger Company, the group saves considerably on administration costs by not duplicating expenses, and we can cooperate for our combined good, rather than compete within the same market space.

The business continues to grow, and is now much more complicated than the simple one site **Community Bank**<sup>®</sup> branch we opened in 2001. I would like to thank my fellow Finance Sub-Committee members, Phil Marendaz and Stephen Bennett for their time and commitment. 2009/2010 has been by far the most demanding year on the Board of VCFS Ltd. It has needed a sustained and considerable effort by all Board Members, along with much thought and consideration, as we have made a number of important far reaching decisions during this year. Hurstbridge remains our flagship branch, if it was not for the phenomenal support for Hurstbridge, right from initial opening to the current day, by both shareholders and Customers, the expansion of the business would not have been possible.

Diamond Creek took longer to reach break-even, but is now a good contributor to the groups profitability, Kinglake will start contributing during this financial year, within 2 years of opening. Eltham shows early signs of growing rapidly, and we believe will reach break-even within 2 years. The Doreen feasibility survey indicated it too will grow quickly once open.

The business will be allowed to consolidate once the 5 sites are all operating. The Board consider that our branches now provide an excellent geographic coverage of our service area. The business now has almost \$300 million in banking business on its books, we are budgeting for this to reach \$350 million this financial year. Continued growth will provide a very exciting future for all of our stakeholders.



**David Wheeler**  
**Treasurer**

# Directors' report

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For the financial year ended 30 June 2010

Your Directors submit the financial report 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 are:

### Barry Henwood

Chairman  
Newsagent Proprietor

### David Wheeler

Director  
Vending Machine Proprietor

### Stephen Bennett

Director  
Winery Proprietor

### Ingrid Crichton

Director  
Retired

### Ian Mason

Director  
Real Estate Agent

### Malcolm Hackett

Director  
Retired

### Hugh Stublely

Director  
IT Consultant

### Daryl Brooke (appointed 6 May 2010)

Director  
Consultant

### Philip Marendaz

Director  
Public Accountant

### Julie Reid

Director  
Consultant

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

No Directors have material interests in contracts or proposed contracts with the Company except as disclosed below.

## Principal activities

The principal activities of the Company during the course of the financial period were in providing **Community Bank**<sup>®</sup> 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 \$169,330 (2009: \$144,524). There was a decrease in advertising, marketing, and sponsorship towards the community, with total expenditure of \$401,765 (2009: \$708,213).

# Directors' report continued

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## Operating results (continued)

The Directors are proud to state the support the Company gave to the Black Saturday Bush Fire Region. A sub-branch was opened in Kinglake in July 2009 together with a donation of \$150,000 to the Community Enterprise Foundation™ Bushfire Appeal.

Dividends	Year ended 30 June 2010	
	Cents per share	\$
Dividends paid in the year:	6.35	168,996

## Significant changes in the state of affairs

The Company opened a sub branch in Kinglake on 6 July 2009.

A bonus issue of 3 shares for every 1 held was paid to all shareholders on 14 August 2009.

The Company moved to new branch premises for the Diamond Creek branch. All leasehold improvements and fixtures and fittings at the former branch were fully written off and included in depreciation expenses.

In the opinion of the Directors there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report.

## Significant events after the balance date

Other than detailed below there are no matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company, in future years.

## Likely developments

The Company will continue its policy of providing banking services to the community. A prospectus to raise a minimum of \$1.2 million was issued in July to raise capital for the planned opening of branches at Eltham and Doreen. Negotiations are continuing with the Shire of Nillumbik for a ten year naming rights agreement for the proposed multi purpose venue, the in Diamond Creek in return for sponsorship of \$750,000.

## Directors' benefits

Office supplies and equipment expenses were paid to Blackburn South Newsagency - an associated entity of Director Barry Henwood. During the year an amount of \$7,508 (2009: nil) was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Trinity Digital Pty Ltd - an associated entity of Director Hugh Stublely. During the year an amount of \$8,073 (2009: \$4,376) was paid to Trinity Digital Pty Ltd.

Accounting Services expenses were paid to Marendaz Pty Ltd - an associate entity of Director Phil Marendaz. During the year \$45,341 (2009: nil) was paid to Marendaz Pty Ltd.

## Directors' report continued

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### Directors' benefits (continued)

Director remuneration for the year ended 30 June 2010

	Primary benefits salary & fees 2010 \$	Primary benefits salary & fees 2009 \$
Barry Henwood	15,000	10,000
Malcolm Hackett	7,000	6,000
David Wheeler	10,000	6,000
Hugh Stubley	4,000	6,000
Stephen Bennett	4,000	3,500
Daryl Brooke (appointed 6 May 2010)	1,000	-
Ingrid Crichton	7,000	3,500
Philip Marendaz	4,000	1,750
Ian Mason	4,000	3,500
Julie Reid	7,000	3,500

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

### Indemnification and insurance of Directors and Officers

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

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

## Directors' report continued

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### Directors' meetings

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

Director	Board meetings #	Audit committee meetings #
Barry Henwood	12 (12)	2 (2)
Malcolm Hackett	10 (12)	N/A
David Wheeler	12 (12)	2 (2)
Hugh Stublely	11 (12)	N/A
Stephen Bennett	10 (12)	2 (2)
Daryl Brooke (appointed 6 May 2010)	1 (1)	N/A
Ingrid Crichton	10 (12)	N/A
Philip Marendaz	12 (12)	1 (1)
Ian Mason	5 (12)	N/A
Julie Reid	11 (12)	N/A

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

N/A - not a member of that Committee.

### Company Secretary

Hugh Stublely was appointed Company Secretary on 1 July 2006. Hugh Stublely's qualifications and experience include: Founder, Director and Sales & Marketing Manager of Trinity Digital Solutions Pty Ltd and Vice President of Breakaway Camps Inc. for underprivileged kids.

### Corporate Governance

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

- (a) The establishment of an audit committee. Members of the audit committee are Barry Henwood, David Wheeler and Stephen Bennett;
- (b) Director approval of operating budgets and monitoring of progress against these budgets;
- (c) Ongoing Director training; and
- (d) Monthly Director meetings to discuss performance, policies and procedures and strategic plans.

# Directors' report continued

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## **Auditor Independence Declaration**

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

### **Richmond Sinnott & Delahunty** Chartered Accountants



6 September 2010


The Directors  
Valley Community Financial Services Ltd  
808 Main Road  
HURSTBRIDGE VIC 3099

Partners:  
Kenneth J Richmond  
Warren J Sinnott  
Philip P Delahunty  
Brett A Andrews

Dear Directors

#### **Auditor's Independence Declaration**

In relation to our audit of the financial report of Valley Community Financial Services Ltd for the year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



**Philip Delahunty**  
Partner  
Richmond Sinnott & Delahunty

Signed in accordance with a resolution of the Board of Directors at Diamond Creek on 6 September 2010.



**David Wheeler**  
Director

# Financial statements

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## Statement of comprehensive income For the year ended 30 June 2010

	Note	2010 \$	2009 \$
Revenues from ordinary activities	2	2,563,920	2,127,917
Employee benefits expense	3	(867,886)	(663,444)
Charitable donations and sponsorship		(322,944)	(636,632)
Depreciation and amortisation expense	3	(239,674)	(45,273)
Advertising and marketing		(78,821)	(71,581)
Other expenses from ordinary activities		(814,074)	(502,553)
<b>Profit before income tax expense</b>		<b>240,521</b>	<b>208,434</b>
Income tax expense	4	71,191	63,910
<b>Profit after income tax expense</b>		<b>169,330</b>	<b>144,524</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>169,330</b>	<b>144,524</b>
<b>Earnings per share (cents per share)</b>			
- basic for profit for the year	22	6.36	21.72
- diluted for profit for the year	22	6.36	21.72

The accompanying notes form part of these financial statements.



## Financial statements continued

### Statement of financial position As at 30 June 2010

	Note	2010 \$	2009 \$
<b>Current assets</b>			
Cash and cash equivalents	6	377,340	430,173
Receivables	7	215,143	223,090
Other assets	8	12,513	22,018
<b>Total current assets</b>		<b>604,996</b>	<b>675,281</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	394,431	296,566
Intangible assets	10	6,840	27,815
Deferred tax assets	4	20,230	28,050
<b>Total non-current assets</b>		<b>421,501</b>	<b>352,431</b>
<b>Total assets</b>		<b>1,026,497</b>	<b>1,027,712</b>
<b>Current liabilities</b>			
Payables	11	129,946	105,705
Provisions	12	67,433	93,223
<b>Total current liabilities</b>		<b>197,379</b>	<b>198,928</b>
<b>Total liabilities</b>		<b>197,379</b>	<b>198,928</b>
<b>Net assets</b>		<b>829,118</b>	<b>828,784</b>
<b>Equity</b>			
Share capital	13	665,338	665,338
Retained earnings	14	163,780	163,446
<b>Total equity</b>		<b>829,118</b>	<b>828,784</b>

The accompanying notes form part of these financial statements.

## Financial statements continued

### Statement of cash flows For the year ended 30 June 2010

	Note	2010 \$	2009 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		2,763,704	2,222,938
Cash payments in the course of operations		(2,302,280)	(2,048,319)
Interest received		13,502	52,050
Income tax paid		(42,199)	(115,287)
<b>Net cash flows from operating activities</b>	<b>15b</b>	<b>432,727</b>	<b>111,382</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(316,564)	(10,299)
<b>Net cash flows used in investing activities</b>		<b>(316,564)</b>	<b>(10,299)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(168,996)	(133,068)
<b>Net cash flows used in financing activities</b>		<b>(168,996)</b>	<b>(133,068)</b>
<b>Net increase in cash held</b>		<b>(52,833)</b>	<b>(31,985)</b>
Cash and cash equivalents at start of year		430,173	462,158
<b>Cash and cash equivalents at end of year</b>	<b>15a</b>	<b>377,340</b>	<b>430,173</b>

The accompanying notes form part of these financial statements.

## Financial statements continued

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### Statement of changes in equity For the year ended 30 June 2010

	Note	2010 \$	2009 \$
<b>Share capital</b>			
Balance at start of year		665,338	665,338
Issue of share capital		-	-
Share issue costs		-	-
<b>Balance at end of year</b>		<b>665,338</b>	<b>665,338</b>
<b>Retained earnings</b>			
Balance at start of year		163,446	151,990
Profit after income tax expense		169,330	144,524
Dividends paid	21	(168,996)	(133,068)
<b>Balance at end of year</b>		<b>163,780</b>	<b>163,446</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

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For year ended 30 June 2010

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

### (a) Basis of preparation

Valley Community Financial Services Ltd ('the Company') is domiciled in Australia. The financial statements for the year ending 30 June 2010 are presented in Australian dollars. The Company was incorporated in Australia and the principal operations involve providing **Community Bank**<sup>®</sup> services.

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

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

The financial statements were authorised for issue by the Directors on 6 September 2010.

### (b) Statement of compliance

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

### (c) Significant accounting policies

The following is a summary of the material accounting policies adopted. The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2009 financial statements.

#### Income tax

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

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

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

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

# Notes to the financial statements continued

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

### **Income tax (continued)**

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

### **Property, plant and equipment**

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

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

<b>Class of asset</b>	<b>Depreciation rate</b>
Buildings	2.5%-15%
Computers	40%
Plant & equipment	5%-37.5%

### Impairment

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

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

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### Revaluations

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

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

### **Recoverable amount of assets**

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

# Notes to the financial statements continued

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

### **Goods and services tax**

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis.

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

### **Employee benefits**

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

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

### **Intangibles**

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

### **Cash**

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

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

### **Comparative figures**

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

### **Revenue**

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

# Notes to the financial statements continued

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

### Receivables and payables

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days. Receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

### Loans and borrowings

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

### Provisions

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

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

### Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

	2010 \$	2009 \$
<b>Note 2. Revenue from ordinary activities</b>		
<b>Operating activities</b>		
- services commissions	2,550,418	2,075,867
- other revenue	-	-
<b>Total revenue from operating activities</b>	<b>2,550,418</b>	<b>2,075,867</b>
<b>Non-operating activities:</b>		
- interest received	13,502	52,050
Total revenue from non-operating activities	13,502	52,050
<b>Total revenue from ordinary activities</b>	<b>2,563,920</b>	<b>2,127,917</b>

## Notes to the financial statements continued

	2010 \$	2009 \$
<b>Note 3. Expenses</b>		
<b>Employee benefits expense</b>		
- wages and salaries	720,343	573,220
- superannuation costs	63,087	47,956
- workers' compensation costs	3,185	15,997
- other costs	81,271	26,271
	<b>867,886</b>	<b>663,444</b>
<b>Depreciation of non-current assets:</b>		
- plant and equipment	172,052	20,974
- leasehold improvements	46,647	3,324
<b>Amortisation of non-current assets:</b>		
- franchise fee / start up costs	20,975	20,975
	<b>239,674</b>	<b>45,273</b>
Bad debts	3,489	3,015

## Note 4. Income tax expense

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

Prima facie tax on profit from ordinary activities at 30%	72,156	62,530
Add / (less) tax effect of:		
- Non deductible / (other deductible) expenses	(965)	1,380
- Movement in deferred tax asset	(7,820)	(7,815)
<b>Current income tax expense</b>	<b>63,371</b>	<b>56,095</b>
Movement in deferred tax asset	7,820	7,815
<b>Income tax expense</b>	<b>71,191</b>	<b>63,910</b>
<b>Deferred tax assets</b>		
<b>Future income tax benefits arising from tax losses are recognised at reporting date as realisation of the benefit is regarded as probable.</b>		
	<b>20,230</b>	<b>28,050</b>



## Notes to the financial statements continued

	2010 \$	2009 \$
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### Note 5. Auditors' remuneration

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

<b>- Audit or review of the financial report of the Company</b>	<b>3,900</b>	<b>3,650</b>
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### Note 6. Cash and cash equivalents

<b>Cash at bank and on hand</b>	<b>377,340</b>	<b>430,173</b>
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### Note 7. Receivables

Commission receivable	215,139	185,485
Sundry debtors	4	37,605
	<b>215,143</b>	<b>223,090</b>

### Note 8. Other assets

Prepayments	11,667	-
Current tax refundable	846	22,018
	<b>12,513</b>	<b>22,018</b>

### Note 9. Property, plant and equipment

#### Leasehold improvements

At cost	271,500	153,231
Less accumulated depreciation	(34,725)	(36,227)
	<b>236,775</b>	<b>117,004</b>

#### Plant and equipment

At cost	343,771	413,231
Less accumulated depreciation	(186,115)	(233,669)
	<b>157,656</b>	<b>179,562</b>

<b>Total written down amount</b>	<b>394,431</b>	<b>296,566</b>
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## Notes to the financial statements continued

	2010 \$	2009 \$
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Note 9. Property, plant and equipment (continued)

### Movements in carrying amounts

#### Leasehold improvements

Carrying amount at beginning of year	117,004	115,664
Additions	166,418	4,664
Depreciation expense	(46,647)	(3,324)
<b>Carrying amount at end of year</b>	<b>236,775</b>	<b>117,004</b>

#### Plant and equipment

Carrying amount at beginning of year	179,562	194,901
Additions	150,146	5,635
Depreciation expense	(172,052)	(20,974)
<b>Carrying amount at end of year</b>	<b>157,656</b>	<b>179,562</b>

Note 10. Intangible assets

#### Franchise fee / start up costs

At cost	104,877	104,877
Less accumulated amortisation	(98,037)	(77,062)
	<b>6,840</b>	<b>27,815</b>

Note 11. Payables

Trade creditors	120,852	94,291
Accrued expenses	9,094	11,414
	<b>129,946</b>	<b>105,705</b>

Note 12. Provisions

Employee benefits	67,433	93,223
Provision for taxation	-	-
	<b>67,433</b>	<b>93,223</b>

## Notes to the financial statements continued

	2010 \$	2009 \$
<b>Note 13. Share capital</b>		
<b>665,338 Ordinary shares fully paid of \$1.00 each</b>	<b>665,338</b>	<b>665,338</b>

During the year shareholders received a 3 for 1 bonus issue taking the total shares issued from 665,338 to 2,661,352.

### Note 14. Retained earnings

Balance at the beginning of the financial year	163,446	151,990
Profit after income tax	169,330	144,524
Dividends	(168,996)	(133,068)
<b>Balance at the end of the financial year</b>	<b>163,780</b>	<b>163,446</b>

### Note 15. Statement of cash flows

#### (a) Cash and cash equivalents

<b>Cash assets</b>	<b>377,340</b>	<b>430,173</b>
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#### (b) Reconciliation of profit after tax to net cash from operating activities

Profit after income tax	169,330	144,524
Non cash items		
- Depreciation	218,699	24,298
- Amortisation	20,975	20,975
Changes in assets and liabilities		
- (Increase) decrease in deferred tax asset	7,820	7,815
- (Increase) decrease in receivables / other assets	(3,720)	(28,829)
- Increase (decrease) in payables	24,241	15,837
- (Decrease) increase in income tax refundable	21,172	(59,192)
- Increase (decrease) in provisions	(25,790)	(14,046)
<b>Net cash flows from operating activities</b>	<b>432,727</b>	<b>111,382</b>

# Notes to the financial statements continued

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## Note 16. Director and related party disclosures

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

Barry Henwood  
Malcolm Hackett  
David Wheeler  
Hugh Stubley  
Stephen Bennett  
Daryl Brooke (appointed 6 May 2010)  
Ingrid Crichton  
Philip Marendaz  
Ian Mason  
Julie Reid

Other than detailed below no Director or related entity has entered into a material contract with the Company.

Office supplies and equipment expenses were paid to Blackburn South Newsagency - an associated entity of Director Barry Henwood. During the year an amount of \$7,508 (2009: nil) was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Trinity Digital Pty Ltd - an associated entity of Director Hugh Stubley. During the year an amount of \$8,073 (2009: \$4,376) was paid to Trinity Digital Pty Ltd.

Accounting Services expenses were paid to Marendaz Pty Ltd - an associate entity of Director Phil Marendaz. During the year \$45,341 (2009: nil) was paid to Marendaz Pty Ltd.

### Director remuneration for the year ended 30 June 2010

	<b>Primary benefits salary &amp; fees 2010 \$</b>	<b>Primary benefits salary &amp; fees 2009 \$</b>
Barry Henwood	15,000	10,000
Malcolm Hackett	7,000	6,000
David Wheeler	10,000	6,000
Hugh Stubley	4,000	6,000
Stephen Bennett	4,000	3,500
Daryl Brooke (appointed 6 May 2010)	1,000	-
Ingrid Crichton	7,000	3,500
Philip Marendaz	4,000	1,750
Ian Mason	4,000	3,500
Julie Reid	7,000	3,500

## Notes to the financial statements continued

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### Note 16. Director and related party disclosures (continued)

<b>Directors' shareholdings</b>	<b>2010</b>	<b>2009</b>
Barry Henwood	6,000	1,500
Malcolm Hackett	-	-
David Wheeler	8,000	2,000
Hugh Stubley	-	-
Stephen Bennett	-	-
Daryl Brooke (appointed 6 May 2010)	-	-
Ingrid Crichton	-	-
Philip Marendaz	-	-
Ian Mason	4,000	1,000
Julie Reid		

Other than the issue of bonus shares at the rate of 3 for 1 held there was no movement in Directors' shareholdings during the year. Each share is fully paid to \$1.

### Note 17. Subsequent events

The Company issued a prospectus to raise capital for the opening of branches at Eltham and Doreen.

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

### Note 18. Contingent liabilities

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

### Note 19. Segment reporting

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

## Notes to the financial statements continued

### Note 20. Corporate information

Valley Community Financial Services Ltd is a Company limited by shares incorporated in Australia, whose shares are publicly traded on the Bendigo Stock Exchange.

The registered office of the Company is:

8b 75/77 Main Hurstbridge Road,

Diamond Creek Vic 3089

The principal places of business are:

808 Main Road,  
Hurstbridge VIC 3099

Shop 8a, 75-77 Main Hurstbridge Road,  
Diamond Creek VIC 3089

1 Glenburn Road,  
Kinglake VIC 3763

	2010	2009
	\$	\$

### Note 21. Dividends paid or provided for on ordinary shares

#### (a) Dividends paid during the year

<b>Franked dividends - 6.35 cents per share (2009: 20 cents per share)</b>	<b>168,996</b>	<b>133,068</b>
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#### (b) Dividends proposed and not recognised as a liability

<b>Franked dividends - 6.0 cents per share (2009: 25 cents per share)</b>	<b>160,000</b>	<b>166,335</b>
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#### (c) Franking credit balance

The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year	211,944	268,511
- Franking credits that will arise from the payment/(refund) of income tax payable/(refundable) as at the end of the financial year	(846)	(22,018)
	<b>211,098</b>	<b>246,493</b>

The tax rate at which dividends have been franked is 30% (2009: 30%).

## Notes to the financial statements continued

	2010	2009
	\$	\$

### Note 22. Earnings per share

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

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

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

<b>Profit after income tax expense</b>	<b>169,330</b>	<b>144,524</b>
<b>Weighted average number of ordinary shares for basic and diluted earnings per share</b>	<b>2,661,352</b>	<b>665,338</b>

Note:

During the year shareholders received a 3 for 1 bonus issue taking the total shares issued from 665,338 to 2,661,352.

### Note 23. Financial risk management

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

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

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

#### (a) Credit risk

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

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

## Notes to the financial statements continued

### Note 23. Financial risk management (continued)

#### (a) Credit risk (continued)

	Carrying amount	
	2010 \$	2009 \$
Cash assets	377,340	430,173
Receivables	215,143	223,090
	<b>592,483</b>	<b>653,263</b>

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

None of the assets of the Company are past due (2009: nil past due) and based on historic default rates, the Company believes that no impairment allowance is necessary in respect of assets not past due.

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

#### (b) Liquidity risk

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

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

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

	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 to 5 years \$	More than 5 years \$
<b>30 June 2010</b>					
Payables	129,946	(129,946)	(129,946)	-	-
	<b>129,946</b>	<b>(129,946)</b>	<b>(129,946)</b>	<b>-</b>	<b>-</b>
<b>30 June 2009</b>					
Payables	105,705	(105,705)	(105,705)	-	-
	<b>105,705</b>	<b>(105,705)</b>	<b>(105,705)</b>	<b>-</b>	<b>-</b>



# Notes to the financial statements continued

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## Note 23. Financial risk management (continued)

### (c) Market risk

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

#### Interest rate risk

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

#### Sensitivity analysis

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

	Carrying amount	
	2010	2009
	\$	\$
<b>Fixed rate instruments</b>		
Financial assets	220,000	400,000
Financial liabilities	-	-
	<b>220,000</b>	<b>400,000</b>
<b>Variable rate instruments</b>		
Financial assets	157,340	30,173
Financial liabilities	-	-
	<b>157,340</b>	<b>30,173</b>

#### Fair value sensitivity analysis for fixed rate instruments

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

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have no impact on profit or retained earnings. For the analysis performed on the same basis as at 30 June 2009 there was also no impact. As at both dates this assumes all other variables remain constant.

## Notes to the financial statements continued

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### Note 23. Financial risk management (continued)

#### **(d) Net fair values**

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

#### **(e) Capital management**

The Board's policy is to maintain a strong capital base so as to sustain future development of the Company. The Board of Directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the Statement of Financial Position.

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.

# Directors' declaration

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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 their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.



**David Wheeler**  
**Director**

Signed at Diamond Creek on 6 September 2010.

# Independent audit report

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## **Richmond Sinnott & Delahunty** Chartered Accountants



### ***INDEPENDENT AUDIT REPORT TO THE MEMBERS OF VALLEY COMMUNITY FINANCIAL SERVICES LTD***

Partners:  
Kenneth J Richmond  
Warren J Sinnott  
Philip P Delahunty  
Brett A Andrews

#### ***SCOPE***

The financial report comprises the statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Valley Community Financial Services Ltd, for the year ended 30 June 2010.

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

#### ***Audit approach***

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

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

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

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

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

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

## Independent audit report continued

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### **INDEPENDENCE**

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

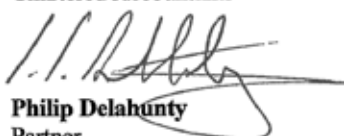
### **AUDIT OPINION**

In our opinion, the financial report of Valley Community Financial Services Ltd is in accordance with:

- (a) the Corporations Act 2001 including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

### **RICHMOND SINNOTT & DELAHUNTY**

Chartered Accountants



**Philip Delahunty**

Partner

Bendigo

Date: 6 September 2010

# BSX report

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As at 15 September 2010, the Company had 373 shareholders, with each shareholder having one vote regardless of the number of shares they own.

The following table illustrates the 10 largest shareholders.

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of capital</b>
Graham Dryden & Clare Dryden <Graden Engineering Super Fund A/C>	120,000	4.51%
Gregory John Howlett <GH Superannuation Fund A/C>	73,000	2.74%
Mr Bruce Donelly	60,000	2.25%
Mrs A Jupp <Trash N Stash Super Fund A/C>	60,000	2.25%
Mrs Beverley Joan Mitchell	60,000	2.25%
Mr Harold Charles Mitchell	60,000	2.25%
Vetemac Pty Ltd <Super Fund A/C>	60,000	2.25%
Wayryn Pty Ltd <Superannuation Fund A/C>	48,000	1.80%
C E Lance & D G Lance <Lance Super Fund A/C>	40,000	1.50%
Carl Chahine & Renee Chahine	40,000	1.50%
	<b>621,000</b>	<b>23.33%</b>

The following table provides a breakdown of the shareholders, categorised by the number of shares held.

<b>Category</b>	<b>Number of holders</b>
1-1,000	5
1,001 – 5,000	269
5,001 – 10,000	46
10,001 – 100,000	53
100,001 and over	Nil

It should be noted that the Company has accepted additional shares since 15 September but a breakdown (as above) was not available before the production of this report.

## BSX report continued

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### **Registered office and principal administrative office**

The registered office and principal administrative office is located at:

Shop 8B, 75-77 Main Hurstbridge Road,

Diamond Creek VIC 3089

Phone: (03) 9438 3194

### **Security Register**

The security register (share register) is kept at:

Richmond Sinnott & Delahunty

Chartered Accountants

172 McIvor Highway,

Bendigo VIC 3550

Phone: (03) 5443 1177

### **Other information**

Please refer to the Directors' Report, within the annual report, for details of the Company Secretary and main corporate governance practices of the entity.

There are no material difference between the information in the Company's Annexure 3A and the information in the financial documents in its annual report.









Diamond Creek **Community Bank**<sup>®</sup> Branch  
Shop 8, 75-77 Main Hurstbridge Road, Diamond Creek VIC 3089  
Phone: (03) 9438 4133

Hurstbridge & Districts **Community Bank**<sup>®</sup> Branch  
808 Main Road, Hurstbridge VIC 3099  
Phone: (03) 9718 0431

Kinglake branch  
1 Glenburn Road, Kinglake VIC 3763  
Phone: (03) 5786 1656

[www.valleyfinancial.com.au](http://www.valleyfinancial.com.au)

Franchisee: Valley Community Financial Services Limited  
Shop 8b, 75-77 Main Hurstbridge Road,  
Diamond Creek VIC 3089  
Phone: (03) 9438 3194  
ABN: 86 092 399 730

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Bendigo and Adelaide Bank Limited,  
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ABN 11 068 049 178. AFSL 237879.  
(BMPAR10046) (08/10)