Varsity Lakes **Community Bank**® Branch

2012

annual report

Varsity Lakes Financial Services Ltd

ABN 57 127 396 454

Contents

Chairman's report

For year ending 30 June 2012

It is with great pleasure that I bring to you, on behalf of the Directors of Varsity Lakes Financial Services Limited, our Annual Report for the year ending 30 June 2012.

The challenging economic conditions experienced since the Global Financial Crisis have certainly continued throughout the 2011/12 financial year. Business conditions remained subdued during this time with both personal and business customers remaining conservative and in many cases looking to repay or reduce debt.

As a result, our business achieved modest growth during the year. This was considered to be a reasonable result in the circumstances and a testament to the efforts of our branch staff. Ryan, Tom and Lisa have retained our existing customers and continued to grow our business in a very difficult and challenging environment.

On a positive note, the outlook for the year ahead looks considerably more optimistic with expectations of significant business growth in the first half of the new-year. Should these expectations materialise, we expect to see the business reach monthly profitability, which will be a significant milestone for our company.

I encourage you, our shareholders, to support your company by transferring your banking (if you haven't already done so) to our branch. Please also encourage your family and friends to experience the excellent customer service and competitive products that our business provides.

It is only through your support that we will be able to reward our shareholders and continue to invest in our community. If you haven't opened an account yourself, we urge you to consider the benefits of supporting your company and your community.

At a Board level, my sincere thanks go to my fellow Directors all of whom who are passionate local business and community leaders who continue to volunteer their time freely in the interests of the Varsity Lakes community.

Thank you for your continued support.

Carl Bruhn
Chairman

Manager's report

For year ending 30 June 2012

I am pleased to present my report for the year ending 30 June 2012.

In what continued to be difficult and challenging economic conditions for the Gold Coast and Varsity Lakes, our branch managed to achieve a reasonable level of business growth for the year.

Total banking business grew by just on $3million (or 10%) to reach $31 million as at 30 June 2012. Pleasingly, new loans grew by a much higher level at almost $7 million. However, overall business growth was impacted by a number of customers choosing to repay or reduce debt.

Customer numbers increased to more than 1,000 account holders as our branch continued to be supported by local businesses, families and community organisations.

I'd like to acknowledge the efforts of our staff Tom Hansen and Lisa Gallagher. Lisa is a local Varsity Lakes resident and an experienced Customer Service Officer who joined our branch during the year.

Although early days, the outlook for our branch is very positive with a significant uplift in business growth in the first few months of the new financial year. Home Loan enquiries have increased significantly as have general customer enquiries. These early signs are very encouraging.

As in past years, we continued to support a number of worthy community organisations, sporting clubs and events including:

- Varsity Lakes Christmas Carols
- Varsity Lakes Business Forums
- Movies in the Park
- Careflight
- Mater Little Miracles Appeal
- Robina Raiders under 8's Soccer Team
- Robina Roos Football Club Inc.

Our most significant community investment to date has been in partnership with Bendigo and Adelaide Bank. Together we have committed to a long term sponsorship of "Sports House" in Christine Avenue. Sports House is a community owned facility developed in partnership by Lend Lease and Gold Coast City Council. It is managed by Varsity Lakes Community Limited on behalf of our community.

As mentioned in previous years, for our branch to achieve ongoing success we need the continuing support of the Varsity Lakes community and our shareholders. I encourage you, your friends and family to call in and let us showcase our excellent customer service and our great range of products. Please feel free to talk to myself and my branch staff regarding home loans, investments, business, personal accounts, superannuation and insurance.

We are now getting close to profitability, so the quicker we can grow our business the sooner we will reach that important milestone which in turn will bring us closer to being able to reward our shareholders and to invest more money in our local community.

We again thank you for your support and look forward to a successful year ahead.

Kind Regards

Ryan Simpson
Branch Manager

Directors' report

For the financial year ended 30 June 2012

Your directors submit the financial statements 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:

Carl Francis Bruhn
Chairman
Age: 46
General Manager
Experience and expertise:
Director, Cystic Fibrosis and Varsity Lakes Community Limited.

Wayne McArthur Clinton
Secretary
Age: 59
Disability Support Services Manager
Experience and expertise:
BSc Monash, BD hons, Former president Gold Coast Community Care Association Inc.

Nicholas Robert Rone
Director
Age: 45
Managing Director
Experience and expertise:
President of Central Gold Coast Chamber of Commerce, Chairman - Board of Directors for Varsity Lakes Community Limited, Honorary Rotarian.

Vincene Jane Overs
Director
Age: 49
Principle Project Officer
Experience and expertise:
Experience with the Queensland Department of Environment and Resource Management and various community based organisations.

Nicholas Guy Fortune Suddes
Treasurer
Age: 44
Accounting & Business Partner
Experience and expertise:
Chartered Accountant, Registered Tax Agent, Registered Company Auditor, Fellow Taxation Institute of Australia.

Stephen John Simpson
Director
Age: 54
State Community Enterprise Manager
Experience and expertise:
Extensive experience in banking and finance, locally and international, Manager Bendigo and Adelaide Bank.

Christopher Gordon Gregory
Director
Age: 67
International Business Consultant

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

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

Company Secretary

Wayne McArthur Clinton was appointed as company secretary on 22 April 2009. Wayne is the former President of Gold Coast Community Care Incorporated and holds a B Sc (Monash 1975) and Bdhons (MCD 1980). Wayne is currently employed as a manager of Bethany Care Limited, a not for profit government funded disability services provider.

Principal Activities

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

There have 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 loss of the company for the financial year after provision for income tax was:

	Year ended 30 June 2012 $	Year ended 30 June 2011 $
	(86,393)	(142,115)

Dividends

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

Significant Changes in the State of Affairs

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

Matters Subsequent to the End of the Financial Year

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

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

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

Indemnification and Insurance of Directors and Officers

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

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

Directors’ Meetings

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

	Board Meetings Attended	
	Eligible	**Attended**
Carl Francis Bruhn	8	8
Nicholas Guy Fortune Suddes	8	8
Wayne McArthur Clinton	8	7
Stephen John Simpson	8	7
Nicholas Robert Rone	8	6
Christopher Gordon Gregory	8	4
Vincene Jane Overs	8	8

Non Audit Services

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

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

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

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

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Signed in accordance with a resolution of the board of directors at Varsity Lakes, Queensland on 11 September 2012.

Carl Francis Bruhn,
Chairman

Auditor's independence declaration

Partners in success

Chartered Accountants

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Varsity Lakes Financial Services Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

David Hutchings
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 22 August 2012

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

P: (03) 5443 0344 | F: (03) 5443 5304 | 61-65 Bull St./PO Box 454 Bendigo Vic. 3552 | afs@afsbendigo.com.au | www.afsbendigo.com.au

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Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2012

	Note	2012 $	2011 $
Revenues from ordinary activities	4	324,022	261,225
Employee benefits expense		(211,719)	(205,817)
Charitable donations, sponsorship, advertising and promotion		(16,043)	(17,709)
Occupancy and associated costs		(46,591)	(65,085)
Systems costs		(31,367)	(31,342)
Depreciation and amortisation expense	5	(30,244)	(31,536)
Finance costs	5	(12,900)	(2,546)
General administration expenses		(61,551)	(49,305)
Loss before income tax expense		**(86,393)**	**(142,115)**
Income tax expense	6	-	-
Loss after income tax expense		**(86,393)**	**(142,115)**
Total comprehensive income for the year		**(86,393)**	**(142,115)**
Earnings per share (cents per share)		**c**	**c**
- basic profit for the year		(13.9)	(22.86)

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2012

	Note	2012 $	2011 $
ASSETS			
Current Assets			
Trade and other receivables	7	9,352	5,267
Total Current Assets		**9,352**	**5,267**
Non-Current Assets			
Property, plant and equipment	8	154,320	162,564
Intangible assets	9	27,500	49,500
Total Non-Current Assets		**181,820**	**212,064**
Total Assets		**191,172**	**217,331**
LIABILITIES			
Current Liabilities			
Trade and other payables	10	10,772	7,852
Borrowings	11	210,017	152,703
Total Current Liabilities		**220,789**	**160,555**
Total Liabilities		**220,789**	**160,555**
Net Assets		**(29,617)**	**56,776**
Equity			
Issued capital	12	597,884	597,884
Accumulated losses	13	(627,501)	(541,108)
Total Equity		**(29,617)**	**56,776**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the Year Ended 30 June 2012

	Issued Capital $	Retained Earnings $	Total Equity $
Balance at 1 July 2010	**597,884**	**(398,993)**	**198,891**
Total comprehensive income for the year	**-**	**(142,115)**	**(142,115)**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2011	**597,884**	**(541,108)**	**56,776**
Balance at 1 July 2011	**597,884**	**(541,108)**	**56,776**
Total comprehensive income for the year	**-**	**(86,393)**	**(86,393)**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2012	**597,884**	**(627,501)**	**(29,617)**

The accompanying notes form part of these financial statements.

Statement of Cashflows
for the Year Ended 30 June 2012

	Note	2012 $	2011 $
Cash Flows From Operating Activities			
Receipts from customers		338,195	262,371
Payments to suppliers and employees		(382,609)	(383,859)
Interest paid		(12,900)	(2,546)
Net cash used in operating activities	**14**	**(57,314)**	**(124,034)**
Net decrease in cash held		**(57,314)**	**(124,034)**
Cash and cash equivalents at the beginning of the financial year		(152,703)	(28,669)
Cash and cash equivalents at the end of the financial year	**11(a)**	**(210,017)**	**(152,703)**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Boards and the Corporations Act 2001. The company is a for-profit entity for the purpose of preparing the financial statements.

<u>Compliance with IFRS</u>

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

<u>Critical accounting estimates</u>

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

<u>Historical cost convention</u>

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

<u>Comparative figures</u>

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

<u>Adoption of new and revised Accounting Standards</u>

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The adoption of the revised AASB 124 Related Party Disclosures has not resulted in the disclosure of any additional related party transactions in the current period or any prior period and is not likely to affect future periods. The adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project have not affected the disclosure of any items in the financial statements.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2011.

<u>Economic dependency - Bendigo and Adelaide Bank Limited</u>

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branch at Varsity Lakes, Queensland.

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

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

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

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

Going concern

The net liabilities of the company as at 30 June 2012 were $29,617 and the loss made for the year was $86,393, bringing accumulated losses to $627,501. The operating loss for the year included non cash items, depreciation and amortisation of $30,244. Discretionary spending on charitable donations, sponsorship, advertising and promotion amounted to $16,043. ATM relocation costs of $3,446 were also incurred. Telephone costs increased from $4,308 in 2011 to $16,203 in 2012. As a result of changes to the ATM telephone contract it is anticipated that this cost will revert to 2011 levels.

In addition:	$
Total assets	191,172
Total liabilities	220,789
Operating cash flows	(57,314)

There was a 46.2% decrease in the loss recorded for the financial year ended 30 June 2012 when compared to the prior year.

The company meets its day to day working capital requirements through an ongoing overdraft facility. The overdraft has an approved limit of $280,000 and was drawn to $209,517 as at 30 June 2012. The overdraft increased by $29,892 in the 6 months to 31 December 2012 and by $27,452 in the 6 months to 30 June 2012.

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Going concern (continued)

An interest free period of two years expired in the previous year. As a result $12,900 of interest expense was incurred during the 2012 financial year.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 1 to 4. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the financial statements.

The current economic environment is difficult and while revenue continues to increase the company has again reported an operating loss for the year. The directors' consider that the outlook presents significant challenges in terms of banking business volume and pricing as well as for operating costs. Whilst the directors have instituted measures to preserve cash and secure additional finance, these circumstances create material uncertainties over future trading results and cash flows.

The company's current forecasts and projections, taking account of reasonably possible changes in trading performance, future business prospects, loans approved and expected settlements, and forecast discretionary spending on donations and sponsorships show that the company should be able to operate well within the level of its current overdraft facility to meet its current obligations.

The company has held discussions with Bendigo and Adelaide Bank Limited about its future borrowing needs. It is likely that these discussions will not be completed for some time but no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. The company has also obtained an undertaking of support from Bendigo and Adelaide Bank Limited that it will continue to support the company and its operations for the 2012/13 financial year. This support is provided on the basis that the company continues to fulfill its obligations under the franchise agreement and continues to work closely with Bendigo and Adelaide Bank Limited to further develop its business.

The directors have concluded that the combination of the circumstances above represents a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern and that, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries and considering the uncertainties and other matters described above, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

b) Revenue

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

Revenue calculation

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

Note 1. Summary of Significant Accounting Policies (continued)

b) Revenue (continued)

Revenue calculation (continued)

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

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

c) Income Tax

Current tax

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

Deferred tax

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

c) Income Tax (continued)

Current and deferred tax for the period

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

d) Employee Entitlements

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

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

e) Cash and Cash Equivalents

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

f) Trade Receivables and Payables

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

g) Property, Plant and Equipment

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

h) Intangibles

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

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

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

Impairment

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

Note 1. Summary of Significant Accounting Policies (continued)

l) Leases

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

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

m) Provisions

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

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

n) Contributed Equity

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

o) Earnings Per Share

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

p) Goods and Services Tax

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

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

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

Note 2. Financial Risk Management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

(i) the distribution limit is the greater of:

  (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and

  (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and

(ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

Note 2. Financial Risk Management (continued)

(vi) Capital management (continued)

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.

Note 3. Critical Accounting Estimates and Judgements

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Impairment of assets

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

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets (continued)

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

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

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

	2012 $	**2011 $**

Note 4. Revenue from Ordinary Activities

	2012 $	2011 $
Operating activities:		
- services commissions	324,022	261,225
Total revenue from operating activities	**324,022**	**261,225**
Non-operating activities:		
- interest received	-	-
Total revenue from non-operating activities	**-**	**-**
Total revenues from ordinary activities	**324,022**	**261,225**

Note 5. Expenses

	2012 $	2011 $
Depreciation of non-current assets:		
- plant and equipment	3,192	4,103
- leasehold improvements	5,052	5,433
Amortisation of non-current assets:		
- franchise agreement	2,000	2,000
- franchise renewal fee	20,000	20,000
	30,244	**31,536**
Finance costs:		
- interest paid	**12,900**	**2,546**
Bad debts	**65**	**273**

	2012 $	2011 $

Note 6. Income Tax Expense

	2012 $	2011 $
The components of tax expense comprise:		
- Future income tax benefit attributed to losses	(20,748)	(37,464)
- Future income tax benefit not brought to account	20,748	37,464
	-	-
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Operating loss	(86,393)	(142,115)
Prima facie tax on profit from ordinary activities at 30%	(25,918)	(42,634)
Add tax effect of:		
- non-deductible expenses	6,600	6,600
- timing difference expenses	-	-
- other deductible expenses	(1,430)	(1,430)
	(20,748)	**(37,464)**
Tax loss not brought to account	20,748	37,464
	-	-
Income tax losses		
Future income tax benefits arising from tax losses are not recognised at reporting date as realisation of the benefit is not regarded as virtually certain. Future income tax benefit carried forward is:	**170,635**	**149,887**

Note 7. Trade and Other Receivables

	2012 $	2011 $
Trade receivables	5,551	1,721
Other receivables and accruals	3,801	3,546
	9,352	**5,267**

Note 8. Property, Plant and Equipment

	2012 $	2011 $
Plant and equipment		
At cost	57,398	57,398
Less accumulated depreciation	(17,918)	(14,726)
	39,480	**42,672**

	2012 $	2011 $

Note 8. Property, Plant and Equipment (continued)

	2012 $	2011 $
Leasehold improvements		
At cost	135,814	135,814
Less accumulated depreciation	(20,974)	(15,922)
	114,840	**119,892**
Total written down amount	**154,320**	**162,564**
Movements in carrying amounts:		
Plant and equipment		
Carrying amount at beginning	42,672	46,775
Additions	-	-
Disposals	-	-
Less: depreciation expense	(3,192)	(4,103)
Carrying amount at end	**39,480**	**42,672**
Leasehold improvements		
Carrying amount at beginning	119,892	125,325
Additions	-	-
Disposals	-	-
Less: depreciation expense	(5,052)	(5,433)
Carrying amount at end	**114,840**	**119,892**
Total written down amount	**154,320**	**162,564**

Note 9. Intangible Assets

	2012 $	2011 $
Franchise fee		
At cost	10,000	10,000
Less: accumulated amortisation	(7,500)	(5,500)
	2,500	**4,500**
Establishment processing fee		
At cost	100,000	100,000
Less: accumulated amortisation	(75,000)	(55,000)
	25,000	**45,000**
Total written down amount	**27,500**	**49,500**

	2012 $	2011 $

Note 10. Trade and Other Payables

	2012 $	2011 $
Trade creditors	5,367	3,565
Other creditors and accruals	5,405	4,287
	10,772	**7,852**

Note 11. Borrowings

	2012 $	2011 $
Bank overdrafts	**210,017**	**152,703**

The bank overdraft has an approved limit of $280,000 and currently attracts an annual variable interest rate per agreement with Bendigo & Adelaide Bank Limited. The effective average interest rate for 2012 was 6.99% (2011: 2.94%).

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

Note 11.(a) Reconciliation of cash

	2012 $	2011 $
Bank overdraft	**(210,017)**	**(152,703)**

Note 12. Contributed Equity

	2012 $	2011 $
621,709 Ordinary shares fully paid (2011: 621,709)	621,709	621,709
Less: equity raising expenses	(23,825)	(23,825)
	597,884	**597,884**

Rights attached to shares

(a) Voting rights

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

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

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

(b) Dividends

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

Note 12. Contributed Equity (continued)

Rights attached to shares (continued)

(c) Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 93. As at the date of this report, the company had 103 shareholders.

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

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

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

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

Note 13. Accumulated Losses

	2012 $	2011 $
Balance at the beginning of the financial year	(541,108)	(398,993)
Net loss from ordinary activities after income tax	(86,393)	(142,115)
Balance at the end of the financial year	**(627,501)**	**(541,108)**

Note 14. Statement of Cashflows

	2012 $	2011 $
Reconciliation of loss from ordinary activities after tax to net cash used in operating activities		
Loss from ordinary activities after income tax	(86,393)	(142,115)
Non cash items:		
- depreciation	8,244	9,536
- amortisation	22,000	22,000
Changes in assets and liabilities:		
- (Increase)/decrease in receivables	(4,085)	2,971
- Increase/(decrease) in payables	2,920	(16,426)
Net cashflows used in operating activities	**(57,314)**	**(124,034)**

Note 15. Leases

Operating lease commitments

	2012 $	2011 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	40,066	32,000
- between 12 months and 5 years	-	40,066
- greater than 5 years	-	-
	40,066	**72,066**

The lease is a non-cancellable property lease for the branch premises with a five-year term. The lease term commenced 30 September 2008, payable monthly in advance and will increase annually by CPI.

Note 16. Auditor's Remuneration

	2012 $	2011 $
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	3,400	3,400
- non audit services	950	950
	4,350	**4,350**

Note 17. Director and Related Party Disclosures

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

Carl Francis Bruhn
Nicholas Guy Fortune Suddes
Wayne McArthur Clinton
Stephen John Simpson
Nicholas Robert Rone
Christopher Gordon Gregory
Vincene Jane Overs

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

Directors' Shareholdings	2012	2011
Carl Francis Bruhn	-	-
Nicholas Guy Fortune Suddes	1,000	1,000
Wayne McArthur Clinton	4,501	4,501
Stephen John Simpson	3,001	3,001
Nicholas Robert Rone	3,001	3,001
Christopher Gordon Gregory	5,001	5,001
Vincene Jane Overs	-	-

There was no movement in directors' shareholdings during the year.

Note 18. Key Management Personnel Disclosures

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

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

	2012 $	2011 $
Note 19. Earnings Per Share		
(a) Loss attributable to the ordinary equity holders of the company used in calculating earnings per share	(142,115)	(86,393)
	Number	**Number**
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	621,709	621,709

Note 20. Events Occurring After the Balance Sheet Date

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

Note 21. Contingent Liabilities

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

Note 22. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Varsity Lakes, Queensland pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 23. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office	Principal Place of Business
Shop 7/195 Varsity Parade	Shop 7/195 Varsity Parade
VARSITY LAKES QLD 4227	VARSITY LAKES QLD 4227

Note 24. Financial Instruments

Net Fair Values

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

Credit Risk

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

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

Note 24. Financial Instruments (continued)

Interest Rate Risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Over 5 years		Non interest bearing		Weighted average effective interest rate	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 %	2011 %
Financial Assets												
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Receivables	-	-	-	-	-	-	-	-	1,058	1,721	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	210,107	152,703	-	-	-	-	-	-	-	-	6.99	2.94
Payables	-	-	-	-	-	-	-	-	5,923	3,901	N/A	N/A

Directors' declaration

In accordance with a resolution of the directors of Varsity Lakes Financial Services Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

  (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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

Carl Francis Bruhn,
Chairman

Signed on the 11th of September 2012.

Independent audit report

Partners in success

Chartered Accountants

Independent auditor's report to the members of Varsity Lakes Financial Services Limited

Report on the financial report

We have audited the accompanying financial report of Varsity Lakes Financial Services Limited, which comprises the balance sheet as at 30 June 2012, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

P: (03) 5443 0344 | F: (03) 5443 5304 | 61-65 Bull St./PO Box 454 Bendigo Vic. 3552 | afs@afsbendigo.com.au | www.afsbendigo.com.au

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Independence

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

Auditor's opinion on the financial report

In our opinion:

1) The financial report of Varsity Lakes Financial Services Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2012 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.

2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the company incurred a net loss of $86,393.08 during the year ended 30 June 2012 and, as of that date, the company's liabilities exceeded its total assets by $220,789. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Varsity Lakes Financial Services Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

David Hutchings
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 22 August 2012

Varsity Lakes **Community Bank®** Branch
Shop 7, 195 Varsity Parade,
Varsity Lakes QLD 4227
Phone: (07) 5562 0755

Franchisee: Varsity Lakes Financial Services Ltd
Shop 7, 195 Varsity Parade,
Varsity Lakes QLD 4227
ABN: 57 127 396 454
www.bendigobank.com.au/varsity_lakes

Bendigo Bank

(BMPAR12054) (08/12)