

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



# annual report **2012**

Valley Community  
Financial Services Limited

ABN 86 092 399 730

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# Chairman's report

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For year ending 30 June 2012

I am pleased to present a satisfactory result for the 2012 financial year. We have returned to profit this year and have a positive outlook for the future.

## **Economic outlook**

Valley Community Financial Services Limited (VCFS) is well on the way to being a very significant locally owned and operated business. In 2012, VCFS generated a gross income of \$3.62 million, employed 30 people, plus numerous local services and trades to help run our business. We have a business that feeds into the growth and well being of our local economy – not like others do, taking their profits and business outside our region. As shareholders, we are now part of a company that services the whole of the Diamond Valley and a part of Plenty Valley. VCFS is a company with a social conscience, a set of values and a culture to support our own communities. Coming out of that, we are proving that such a business can grow and be profitable as our community supports our business in return. We have been able to create an income source for most of our local clubs, service groups and schools. We have turned those sponsorships into massive promotional opportunities to engage and embrace members of those clubs and groups, asking them to consider banking with us and to grow our business - a win win for everybody.

The 2012 financial year has been a challenging year for this company. It has been a year of consolidation, monitoring our promotional and sponsorship dollars carefully and ensuring a sustainable profitable future. We have the new branches at Eltham and Doreen & Mernda working hard to grow into profit as standalone businesses. We have seen the opening of the Community Bank Stadium in February this year. We live in tough economic times and our business is not immune. Margins have been slowly squeezed as the economy has failed to improve as was expected a couple of years ago. For example, a banking book similar in value to that VCFS has today, would have yielded an income \$120,000 greater in the 2010 financial year than it has in 2012. Most of this would end up as profit, as it costs the same to do the business regardless of the margin. As you would expect, your Board together with our Group Senior Manager and his Managers, are constantly reviewing costs and staff structures to help offset these reduced margins. Nevertheless, the future for our business is bright as we continue to grow our business helping us to maintain a strong profit growth.

## **Branch performance**

Hurstbridge and Diamond Creek branches have continued to give us great results. Hurstbridge continues to be our flagship branch. The branch is an outstanding performer and has managed to grow the banking book even in tough times and as a mature site. Mature sites have the added burden of replacing banking business as it matures and expires. This reflects the enormous ability of our Manager, Dion Shirley and his staff who have a determined commitment to the business.

Diamond Creek has also managed a good result. Our Manager, Tina Elmer and her team have worked hard to grow their business in 2012. After a couple of years of banking being redomiciled away from Diamond Creek to our new branches, the branch has now managed to show growth in 2012 and the outlook for the future is good.

Our Eltham branch is travelling well and losses have been significantly less than in the 2011 financial year. We are budgeting for a small profit next year. Many **Community Bank**<sup>®</sup> branches can take five years to reach profit so this will be a terrific result for Eltham.

One of the benefits of now having five branches is the ability to be able to offer our staff a career path with plenty of opportunity for advancement, change and personal development. It was very pleasing to be able to promote Liam Jones from our Hurstbridge branch to Branch Manager at Eltham and Liam is proving to be an excellent Manager as he works to grow that branch into profit. Liam is also building a strong team of people who are determined to make the branch successful.

## Chairman's report (continued)

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The Doreen & Mernda branch has started to get traction in the community in recent months. Our Manager Jennifer Pearson and her team have been working hard to engage what is a fledgling community. The branch has organized a number of public events to help raise the branch profile. These events have covered retirement planning, first home buyers and community strengthening. The good results experienced in the last quarter of 2012 are a result of that hard work and the next 12 months will be exciting for the branch.

Kinglake has exceeded budget expectations for 2012 and reached the Bendigo and Adelaide Bank trigger point to expand to a full branch. Your Board has spent considerable time and effort reviewing the possibilities for the future in Kinglake. We have found Kinglake people are still busy working through the rebuilding process and not in a position to provide capital to enable a **Community Bank**® branch to open. Bendigo and Adelaide Bank were determined the branch stay open and with a little of their support, we have moved to open a full franchise bank branch wholly owned by VCFS. The new branch is due to open in September 2012 and will provide full banking services, operate five and a half days a week and employ four staff.

### **Thank you**

Thank you to all our Managers and staff. We have a great team of dedicated people. These people regularly attend public functions and meetings on our behalf plus events like the Diamond Creek Rotary Town Fair and the Wattle Festival and they make wonderful ambassadors to our business.

I would also like to acknowledge the work of our Group Senior Manager in his second year. Michael Maloney, who lives in Eltham, has brought a wealth of experience and works hard to grow our business, foster and mentor our staff and he attends many, many functions on our behalf. He is also a great ambassador for our business.

Our business is built around partnerships and relationships with our community and without the commitment of Michael Maloney and his Managers and staff to build these relationships, growth in our business would not be as strong as it is.

We now have two wonderful people working in administration supporting the Board and managing our sponsorship and promotional activities. Melissa and Melinda are incredibly dedicated and loyal to our business and are terrific advocates for it too. I am very grateful for such dedication to their roles.

I also want to thank my fellow Directors. They are a remarkable group of people with a genuine commitment to public service and to the growth and development of VCFS. They attend many meetings at Board level and committees and also community functions. They take every opportunity to attend functions and speak to audiences about our business model. This community involvement of local people to run our company is paramount to the success of our business.

### **Directors retirement**

Can I also take this opportunity to thank our 2 Directors who retired during the year. Julie Reid joined the Board in November 2003 and quickly became very active as a Board member. Julie was a great advocate for our business attending many community functions and addressing audiences. She was also a member of a number of subcommittees. Julie will long be remembered for her work as Chair of the Policies & Procedures Committee working tirelessly to put in place a strong set of policies and procedures and always ensuring the company followed these. We wish Julie well and thank her for her great contribution to our company.

In April this year, David Wheeler, our foundation Treasurer and the last remaining member of the original Steering Committee set up to open our branch in Hurstbridge, decided to retire. David's contribution to the company is remarkable. The role of Treasurer, particularly in the early days, is onerous enough but David managed to make a huge input in many areas of our business. David managed most of our works programs and fit out designs. He joined the Eltham Steering Committee when we partnered up and he had many ideas for the way we do things now and for the future. David is best described as a person who thinks outside the square. We are certainly heavily indebted to David for his remarkable energy and wish him well in the future. I understand David is a member of the Steering Committee working to open a branch in Kilmore where he now lives. There is no slowing him down.

# Chairman's report (continued)

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## **New Director**

We appointed a new Director in June, Carol Jenkinson to help fill the gaps. Carol comes to us with a raft of professional work experience and is well known amongst our communities. Carol is on many local community groups including the Nillumbik Tourist Association, Arthurs Creek Primary School, Diamond Valley Secondary School and helps with Hurstbridge Traders Association and the Wattle Festival.

## **Bendigo and Adelaide Bank**

I would also like to acknowledge the tremendous support from Bendigo and Adelaide Bank. Our Regional Manager Steve Atkinson and all the Bendigo Bank staff are extremely helpful and always ready to help in our endeavours to improve and grow our business. Bendigo Bank is a great franchisor and partner in our business.

## **Shareholders**

The Board have declared a dividend for the 2012 financial year at 2 cents per share fully franked. This complies with the Franchise Agreement as detailed later in the company's Annual Report. It also brings total dividends paid to new shares allocated in 2010 to ten cents plus franking credits. For the original shares allocated in 2001 it represents an 8% return for 2012 plus franking credits. Given that we are carrying two new branches and building a fabulous business for all, I hope you agree that is a very good result for shareholders.

Finally, can I remind you, our shareholders, that we need your business too? As individuals, our shareholders have the largest stake in the future success of our business. I know it is not always easy to switch banks - I know because I've switched all my own banking business to our branch. It was a big job - but our staff are very helpful and try to make it as easy as possible. So what about a slowly, slowly approach. If it seems too difficult or you still want to maintain a relationship with your old bank then open one account at a time - maybe that next project or purchase or next term deposit decision. It goes to grow your business, improving returns to community and our shareholders alike. We also ask you as shareholders to be advocates for our business, spruiking the great work we do and how the **Community Bank**<sup>®</sup> branches in the Diamond Valley and Plenty Valley have, in the last 11 years, quickly become an integral part of the communities that we serve, an outcome we will all prosper from and a result every shareholder can be very proud of.



**Barry Henwood**  
**Chairman**

# Group Senior Manager's report

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For year ending 30 June 2012

My second year of service with Valley Community Financial Services Ltd has been full of challenges which have been met in most instances in a difficult economic environment.

I believe we have made a lot of progress over the last 12 months in the task of building a strong management team capable of leading our banking business through the current testing time. Each branch has continued to grow significantly and our new Branches in Eltham and Doreen & Mernda have moved closer to profitability.

As I mentioned in last year's report, the management team set themselves challenging growth targets for the 2011/2012 year, which while not met fully were 80% achieved. This resulted in an overall footings growth of 19.67% for the year, which should be seen as satisfactory result when we take all factors into consideration. Our revenues held up reasonably well which resulted in a return to profit for our company.

It was very pleasing this year to be involved in the appointment of Liam Jones to the Branch Manager's role at Eltham & District **Community Bank**<sup>®</sup> Branch. Liam's previous role was Customer Relationship Officer at Hurstbridge & Districts **Community Bank**<sup>®</sup> Branch so his appointment is a clear demonstration of a career path existing within our own community company. This is extremely important as it will allow us to recruit staff who have banking career aspirations and a will to reach management levels within our organisation. This will obviously help us with succession planning over the coming years.

Our Branch Managers have been ably supported by our loyal staff, who have continued to service our customers with enthusiasm and respect. They have turned out for many community events the company has been involved in, further demonstrating their passion for locally based **Community Bank**<sup>®</sup> concept. I thank them all for their strong performance during the year.

To the Directors, the administration team and my fellow Managers I offer my sincere thanks for your support during the year. I am confident our company will continue being successful and will emerge from the current slow economy stronger and better placed to take advantage of the upturn when it comes.



**Michael Maloney**  
**Group Senior Manager**

# Hurstbridge Manager's report

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For year ending 30 June 2012

As I reported last year the Hurstbridge Branch has consistently met proposed business expansion levels. Now, one year into our second decade, I have great pleasure in reporting that again Hurstbridge has continued its growth with total business now sitting at \$183 million as at 30 June 2012, up from \$172 million last year.

In the last year we have found that our deposit base has increased whereas our lending book has decreased due to natural attrition and customers downsizing in the area, with business split between \$94 million in deposits and \$89 million in lending.

Over the past few years there has been a reliance on home lending. Now with the deposit base increasing we have started to have a greater focus on small and medium business lending, as well as ensuring that staff are more focused on alternative products and services including financial planning and insurance.

During the year we saw the departure of Liam Jones who took up the position of Branch Manager at our Eltham Branch. I would like to thank Liam for his professionalism and loyalty and wish him all the best.

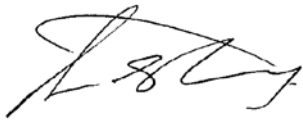
We have welcomed Sally Crompton-Guard to our team as our Customer Relationship Officer. Sally has settled well into her role providing exceptional service to our customers.

I put the success of the past year down to the commitment of the staff as well as the continued support of the community.

I would like to acknowledge the efforts of our dedicated staff. The friendly, professional service that they provide is always second to none, especially the CRM's Leanne and Lee who have had to take on more and more responsibility and our Supervisor Jane and her team of CSO's supporting the staff and me not only at Hurstbridge but also at the Kinglake Sub Branch

Again the team has set an example of service clearly above and beyond the call of duty. I would also like to thank the Board of Directors, our shareholders, administration staff and the regional office team for their support over the past 12 months and their continued support as the branch moves forward into the future.

I myself, as in previous years, look forward to the continued challenges and goals that are ahead of me.



**Dion Shirley**  
**Senior Banking Manager**

# Diamond Creek Manager's report

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For year ending 30 June 2012

The economic conditions of this past year have proven to be a real challenge in respect to growth and customer retention, creating fierce competition between financial lenders with customers taking the opportunity to shop around.

In light of all this I, am happy to report that Diamond Creek **Community Bank**<sup>®</sup> Branch has reported banking business totalling \$99.02 million, an increase of \$11.085 million on last year's total. Account numbers have grown from 4,109 to 4,405 an increase of 296.

Our ability to retain deposit funds in this competitive market, where customers are chasing rates, is a true testament to our value proposition and all that the **Community Bank**<sup>®</sup> branch stands for. The downturn in the economy has presented us with numerous opportunities to engage with customers from other institutions and make them our own, and also engage with our own clients at risk of leaving us.

A new face has been added to our team this year. Janice Hawkins is our new Customer Service Relief Officer. Janice is an existing Bendigo Bank employee who comes to us with experience in various roles which she will be able to utilise in her relief duties. Melinda Tonti, Customer Relationship Officer is currently on maternity leave and this has opened up an opportunity for internal promotions utilising the skills of our existing staff.

My aim moving forward for the next 12 months is to increase total banking business to \$115 million. This will prove to be challenging and exciting at the same time, but I know it can be achieved. Along with my dedicated staff, with experience, commitment and professionalism, and the tools provided by the branch I have no doubt we will succeed.

Our greatest community contribution this year has been the Community Bank Stadium. With our 10 year naming rights this will certainly go a long way in lifting the **Community Bank**<sup>®</sup> profile.

To my dedicated team, Michelle Cosgriff, Monica Rae, Heather Hayman, Jo Sandy and Janice Hawkins, I say thank you. Without your support, commitment, dedication and excellent customer service we would not be where we are today. To our Group Senior Manager, Michael Maloney, thank you for all your support and guidance.

To our shareholders and customers I thank you for your support. To our Board of Directors, your commitment and enthusiasm over the last 12 months has not gone unnoticed and for that I am truly grateful.

The next 12 months will no doubt be very challenging and I look forward to tackling these challenges with enthusiasm and delivering excellent results over that period.



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



# Eltham Manager's report

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For year ending 30 June 2012

In its second year of operation, Eltham & District **Community Bank**<sup>®</sup> Branch continued to grow strongly, increasing its total banking business by \$13 million. Our total funds under management as at 30 June 2012 reached \$40.9 million, incorporating \$20 million in deposits and \$20.3 million in loans. Throughout the year we welcomed 375 new customers and increased our number of accounts by 562 to reach a total of 1,669. It is anticipated that the branch will reach profitability by the end of next financial year.

I was appointed to manage the Eltham & District **Community Bank**<sup>®</sup> Branch from 15 August 2011, following the departure of Cheryl Meikle. I wish to thank Josie McAliece, Karen McDermott, Janine Woolnough, and Annette Austin who welcomed me to the team and continued to work tirelessly throughout the transition. I'd also like to thank all the Directors and the Group Senior Manager, Michael Maloney, for the opportunity and for their continued support.

In May, we rotated some staff across the group and as a result Josie McAliece, our Customer Relationship Officer, took up the CRO position at Doreen & Mernda **Community Bank**<sup>®</sup> Branch and we welcomed Daniel Mathers to Eltham temporarily before he joins the Kinglake Branch in its new quarters. Daniel has made a great contribution to the branch in his short time with us and we wish him all the best in Kinglake.

Our aim over the next financial year is to grow our books to over \$50 million so that Eltham can begin contributing to the Group's profitability and continue in the VCFS Ltd tradition of success. I would like to work more closely with the local shareholders in the year ahead to develop our shared vision of a successful community.



**Liam Jones**  
**Branch Manager**

# Doreen & Mernda Manager's report

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For year ending 30 June 2012

The Doreen & Mernda **Community Bank**<sup>®</sup> Branch is now in its second year of trading and I am pleased to present the second Manager's report for the Doreen & Mernda **Community Bank**<sup>®</sup> Branch to the 12th Annual General Meeting of Valley Community Financial Services Limited.

We have worked hard to promote the branch and develop strong relationships with local residents, traders, clubs and organisations in our community during this past year and have given support to many worthwhile local events.

This past financial year has seen the branch open a further 632 new accounts bringing the total number of accounts opened to 1,319 and footings grew by \$12.196 million to \$19.626 million.

I would like to acknowledge the efforts of the branch staff Daniel Mathers (who has now relocated to Eltham branch), Lidia Lucisano, Jenni Sexton, Naomi Pickford and Josie McAliece (relocated from Eltham branch). The level of customer service provided to our customers is to be commended and I thank each and every one of them.

I would also like to thank our Group Senior Manager Michael Maloney, the Board of Directors, administration staff and above all our shareholders and customers.

We look forward to our branch continuing to grow with the Doreen and Mernda community, and to being able to return more of the benefits that come with that growth to our community.



**Jennifer Pearson**  
**Branch Manager**

# Kinglake Manager's report

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For year ending 30 June 2012

Here we are at the end of our third year of trading as a sub branch and it's with great pleasure that I report that the year ending 30 June 2012 was a successful year, with an increase in both our deposit and our lending growth with 703 accounts. This has seen the Kinglake branch increase its business by \$12 million with total footings now sitting at \$23 million as at 30 June 2012.

In the past year we have continued to strengthen our relationship and presence within the local community and with the consistent and dedicated hard work of the staff, the branch has been able to grow the business and move to the next stage. This will see the branch move to new premises and become a full Franchise **Community Bank**<sup>®</sup> branch in August this year, allowing us to provide a full banking service from Monday to Saturday.


I would like to thank the staff of the Kinglake branch, especially Cathrine who has worked hard in building relationships in the local area and promoting the branch.

I would also like to thank the staff of the Hurstbridge **Community Bank**<sup>®</sup> Branch for their support over the past 12 months as without their support the day to day operation would have been difficult.

I believe that we have the ability to grow our business over the next 12 months; however I urge the community to support our branch and thereby increase the financial benefits that can go back to the community.

I would like to thank the Board of Directors, shareholders and the community for their support over the past 12 months.

We look forward to the support of our existing and future customers, and growing awareness by the general community that the Kinglake branch can become a major long-term benefactor to the Kinglake and district community.



**Dion Shirley**  
**Senior Banking Manager**

# Treasurer's report

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For year ending 30 June 2012

## Business performance summary

In a difficult period generally for the economy and business in Australia Valley Community Financial Services Ltd can take some pride in our 2012FY results. All our branches grew their footings and income and we continued to make significant financial contributions to our community and shareholders. My highlights include:

- Three branches generated profits for the year. Hurstbridge just under \$1.16 million, Diamond Creek just under \$250,000 and Kinglake nearly \$5,000. (It should be noted our company administration and community support expenses are not attributed to our branches for accounting purposes).
- Hurstbridge profit relative to Diamond Creek is a quick lesson in the importance of growing footings in all branches. Diamond Creek has close to half the footings of Hurstbridge.
- In 2012FY we generated nearly \$600,000 more income than 2011FY when expenses increased by nearly \$300,000. Not a bad return.
- Of our \$3.6 million of income approximately \$1.9 million is generated by Hurstbridge, \$0.9 million by Diamond Creek, \$0.4 million by Eltham, \$0.2 million by Kinglake, and \$0.2 million by Doreen Mernda. All these are increases on the 2011FY result.

Our branch footings grew a credible 20% on 2011FY, missing our full year budget for the year by only 4%:

- Better than budget margins contributed to an on budget income performance; and
- Below budget expenses and sponsorships a 2012FY profit 39% better than budget.

## 2013FY Budget summary

KPI	\$000	Notes:
Total income:		
FY2012 Actual	3,626.5	
FY2013 Budget	4,188.7	An increase of \$562,200 (15.5%)
Total operating expenses (including sponsorships):		
FY2012 Actual	3,291.1	
FY2013 Budget	3,754.5	An increase of \$463,400 (14%)
Profit after tax:		
FY2012 Actual	174.8	
FY2013 Budget	289.2	An increase of \$40,500 (16.2%), 6.9% of Total Income
Cash and cash equivalents:		
FY2012 Actual	676.1	
FY2013 Budget	676.1	No change

# Treasurer's report (continued)

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## **FY2012 Dividend recommendation**

The Board of Directors has declared a final dividend for 2012FY of 2c per share payable in October 2012.

VCFS policy requires that the Finance Committee provide Directors with assurances that all governance requirements for a dividend to be declared have been met.

The three governance areas to be met are:

1. The Company Constitution
2. Corporate Law
3. The Franchise Agreement

Based on the number of shareholders at 30 June 2012, 2c per share represents a total dividend payment of \$81k. This is over 90% of the maximum value payable while meeting all three governance areas, so the best result possible for our shareholders this year.



**Daryl Brooke**  
**Treasurer**

# Directors' report

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For the financial year ended 30 June 2012

Your Directors submit the financial report of the company for the financial year ended 30 June 2012.

## 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

Occupation: Newsagent Proprietor

Interests in shares: 11,000

Board member since November 2001

### **Malcolm Hackett**

Vice Chairman

Occupation: Retired

Interests in shares: 20,000

Board member since February 2008

### **David Wheeler**

Treasurer (resigned 24 April 2012)

Occupation: Vending Machine Proprietor

Interests in shares: 18,000

Board member since April 2000

### **Ingrid Crichton**

Company Secretary

Occupation: Retired

Interests in shares: 5,000

Board member since February 2008

### **Stephen Bennett**

Director

Occupation: Winery Proprietor

Interests in shares: Nil

Board member since February 2008

### **Daryl Brooke**

Treasurer (appointed 23 May 2012)

Occupation: Consultant

Interests in shares: 7,000

Board member since May 2010

### **Hugh Stubley**

Director

Occupation: IT Consulting Proprietor

Interests in shares: 4,000

Board member since February 2005

### **Philip Marendaz**

Director

Occupation: Public Accountant

Interests in shares: 5,000

Board member since February 2009

### **Carole Bury**

Director

Occupation: Events Co-ordinator

Interests in shares: 5,000

Board member since January 2011

### **Julie Reid**

Director (resigned 27 July 2011)

Occupation: Consultant

Interests in shares: 17,000

Board member since November 2003

### **Carol Jenkinson**

Director (appointed 27 June 2012)

Occupation: Community Volunteer

Interests in shares: Nil

Board member since June 2012

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.

# Directors' report (continued)

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## Principal activities

The principal activities of the company during the course of the financial year were in providing **Community Bank**<sup>®</sup> services under management rights to operate a franchised branch of Bendigo and Adelaide Bank.

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

## Operating results

The company reported a profit for the financial year after provision for income tax of \$174,789 (2011: \$55,280 loss). The profit gain reflects the improved performance, particularly in the second half, from our newly established branches of Eltham and Doreen together with another strong performance from our Hurstbridge branch.

Dividends	Year ended 30 June 2012	
	Cents per share	\$
Dividends paid in the year:	4	162,076

## 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.

## Events after the reporting period

Since balance date, the world financial markets have shown volatility that may have an impact on investment earnings in the 2012/2013 financial year. The company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

## Future developments

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

## Environmental issues

The company is not subject to any significant environmental regulation.

## Proceedings on behalf of company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

## Remuneration report

The Board is responsible for the determination of remuneration packages and policies applicable to the Branch Managers and all the staff.

The Branch Managers do not participate in decision making that affects the whole or a substantial part of the business, nor do they have the capacity to affect significantly the company's financial standing. On a rotational basis and by invitation, the Branch Managers attend Board meetings to provide Directors with an overview of their Branch's performance.

# Directors' report (continued)

## Remuneration report (continued)

Both the Group Senior Manager, Michael Maloney and Senior Banking Manager, Dion Shirley attend and participate in decision making that affects the whole or substantial part of the business.

As at 30 June 2012 total remuneration paid to both Managers including allowances was \$220,500 (plus 9% SGC).

Office supplies and equipment expenses were paid to Blackburn South Newsagency - an associated entity of Director Barry Henwood. During the year an amount of \$6,464 (2011: \$7,754) was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Trinity Digital Pty Ltd (now known as Virage IT) - an associated entity of Director Hugh Stublely. During the year an amount of \$3,289 (2011: \$1,170) 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 \$60,670 (2011: 54,923) was paid to Marendaz Pty Ltd.

All payments to Directors were properly disclosed, and were made strictly on a commercial basis.

### Director remuneration for the year ended 30 June 2012

	Primary benefits salary & fees 2012 \$	Primary benefits salary & fees 2011 \$
Barry Henwood	15,000	15,000
Malcolm Hackett	7,000	7,000
David Wheeler (resigned 24 April 2012)	8,333	10,000
Ingrid Crichton	7,000	7,000
Stephen Bennett	4,000	4,000
Daryl Brooke	7,000	4,000
Hugh Stublely	4,000	4,000
Philip Marendaz	4,000	4,000
Julie Reid (resigned 27 July 2011)	333	7,000
Carole Bury	7,000	2,000
Carol Jenkinson (appointed 27 June 2012)	-	-

Other than stated above, a contribution of 9% superannuation guarantee payment was made to each Directors' superannuation plan in accordance with Government legislation. Apart from this, 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.

### Indemnifying Officers or Auditor

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.



# Directors' report (continued)

## Indemnifying Officers or Auditor (continued)

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.

## Directors' meetings

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

Director	Board meetings#	Audit committee meetings#
Barry Henwood	12 (13)	N/A
Malcolm Hackett	13 (13)	N/A
David Wheeler (resigned 24 April 2012)	10 (13)	02 (02)
Ingrid Crichton	12 (13)	N/A
Stephen Bennett	11 (13)	02 (02)
Daryl Brooke	13 (13)	00 (00)
Hugh Stublely	10 (13)	N/A
Philip Marendaz	11 (13)	N/A
Julie Reid (resigned 27 July 2011)	03 (03)	N/A
Carole Bury	12 (13)	N/A
Carol Jenkinson (appointed 27 June 2012)	01 (01)	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 Treasurer

David Wheeler resigned as Treasurer in April 2012 after many years of effective service. The Board acknowledges David's strong contribution to the growth of our company. Daryl Brooke was appointed as Treasurer in May 2012. Daryl has a strong background in business and business planning. He operates his own Business Consulting Practice.

## Corporate Governance

The company places a high emphasis on corporate governance practices, which include:

- Twice yearly audit committee meetings. Members of the audit committee are Daryl Brooke and Stephen Bennett;
- Director approval of operating budgets and monitoring of progress against these budgets;
- Ongoing Director training;
- Monthly Director meetings to discuss business performance, policies and procedures and other matters;
- Comprehensive review of policy & procedures; and
- The completion of a Strategic Plan.

# Directors' report (continued)

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## **Non audit services**

The Directors in accordance with advice from the audit committee, are satisfied that the provision of non audit services during the year is compatible with the general standard of independence for Auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed in Note 5 did not compromise the external Auditor's independence for the following reasons:

- all non audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect integrity and objectivity of the Auditor; and
- the nature of the services provided does not compromise the general principles relating to Auditor independence in accordance with APES 110 "Code of Ethics for Professional Accountants" set by the Accounting Professional and Ethical Standards Board.

## **Auditor independence declaration**

The Auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 18 of this financial report.

Signed in accordance with a resolution of the Board of Directors at Diamond Creek on 7 September 2012.



**Barry Henwood**  
**Director**

# Auditor's independence declaration

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Level 2, 10-16 Forest Street  
Bendigo, Victoria  
PO Box 30, Bendigo, VIC 3552

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

7<sup>th</sup> September 2012

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

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 2012, 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.

A handwritten signature in black ink, appearing to read "P. Delahunty". The signature is fluid and cursive, with a large loop at the end.

**Philip Delahunty**  
**Partner**  
**Richmond Sinnott & Delahunty**

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Richmond Sinnott & Delahunty  
ABN 60 616 244 309

Liability limited by a scheme  
approved under Professional  
Standards Legislation

**Partners:**  
Warren Sinnott  
Cara Hall  
Brett Andrews  
Philip Delahunty  
Kathie Teasdale  
David Richmond

# Financial statements

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## Statement of comprehensive income for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Revenues from continuing operations	2	3,626,530	3,078,134
Employee benefits expense	3	(1,816,269)	(1,660,742)
Charitable donations and sponsorship		(179,945)	(249,193)
Depreciation and amortisation expense	3	(162,067)	(113,490)
Advertising and marketing		(77,569)	(86,809)
Other expenses		(1,130,152)	(1,043,686)
<b>Profit / (loss) before income tax expense</b>		<b>260,528</b>	<b>(75,786)</b>
Income tax (expense) / benefit	4	(85,739)	20,506
<b>Profit / (loss) after income tax expense</b>		<b>174,789</b>	<b>(55,280)</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>174,789</b>	<b>(55,280)</b>
<b>Earnings per share (cents per share)</b>			
- basic for profit / (loss) for the year	22	4.31	(1.49)
- diluted for profit / (loss) for the year	22	4.31	(1.49)

The accompanying notes form part of these financial statements.

# Financial statements (continued)

## Statement of financial position as at 30 June 2012

	Note	2012 \$	2011 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	676,104	603,754
Receivables	7	295,765	209,895
Other assets	8	-	302,514
<b>Total current assets</b>		<b>971,869</b>	<b>1,116,163</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	804,242	820,687
Intangible assets	10	908,564	239,538
Deferred tax assets	4	40,736	40,736
<b>Total non-current assets</b>		<b>1,753,542</b>	<b>1,100,961</b>
<b>Total assets</b>		<b>2,725,411</b>	<b>2,217,124</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	11	523,071	96,050
Provisions	12	125,630	115,162
Loans & borrowings	13	8,580	-
<b>Total current liabilities</b>		<b>657,281</b>	<b>211,212</b>
<b>Non current liabilities</b>			
Loans & borrowings	13	49,505	-
<b>Total non current liabilities</b>		<b>49,505</b>	<b>-</b>
<b>Total liabilities</b>		<b>706,786</b>	<b>211,212</b>
<b>Net assets</b>		<b>2,018,625</b>	<b>2,005,912</b>
<b>Equity</b>			
Issued capital	14	2,055,876	2,055,876
Retained earnings	15	(37,251)	(49,964)
<b>Total equity</b>		<b>2,018,625</b>	<b>2,005,912</b>

The accompanying notes form part of these financial statements.

# Financial statements (continued)

## Statement of cash flows for the year ended 30 June 2012

	Note	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		2,977,733	2,999,438
Cash payments in the course of operations		(2,528,138)	(3,268,993)
Interest received		29,458	37,112
Income tax refund / (paid)		(85,739)	846
Borrowing costs		(2,325)	-
<b>Net cash flows from / (used in) operating activities</b>	<b>15b</b>	<b>390,989</b>	<b>(231,597)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(64,648)	(495,293)
Payments for franchise and renewal fees		-	(278,770)
<b>Community bank® stadium naming rights</b>		(150,000)	-
<b>Net cash flows used in investing activities</b>		<b>(214,648)</b>	<b>(774,063)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(162,076)	(158,464)
Shares issued		-	1,390,538
Proceeds from borrowings		58,085	-
<b>Net cash flows from / (used in) financing activities</b>		<b>(103,991)</b>	<b>1,232,074</b>
<b>Net increase / (decrease) in cash held</b>		<b>72,350</b>	<b>226,414</b>
Cash and cash equivalents at start of year		603,754	377,340
<b>Cash and cash equivalents at end of year</b>	<b>15a</b>	<b>676,104</b>	<b>603,754</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 2012

	Note	2012 \$	2011 \$
<b>Issued capital</b>			
Balance at start of year		2,055,876	665,338
Issue of share capital		-	1,390,538
<b>Balance at end of year</b>		<b>2,055,876</b>	<b>2,055,876</b>
<b>Retained earnings</b>			
Balance at start of year		(49,964)	163,780
Profit / (loss) after income tax expense		174,789	(55,280)
Dividends paid	21	(162,076)	(158,464)
<b>Balance at end of year</b>		<b>(37,251)</b>	<b>(49,964)</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

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For year ended 30 June 2012

## Note 1. Summary of significant accounting policies

### (a) Basis of preparation

Valley Community Financial Services Ltd ('the company') is domiciled in Australia. The financial statements for the year ending 30 June 2012 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 are general purpose financial statements, that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The company is a for profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement of fair value of selected non current assets, financial assets and financial liabilities.

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 7 September 2012.

### (b) Income tax

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

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

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

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

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

### (c) 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.



# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (continued)

### (c) Property, plant and equipment (continued)

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.

### (d) Impairment 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.

### (e) 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.

# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (continued)

### **(f) 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.

### **(g) Intangibles**

Intangible assets have been initially recorded at cost and amortised on a straight line basis. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the Statement of Comprehensive Income.

- a) Establishment costs, such as franchise fees, are amortised at the rate of 20%, reflecting the term of the franchise; and
- b) Stadium naming rights, which are amortised at the rate of 10%, reflecting the term of the stadium naming rights agreement. These rights have a total cost of \$300,000 payable, \$150,000 due by 1 December 2012 and the balance by 1 June 2013.

### **(h) 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.

### **(i) Revenue**

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

### **(j) 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.

### **(k) New accounting standards for application in future periods**

Australian Accounting Standards that have been recently issued or amended but not yet effective have not been adopted in the preparation of these financial statements. These changes have been assessed by Directors and determined they will not have a material impact on the company's financial statements.

### **(l) Borrowings**

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

# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (continued)

### **(m) Provisions**

Provisions are recognised when the company 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) 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.

### **(o) Comparative figures**

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

### **(p) Critical accounting estimates and judgements**

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. Estimates and judgements are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and judgements that have a significant risk of causing material adjustments to the carrying values of assets and liabilities are as follows:

#### Estimation of useful lives of assets

The company determines the estimated useful lives and related depreciation and amortisation changes for its property, plant and equipment and intangible assets. The depreciation and amortisation charge will increase where useful lives are less than previously estimated lives.

#### Income tax

The company is subject to income tax. Significant judgement is required in determining the provision for income tax.

#### Impairment

The company assesses impairment at the end of each reporting period by calculating conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in use calculations which incorporate various key assumptions.

### **(q) Financial instruments**

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to the profit or loss immediately.

# Notes to the financial statements (continued)

## Note 1. Summary of significant accounting policies (continued)

### (q) Financial instruments (continued)

#### Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost. Where available quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised costs is calculated as the amount which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

#### (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.

#### (ii) Financial liabilities

Non derivative financial liabilities are subsequently measured at amortised cost.

#### Impairment

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset is deemed impaired if and only if, there is objective evidence of impairment as a result of one or more events (a loss event) having occurred, which has an impact on the estimated future cash flows of the financial asset. In the case of financial assets carried at amortised cost, loss events may include indications that the debtors are experiencing significant financial difficulty or changes in economic conditions.

	2012 \$	2011 \$
<b>Note 2. Revenue</b>		
<b>Operating activities</b>		
- services commissions	3,597,072	3,041,022
- other revenue	-	-
	<b>3,597,072</b>	<b>3,041,022</b>
<b>Non-operating activities:</b>		
- interest received	29,458	37,112
	<b>29,458</b>	<b>37,112</b>
	<b>3,626,530</b>	<b>3,078,134</b>

## Notes to the financial statements (continued)

	2012 \$	2011 \$
<b>Note 3. Expenses</b>		
<b>Employee benefits expense</b>		
- wages and salaries	1,481,486	1,333,600
- superannuation costs	129,884	115,792
- workers' compensation costs	1,209	3,408
- other costs	203,690	207,942
	<b>1,816,269</b>	<b>1,660,742</b>
<b>Depreciation of non-current assets:</b>		
- plant and equipment	64,979	56,162
- leasehold improvements	16,114	11,256
<b>Amortisation of non-current assets:</b>		
- franchise fee / start up costs	55,906	46,072
- stadium naming rights	25,068	-
	<b>162,067</b>	<b>113,490</b>
Bad debts	2,722	2,576
<b>Note 4. Income tax expense</b>		
The prima facie tax on profit / (loss) before income tax is reconciled to the income tax expense as follows		
Prima facie tax on profit / (loss) from ordinary activities at 30%	78,158	(22,736)
Add / (less) tax effect of:		
- Non deductible / (other deductible) expenses	7,581	2,230
- Movement in deferred tax asset	-	14,318
<b>Current income tax expense / (benefit)</b>	<b>85,739</b>	<b>(6,188)</b>
<b>Movement in deferred tax asset</b>	<b>-</b>	<b>(14,318)</b>
<b>Income tax expense / (benefit)</b>	<b>85,739</b>	<b>(20,506)</b>
<b>Deferred tax assets</b>		
<b>Future income tax benefits are recognised at reporting date as realisation of the benefit is regarded as probable.</b>	<b>40,736</b>	<b>40,736</b>

## Notes to the financial statements (continued)

	2012 \$	2011 \$
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### Note 5. Auditors' remuneration

Remuneration of the Auditor for:

- Audit or review of the financial report	3,900	3,900
- Share registry and printing services	6,044	6,835
	<b>9,944</b>	<b>10,735</b>

### Note 6. Cash and cash equivalents

<b>Cash at bank and on hand</b>	<b>676,104</b>	<b>603,754</b>
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### Note 7. Receivables

Commission receivable	295,765	209,895
Sundry debtors	-	-
	<b>295,765</b>	<b>209,895</b>

### Note 8. Other assets

Prepayments	-	302,514
Current tax refundable	-	-
	-	<b>302,514</b>

### Note 9. Property, plant and equipment

#### Leasehold improvements

At cost	658,963	616,706
Less accumulated depreciation	(62,095)	(45,981)
	<b>596,868</b>	<b>570,725</b>

#### Plant and equipment

At cost	504,981	482,590
Less accumulated depreciation	(297,607)	(232,628)
	<b>207,374</b>	<b>249,962</b>

<b>Total written down amount</b>	<b>804,242</b>	<b>820,687</b>
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## Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 9. Property, plant and equipment (continued)		
<b>Movements in carrying amounts</b>		
<b>Leasehold improvements</b>		
Carrying amount at beginning of year	570,725	236,775
Additions	42,257	345,206
Depreciation expense	(16,114)	(11,256)
<b>Carrying amount at end of year</b>	<b>596,868</b>	<b>570,725</b>
<b>Plant and equipment</b>		
Carrying amount at beginning of year	249,962	157,656
Additions	22,391	150,087
Disposals	-	(1,619)
Depreciation expense	(64,979)	(56,162)
<b>Carrying amount at end of year</b>	<b>207,374</b>	<b>249,962</b>

## Note 10. Intangible assets

### Franchise fee / start up costs

At cost	383,647	383,647
Less accumulated amortisation	(200,015)	(144,109)
	<b>183,632</b>	<b>239,538</b>

### Community Bank® Stadium naming rights

At cost	750,000	-
Less accumulated amortisation	(25,068)	-
	<b>724,932</b>	-

<b>Total written down amount</b>	<b>908,564</b>	<b>239,538</b>
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### Stadium naming rights

A total of \$450,000 has been paid over this and last year and the remaining \$300,00 is included in the payables to be settled within the next twelve months.

## Note 11. Payables

Trade creditors	206,350	82,927
Accrued other expenses	16,721	13,123
Stadium naming rights payable	300,000	-
	<b>523,071</b>	<b>96,050</b>

## Notes to the financial statements (continued)

	2012 \$	2011 \$
<b>Note 12. Provisions</b>		
Employee benefits	125,630	115,162
	<b>125,630</b>	<b>115,162</b>
<b>Movement in employee benefits</b>		
Opening balance	115,162	67,433
Additional provisions recognised	113,960	102,584
Amounts utilised during the year	(103,492)	(54,855)
<b>Closing balance</b>	<b>125,630</b>	<b>115,162</b>

## Note 13. Loans and borrowings

### Current liability

Loan	8,580	-
	<b>8,580</b>	-

### Non-current liability

Loan	49,505	-
	<b>58,085</b>	-

## Note 14. Share capital

<b>2,055,876 Ordinary shares fully paid of \$1.00 each</b>	<b>2,055,876</b>	<b>2,055,876</b>
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In May 2010 the prospectus was issued to raise capital for the opening of branches at Eltham and Doreen. During the 2010/11 financial year 1,390,538 shares were issued raising a total \$1,390,538 and taking the total shares issued from 2,661,352 to 4,051,890.

## Note 15. Retained earnings

Balance at the beginning of the financial year	(49,964)	163,780
Profit after income tax	174,789	(55,280)
Dividends	(162,076)	(158,464)
<b>Balance at the end of the financial year</b>	<b>(37,251)</b>	<b>(49,964)</b>



## Notes to the financial statements (continued)

	2012 \$	2011 \$
<b>Note 16. Statement of cash flows</b>		
<b>(a) Cash and cash equivalents</b>		
<b>Cash assets</b>	<b>676,104</b>	<b>603,754</b>
<b>(b) Reconciliation of profit / (loss) after tax to net cash from operating activities</b>		
Profit / (loss) after income tax	174,789	(55,280)
Non cash items		
- Depreciation	81,093	67,418
- Amortisation	80,974	46,072
- Loss on disposal of fixed assets	-	1,619
Changes in assets and liabilities		
- (Increase) decrease in deferred tax asset	-	(20,506)
- (Increase) decrease in receivables / other assets	(83,356)	(285,599)
- Increase (decrease) in payables	127,021	(33,896)
- (Decrease) increase in income tax refundable	-	846
- Increase (decrease) in provisions	10,468	47,729
<b>Net cash flows from / (used in) operating activities</b>	<b>390,989</b>	<b>(231,597)</b>

## Note 17. Director and related party disclosures

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

Barry Henwood  
 Malcolm Hackett  
 David Wheeler (resigned 24 April 2012)  
 Ingrid Crichton  
 Stephen Bennett  
 Daryl Brooke  
 Hugh Stublely  
 Philip Marendaz  
 Julie Reid (resigned 27 July 2011)  
 Carole Bury  
 Carol Jenkinson (appointed 27 June 2012)

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 \$6,464 (2011: 7,754) was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Virage IT- an associated entity of Director Hugh Stublely. During the year an amount of \$3,289 (2011: \$1,170) was paid to Virage IT.

## Notes to the financial statements (continued)

### Note 17. Director and related party disclosures (continued)

Accounting Services expenses were paid to Marendaz Pty Ltd - an associate entity of Director Phil Marendaz. During the year \$60,670 (2011: 54,923) was paid to Marendaz Pty Ltd.

#### Director remuneration for the year ended 30 June 2012

	Primary benefits salary & fees 2012 \$	Primary benefits salary & fees 2011 \$
Barry Henwood	15,000	15,000
Malcolm Hackett	7,000	7,000
David Wheeler (resigned 24 April 2012)	8,333	10,000
Ingrid Crichton	7,000	7,000
Stephen Bennett	4,000	4,000
Daryl Brooke	7,000	4,000
Hugh Stublely	4,000	4,000
Philip Marendaz	4,000	4,000
Julie Reid (resigned 27 July 2011)	333	7,000
Carole Bury	7,000	2,000
Carol Jenkinson (appointed 27 June 2012)	-	-

Directors' shareholdings	2012	2011
Barry Henwood	11,000	11,000
Malcolm Hackett	20,000	20,000
David Wheeler (resigned 24 April 2012)	18,000	18,000
Ingrid Crichton	5,000	5,000
Stephen Bennett	-	-
Daryl Brooke	7,000	7,000
Hugh Stublely	4,000	4,000
Philip Marendaz	5,000	5,000
Julie Reid (resigned 27 July 2011)	17,000	17,000
Carole Bury	5,000	5,000
Carol Jenkinson (appointed 27 June 2012)	-	-

Each share is fully paid to \$1. Additional shares were purchased during the year as shown above.

# Notes to the financial statements (continued)

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## Note 18. Events after the reporting period

Since balance date, the world financial markets have shown volatility that may have an impact on investment earnings in the 2012/2013 financial year. The company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

## Note 19. Contingent liabilities and assets

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

## Note 20. Operating segments

The company operates in the financial services sector where it provides banking services to its clients. The company operates within the Shires of Nillumbik, Whittlesea and Murrundindi, Victoria. The company has a franchise agreement in place with Bendigo and Adelaide Bank who account for 100% of the revenue (2011: 100%).

## Note 21. Corporate information

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

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

1 Glenburn Road,  
Kinglake Vic 3763

Shop 3, 101 Hazel Glen Drive,  
Doreen VIC 3754

1036 Main Road,  
Eltham VIC 3095

	2012	2011
	\$	\$

## Note 22. Dividends paid or provided for on ordinary shares

### (a) Dividends paid during the year

Franked dividends - 4.00 cents per share (2011: 4.00 cents per share)	162,076	158,464
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### (b) Dividends proposed and not recognised as a liability

Franked dividends - 0.00 cents per share (2011: 0.00 cents per share)	-	-
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## Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 22. Dividends paid or provided for on ordinary shares (continued)		
<b>(c) Franking credit balance</b>		
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year	106,820	143,186
- Franking credits that will arise from the payment/(refund) of income tax payable/(refundable) as at the end of the financial year	52,686	-
	<b>159,506</b>	<b>143,186</b>

The tax rate at which dividends have been franked is 30% (2011: 30%).

### Note 23. Earnings per share

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

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

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

<b>Profit / (loss) after income tax expense</b>	<b>174,789</b>	<b>(55,280)</b>
<b>Weighted average number of ordinary shares for basic and diluted earnings per share</b>	<b>4,051,890</b>	<b>3,702,968</b>

### Note 24. Financial risk management

The company's financial instruments consist mainly of deposits with banks, account receivables and payables, bank overdraft and loans.

The totals for each category of financial instruments measured in accordance with AASB 139 are as follows:

	Note	2012 \$	2011 \$
<b>Financial assets</b>			
Cash & cash equivalents	6	676,104	603,754
Receivables	7	295,765	209,895
<b>Total financial assets</b>		<b>971,869</b>	<b>813,649</b>
<b>Financial liabilities</b>			
Payables	11	523,071	96,050
Loans & borrowings		49,505	-
<b>Total financial liabilities</b>		<b>572,576</b>	<b>96,050</b>

# Notes to the financial statements (continued)

## Note 24. Financial risk management (continued)

### Financial risk management policies

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.

### Specific financial risk exposure and management

The company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments. There have been no substantive changes in the types of risks the company is exposed to, how the risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

#### **(a) Credit risk**

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

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

The company's maximum exposure to credit risk at reporting date was:

	Carrying amount	
	2012	2011
	\$	\$
Cash and cash equivalents	676,104	603,754
Receivables	295,765	209,895
	<b>971,869</b>	<b>813,649</b>

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

None of the assets of the company are past due (2011: 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.

#### **(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.

## Notes to the financial statements (continued)

Note 24. Financial risk management (continued)

### (b) Liquidity risk (continued)

Financial liability and financial asset maturity analysis

	Total \$	Within 1 year \$	1 to 5 years \$	Over 5 years \$
<b>30 June 2012</b>				
<b>Financial liabilities due for payment</b>				
Payables	(523,071)	(523,071)	-	-
Loans and borrowings	(49,505)	(4,585)	(21,100)	(32,400)
<b>Total expected outflows</b>	<b>(572,576)</b>	<b>(527,656)</b>	<b>(21,100)</b>	<b>(32,400)</b>
<b>Financial assets - cashflow realisable</b>				
Cash & cash equivalents	676,104	676,104	-	-
Receivables	295,765	295,765	-	-
<b>Total anticipated inflows</b>	<b>971,869</b>	<b>971,869</b>	<b>-</b>	<b>-</b>
<b>Net (outflow)/inflow on financial instruments</b>	<b>399,293</b>	<b>444,213</b>	<b>(21,100)</b>	<b>(32,400)</b>

	Total \$	Within 1 year \$	1 to 5 years \$	Over 5 years \$
<b>30 June 2011</b>				
<b>Financial liabilities due for payment</b>				
Payables	(96,050)	(96,050)	-	-
Loans and borrowings	-	-	-	-
<b>Total expected outflows</b>	<b>(96,050)</b>	<b>(96,050)</b>	<b>-</b>	<b>-</b>
<b>Financial assets - cashflow realisable</b>				
Cash & cash equivalents	603,754	603,754	-	-
Receivables	209,895	209,895	-	-
<b>Total anticipated inflows</b>	<b>813,649</b>	<b>813,649</b>	<b>-</b>	<b>-</b>
<b>Net (outflow)/inflow on financial instruments</b>	<b>717,599</b>	<b>717,599</b>	<b>-</b>	<b>-</b>

Financial assets pledged as collateral

There are no material amounts of collateral held as security as at 30 June 2012 and 30 June 2011.

The final payment of \$300,000 for the **Community Bank**® Stadium naming rights is included in the payables within 1 year figure.

The Board approved in May a two year lease (with option for a further 5 years) for new premises in Kinglake. The Board has also approved capital expenditure of \$200,000 for the fitout of the new premises. It is expected the new premises will open in September 2012.

# Notes to the financial statements (continued)

## Note 24. 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 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	
	2012	2011
	\$	\$
<b>Fixed rate instruments</b>		
Financial assets	430,000	233,284
Financial liabilities	-	-
	<b>430,000</b>	<b>233,284</b>
<b>Floating rate instruments</b>		
Financial assets	246,104	370,470
Financial liabilities	-	-
	<b>246,104</b>	<b>370,470</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 2011 there was also no impact. As at both dates this assumes all other variables remain constant.

The company has no exposure to fluctuations in foreign currency.

### (d) Price risk

The company is not exposed to any material price risk.

### Fair values

The fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. Fair value is the amount at which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The company does not have any unrecognised financial instruments at year end.

## Notes to the financial statements (continued)

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### Note 24. Financial risk management (continued)

#### **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 2012 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 accordance with a resolution of the Directors of Valley Community Financial Services Ltd, the Directors of the company declare that:

- 1 the financial statements and notes of the company as set out on pages 19 to 39 are in accordance with the Corporations Act 2001 and:
  - (i) comply with Australian Accounting Standards, which as stated in accounting policy Note 1(a) to the financial statements constitutes compliance with International Financial Reporting Standards (IFRS); and
  - (ii) give a true and fair view of the company's financial position as at 30 June 2012 and of the performance for the year ended on that date;
- 2 in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



**Barry Henwood**  
**Director**

Signed at Diamond Creek on 7 September 2012.

# Independent audit report

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Level 2, 10-16 Forest Street  
Bendigo, Victoria  
PO Box 30, Bendigo, VIC 3552

Telephone: (03) 5445 4200  
Fax: (03) 5444 4344  
Email: [rsd@rsdadvisors.com.au](mailto:rsd@rsdadvisors.com.au)  
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## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF VALLEY COMMUNITY FINANCIAL SERVICES LTD**

### **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 2012.

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.

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Richmond Sinnott & Delahunty  
ABN 60 616 244 309  
Liability limited by a scheme  
approved under Professional  
Standards Legislation

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**Partners:**  
Warren Sinnott      Philip Delahunty  
Cara Hail            Kathie Teasdale  
Brett Andrews      David Richmond

# Independent audit report (continued)

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

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

## ***INDEPENDENCE***

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

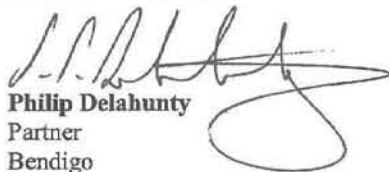
## ***AUDIT OPINION***

In our opinion, the financial report of 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 2012 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: 7<sup>th</sup> September 2012

# NSX report

Valley Community Financial Services Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

## Shareholding

The following table shows the number of shareholders as at 3 September 2012, broken into various categories showing the total number of shares held.

Number of shares held	Number of shareholders	Number of shares held
1 to 1,000	124	92,850
1,001 to 5,000	358	1,116,500
5,001 to 10,000	87	734,300
10,001 to 100,000	74	2,108,240
100,001 and over	Nil	Nil
<b>Total shareholders</b>	<b>643</b>	<b>4,051,890</b>

## Equity securities

Each of the above shareholders are entitled to 1 vote, irrespective of the number of shares held.

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to 1 vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to the voting restrictions for the company.

There are no shareholders holding less than a marketable parcel of shares (\$500 in value).

There are no restricted securities on issue.

All shares on issue are ordinary shares fully paid to \$1 per share. There are no unquoted equity securities.

## Ten largest shareholders

The following table shows the 10 largest shareholders.

Shareholder	Number of fully paid shares held	Percentage of issued capital
CE & DG Lance ATF Lance Super Fund	90,000	2.20%
Graham Dryden & Clare Dryden	90,000	2.20%
Walter H Mott	75,000	1.80%
Brian Stevens & Elizabeth Stevens	70,000	1.70%
Dale Trezise	65,000	1.60%
Neil Trezise	65,000	1.60%
A Jupp ATF Trash N Stash Super Fund	60,000	1.40%
Beverley Joan Mitchell	60,000	1.40%
Bruce Donnelly	60,000	1.40%
Harold Charles Mitchell	60,000	1.40%
	<b>695,000</b>	

# NSX report (continued)

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## Registered office and principal administrative office

The registered office of the company is located at:

Shop 8B, 75-77 Main Hurstbridge Road,

Diamond Creek Vic 3089

Phone: (03) 9438 3194

The principal administrative office of the company 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

Level 2, 10-16 Forest Street,

Bendigo VIC 3550

Phone: (03) 5445 4200

Ingrid Crichton has been the Company Secretary of Valley Community Financial Services Limited for 1 year and 6 months.

## 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 Daryl Brook 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 and strategic plans.

## Annexure 3

There are no material differences between the information in the company's Annexure 3 and the information in the financial documents in its Annual Report.

## 5 Year summary of performance

	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$
Gross revenue	1,827,941	2,127,917	2,563,920	3,078,134	3,626,530
Net profit before tax	288,410	208,434	240,521	(75,786)	260,528
Total assets	1,051,639	1,027,712	1,026,497	2,217,124	2,725,411
Total liabilities	234,311	198,928	197,379	211,212	706,786
Total equity	817,328	828,784	829,118	2,005,912	2,018,625



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

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

Eltham & District **Community Bank**<sup>®</sup> Branch  
 1036 Main Road, Eltham VIC 3095  
 Phone: (03) 9439 0188

Doreen & Mernda **Community Bank**<sup>®</sup> Branch  
 Shop 3, 101 Hazel Glen Drive, Doreen VIC 3754  
 Phone: (03) 9717 1433

Kinglake branch  
 Shop 4, 1 Victoria Road, Kinglake VIC 3763  
 Phone: (03) 5786 1656

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

