

Fern Tree Gully **Community Bank**[®] Branch
Rowville **Community Bank**[®] Branch



annual report **2012**

Knox Community
Financial Services Ltd

ABN 88 093 823 708

Contents

Chairman's report	2
General Manager's report	4
Fern Tree Gully Manager's report	5
Rowville Manager's report	6
Finance report	7
Directors' report	8
Auditor's independence declaration	11
Financial statements	12
Notes to the financial statements	17
Directors' declaration	25
Independent audit report	26
Income statement	28

Chairman's report

For year ending 30 June 2012

The past 12 months have continued to be challenging for all Australian banks. High funding costs and low demand for credit has been felt across the sector, but despite this our company continues to grow and invest in the business.

The company's outlook for the coming financial year remains difficult to predict, with significant market volatility and revenue challenges facing all banks.

Funding costs, changing asset mix and demand for credit are all volatile reflecting the global environment. Notwithstanding these pressures, we continue to invest in our business, our people, and the local community.

A number of businesses which have been a part of the Knox community for many years have of necessity had to close their doors or reduce staff! Retail and manufacturing have again been particularly affected by this slow down in business resulting in John Surridge and his staff having to continue to develop new initiatives and look outside the square in an endeavour to keep our existing customers, while at the same time attract new ones.

Despite all the negatives in relation to the economy the support of the people of Fern Tree Gully and Rowville has continued, resulting in our **Community Bank**[®] branches reporting a satisfactory result for the 2011/12 year. This result has been achieved through cost savings. Growth within the company has continued although more slowly than in previous years. Our business grew to \$201 million while the number of accounts reduced to 10,666.

This ongoing support and the strict control over expenditure have enabled our company to operate profitably; which has allowed us to continue to financially support our local community in many projects.

Fern Tree Gully and Rowville **Community Bank**[®] branches remain committed to your local community and have been proud to be involved and support many organisations again this year. This support has been through grants and sponsorship. The total amount the Fern Tree Gully and Rowville **Community Bank**[®] branches have contributed and pledged to local organisations is \$1.6 million.

While continuing to provide assistance in the form of grants and sponsorship we have been able to continue to pay dividends to our shareholders.

Your Directors have recommended 17.5 cents per share dividend be paid for the 2011/12 financial year.

During the year the Manager of the Rowville **Community Bank**[®] Branch resigned. Andrew Williams, a Rowville resident for the past 29 years has been appointed to that position. Andrew is married with three children and has been actively involved in the Rowville community delivering the Rowville Lysterfield Community Newspaper for 18 years, Life Member of the Eildon Park Cricket Club, member of the Scoresby Football Club and is a member of the Community Development Advisory Committee of the Knox City Council. We welcome Andrew and look forward to his active participation in the future growth of the company.

At the last Annual General Meeting I reported that negotiations were proceeding for the establishment of a new bank agency as part of our ongoing expansion program. It was therefore very disappointing when this proposal did not proceed due to matters outside the control of the company. I can however advise that at the time of writing this report that negotiations are well advanced for the establishment of an agency very near to the original site. These negotiations are proceeding in a very positive manner.

The company's ongoing success and continuing support of our community would not have been possible without the continuing hard work of our management team and their staff! John Surridge in his role of Executive Manager has ensured the business at both branches is conducted in a professional, efficient and courteous manner. Tina Leslie and Andrew Williams have demonstrated a commitment to the branch and the local community.

Chairman's report (continued)

In these difficult economic times the requirement for our management team and staff to be available and attend work related meetings after hours has increased. Under their leadership the staff continues to demonstrate the word 'community' by their friendly and courteous manner when dealing with you, the customer.

Your Directors continue to work diligently. While your **Community Bank**[®] branches have continued to grow so have the time requirements expected from Directors. Their role in ensuring the overall management responsibilities while also planning for the future requires additional responsibilities.

Thank you to the many shareholders and clients who continue to support the **Community Bank**[®] concept. With the continued support of all involved in our **Community Bank**[®] branches I am hopeful our business will continue to grow and benefit our community.



Hurtle Lupton O.A.M., J.P.
Chairman

General Manager's report

For year ending 30 June 2012

As mentioned last year we were heading towards \$200 million in business, we did achieve this magical figure however we did not continue to grow as much as we would have liked.

It seems as though most of household and business customers are paying down debt and not going into new ventures, even though interest rates are now low.

Bendigo and Adelaide Bank adjusted the way we earn our income on some of the products; even though this resulted in a drop in income from those products, active management of our expenses assisted to ensure we operated profitably ensuring we could continue our work in the community and provide dividends to shareholders.

The Board and Management have plans that we are implementing to combat the lack of growth in our business.

We are always exploring options to gain market share.

One of our strengths is we have been able to partner with community groups who promote us and by doing this they benefit from our sponsorship/grants.

We embarked on a major project to provide new electronic scoreboards for three venues where we sponsor various sporting clubs; these boards are able to be used for cricket, football and cultural events. They will run announcements for products and services that we are able to provide to ensure we are front of mind for the community.

The provision of these scoreboards could not have happened without support from the clubs supporters; this is a tangible way partnering with clubs pays off for both of us.

We continue to maintain our community support of the various sporting clubs, schools, youth groups, aged care, aged services, charitable groups and many more of those who are an essential part of our community.

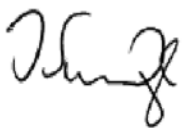
When we assist these community groups it makes staff and management proud to work for your **Community Bank**[®] branch when we know that we are assisting our community prosper.

As shareholders you can proudly recommend our branch to others with the confidence they will receive service and attention second to none, also their banking will help us to continue to maintain funding to our community partners.

I would like to thank the staff, who are led by Tina Leslie and Andrew Williams for their commitment to your **Community Bank**[®] branch. They go above and beyond what they are paid for to attend local functions and promote the bank at every opportunity.

I also pass on my thanks to Bendigo and Adelaide Bank, especially our Regional Manager Marisa Dickins; their continued partnership enables us to offer banking products that are extremely competitive to our customers and shareholders.

Last but not least are your Board members, led by Hurtle Lupton who continue to put in many hours to promote your **Community Bank**[®] branch within the community and guide the business to ensure your assets are protected.



John Surridge
General Manager

Fern Tree Gully Manager's report

For year ending 30 June 2012

Another year has disappeared and your **Community Bank**[®] branch continues to remain steady, proving that the community of Fern Tree Gully is well and truly deserving of its reputation of supporting its own.

As of 30 June 2012 we had 6,992 accounts and the branch had deposits and loans totalling \$118.522 million.

With the increased business comes a rise in staff, which has led to the recruitment of many new members, all of whom successfully drive the business via in-branch promotion.

It is incredible that we have been able to achieve the business levels we have and I would like to take this opportunity in thanking all our shareholders and customer for their continued support.

Over the years your **Community Bank**[®] branch has assisted many local community organisations with financial grants enabling a number of projects that have been undertaken by these groups to be completed for the benefit of their members.

Sponsorship continues to flow back into the community which makes my job so much more satisfying knowing that the people of Fern Tree Gully are benefiting from our continued success.

I would like to thank the Board for the hours they put in to promote your **Community Bank**[®] branches and the community of Fern Tree Gully. A special thanks goes to John Surridge for all his help, guidance and support throughout the year, and to the staff for their commitment and dedication in making our branch such a success.



Tina Leslie
Manager

Rowville Manager's report

For year ending 30 June 2012

It is a delight to be able to present my report to the shareholders of Knox Community Financial Services Ltd in my role as Manager of your Rowville **Community Bank**[®] Branch. I joined the company on 23 January this year with 32 years banking experience and how proud I am to be working in my own local community as a long term resident.

The year has been quite benign from a balance sheet growth perspective with the challenging economic climate having some stifling effect on balance growth and as at 30 June 2012 funds under management was \$82.5 million. Our number of accounts fell slightly to 3,672 and moving into 2012/13 we will be seeking avenues to reverse this trend with strengthening and deepening of our community partnerships.

The continued assistance to community-based groups by the **Community Bank**[®] branch is a significant feature of the model we operate under and again in 2011/12 many local organisations have been beneficiaries of that.

Specific programmes funded included support of the advertising for the counselling service provided by the Bridgewater Centre, Restore Community Care brunch program at Rowville Secondary College, development of the training nets for Eildon Park Cricket Club and provision of a PA system to St. Simons Junior Football Club. Funds were also provided in support of the Rowville CFA's forthcoming 75th anniversary celebrations.

Sponsorship of organisations was extended to Rowville, St. Simons Junior and Lysterfield Junior Football Clubs; Rowville, Lysterfield and Eildon Park Cricket Clubs and the Churchill Park Golf Club amongst others.

I would like to thank our Board of Directors headed by Hurtle Lupton and management staff of John Surridge and Tina Leslie for their guidance and support. I would also like to thank all company staff and in particular my Rowville based staff that have supported me unreservedly. Thanks also to the regional based staff headed by Regional Manager Marisa Dickins, operations staff headed by Natalie Goold and lending staff headed by Bryan Greene.



Andrew J. Williams
Branch Manager

Finance report

For year ending 30 June 2012

This year has produced another excellent result with Knox Community Financial Services Ltd maintaining sustained business growth highlighted by:

- Total ordinary operating income of \$2,020,852
- Total ordinary profit before tax of \$485,049
- Return on shareholders funds before tax of 26.8%
- Earnings per share before tax of \$0.62
- Declaration of a \$0.175 dividend per share
- Approximate net realisable asset coverage of \$2.33 per share
- Market capitalisation of \$1,483,425 or \$1.90 per share based upon the last share trade of financial year 2011/12.

There was an increase in donations to \$118,510. The Station St property is currently valued at \$754,138 combined with the \$820,125 in cash reserves within the investment account provides \$2.01 per share at a price of \$1.90.

The cash retained for reinvestment after tax and dividends was \$202,903

As the company progresses into 2012/13 the key financial objectives will be to continue to:

- Protect and increase shareholder value through consistent dividend payments and increase the net realisable asset coverage per share
- Expand local community engagement by growing the social dividend through increasing grants and donations to worthwhile local projects to continue to build long term community goodwill to the company providing increasing revenue and profit.

I look forward to the challenge of continuing the role of Finance Director into the future.



Darren Pearce
Finance Director

Directors' report

For the financial year ended 30 June 2012

Your Directors present this report on the company for the financial year ended 30 June 2012.

Directors

The names of the Directors in office at any time during or since the end of the year are:

Name of Director	Meetings attended	Meetings held
Graeme McEwin	10	11
Darren Pearce	10	11
Hurtle Lupton	10	11
Etienne Clauw	6	11
Phillip Reibelt	6	11
Desmond Higginbotham	11	11
Anthony Holland	11	11
Jeffrey Somers	10	11

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Operating result

The profit of the company for the financial year after providing for income tax amounted to:

	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
	349,869	314,497

Review of operations

A review of the operations of the company during the financial year and the results of those operations showed an overall profit before income tax of \$485,049.

Significant changes in the state of affairs

During the year the company changed its name from Fern Tree Gully & Rowville Financial Services Ltd to Knox Community Financial Services Ltd, no other significant changes in the company's state of affairs occurred during the financial year.

Principal activities

The principal activities of the company during the course of the year were Bendigo and Adelaide Bank **Community Bank**[®] operations in Fern Tree Gully and Rowville. No significant change in the nature of these activities occurred during the year.

Directors' report (continued)

After balance date events

No matters or circumstances have arisen since the end of the financial year which 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 subsequent financial years.

Likely developments

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

Dividends

During the year the Directors have provided for and paid dividends of \$117,112.50 (\$0.15 per share).

Share options

The company has granted no options on unissued shares at any time.

Directors' interests in shares of the company or related bodies corporate

The particulars of shares held by the Directors of the company in the company or in related bodies corporate which are required to be declared in the register of Directors' share holdings are as follows:

Name of Director	Shareholding
Graeme McEwin	5,000
Darren Pearce	5,500
Hurtle Lupton	1,000
Etienne Clauw	0
Phillip Reibelt	0
Desmond Higginbotham	1,000
Anthony Holland	500
Jeffrey Somers	500

Directors' benefits

No Director has received or has become entitled to receive, during or since the financial year, a benefit because of a contract made by the company 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.

An allowance was paid to some Directors and Officers of the company to cover expenses incurred on behalf of the company.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company or related body corporate.

Directors' report (continued)

Indemnification and insurance of Directors and Officers

The company has agreed to indemnify each Director and Officer of the company 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 incurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the company or in or arising out of the discharge of the Officer's duties.

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

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.

International Financial Reporting Standards (IFRS)

Since the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the company's financial report has been prepared in accordance with those standards.

Auditors independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 has been included.

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



Graeme McEwin
Director



Darren Pearce
Director

Dated: 8 October 2012

Auditor's independence declaration

KNOX COMMUNITY FINANCIAL SERVICES LTD
ABN 88 093 823 708
Auditor's Independence Declaration

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To THE DIRECTORS OF: KNOX COMMUNITY FINANCIAL SERVICES LTD

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been :

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the Audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit

Signed on :



Glenn Miller

Nickless Miller Meehans Pty Ltd

110 Drummond Street, Oakleigh VIC 3166

Financial statements

Income statement for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Classification of expenses by nature			
Revenues from ordinary activities	2	2,020,852	2,017,167
Bad and doubtful debts	3	(1,645)	(3,001)
Depreciation and amortisation expenses	3	(15,125)	(16,284)
Other expenses from ordinary activities		(1,519,033)	(1,514,925)
Profit from ordinary activities before income tax		485,049	482,957
Income tax expense relating to ordinary activities	4	(135,180)	(168,460)
Net profit attributable to members of the company		349,869	314,497

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance sheet as at 30 June 2012

	Note	2012 \$	2011 \$
Current assets			
Cash assets	6	1,067,348	872,560
Total current assets		1,067,348	872,560
Non-current assets			
Property, plant and equipment	7	890,401	883,598
Intangible assets	8	0	0
Total non-current assets		890,401	883,598
Total assets		1,957,749	1,756,157
Current liabilities			
Payables	9	41,589	21,967
Current tax liabilities	10	103,735	154,522
Total current liabilities		145,323	176,489
Total liabilities		145,323	176,489
Net assets		1,812,425	1,579,669
Equity			
Issued capital	11	780,750	780,750
Retained profits		1,031,675	798,919
Total equity		1,812,425	1,579,669

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of changes in equity for the year ended 30 June 2012

	Retained profits \$	Issued & paid up capital \$	Total \$
Balance at 30/06/2010	601,534	780,750	1,382,284
Profit attributable to the members	314,497		314,497
Shares issued during the year		0	0
Subtotal	916,031	780,750	1,696,781
Dividends paid or provided for	(117,112)		(117,112)
Balance at 30/06/2011	798,919	780,750	1,579,669
Profit attributable to the members	349,869		349,869
Shares issued during the year		0	0
Subtotal	1,148,788	780,750	1,929,538
Dividends paid or provided for	(117,112)		(117,112)
Balance at 30/06/2012	1,031,675	780,750	1,812,425

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of cashflows for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Cash flow from operating activities			
Receipts from customers		1,981,406	2,006,496
Payments to suppliers and employees		(1,484,342)	(1,509,122)
Interest received		29,391	14,530
Income tax paid		(192,626)	(102,093)
Net cash provided by (used in) operating activities (note 2)		333,829	409,811
Cash flow from investing activities			
Fixed asset purchases		(21,929)	(3,200)
Net cash provided by (used in) investing activities		(21,929)	(3,200)
Cash flow from financing activities			
Dividends paid		(117,112)	(117,112)
Net cash provided by (used in) financing activities		(117,112)	(117,112)
Net increase (decrease) in cash held		194,788	289,499
Cash at the beginning of the year		872,560	583,061
Cash at the end of the year (note 1)		1,067,348	872,560

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of cashflows for the year ended 30 June 2012

	2012	2011
	\$	\$

Note 1. Reconciliation of cash

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.

Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash at bank	246,723	297,474
Investment account	320,125	574,585
Term deposit	500,000	0
Deposit bonds	500	500
	1,067,348	872,560

Note 2. Reconciliation of net cash provided by/used in operating activities to net profit

Operating profit (loss) after tax	349,869	314,497
Depreciation & amortisation	15,125	16,284
Increase/(decrease) in provision for income tax	(57,446)	66,367
Changes in assets and liabilities net of effects of purchases and disposals of controlled entities:		
Increase (decrease) in trade creditors and accruals	26,281	12,663
Net cash provided by operating activities	333,829	409,811

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2012

Note 1. Statement of significant accounting policies

The financial report covers Knox Community Financial Services Ltd as an individual entity. Knox Community Financial Services Ltd is a company limited by shares, incorporated and domiciled in Australia.

(A) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board 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 a financial report 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. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report of Knox Community Financial Services Ltd comply with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety

(B) Accounting policies

Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which the Directors expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

a) Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

(B) Accounting policies (continued)

Property, plant and equipment (continued)

a) Property (continued)

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

b) Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining the recoverable amounts.

The cost of fixed assets constructed within Knox Community Financial Services Ltd includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

c) Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to Knox Community Financial Services Ltd commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An assets carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to Knox Community Financial Services Ltd 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 value. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

(B) Accounting policies (continued)

Leases (continued)

Leased assets are depreciated on a straight line basis over their estimated useful lives or over the term of the lease

Lease payments under 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.

Financial instruments

a) Recognition

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 profit or loss immediately.

b) Financial assets at fair value through profit and loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

c) 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.

d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed of determinable payments, and it is the company's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

e) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

f) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

g) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

(B) Accounting policies (continued)

Financial instruments (continued)

h) Impairment

At each reporting date, the Directors assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Impairment of assets

At each reporting date, the Directors review the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the assets fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Intangibles

a) Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b) Research and Development Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

Employee benefits

Provision is made for the liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year have been measured at the amount expected to be paid when the liability is settled, plus related on-costs. Employee entitlements payable later than one year have been measured at the present value of the estimated future cash out flows to be made for those entitlements.

Provisions

Provisions are recognised when Knox Community Financial Services Ltd has a legal or constructive obligation, as a result of past events, for which it is probable that the outflow of economic benefit will result and that the outflow can be measured reliably.

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

(B) Accounting policies (continued)

Cash and cash equivalents

Cash and Cash Equivalents includes cash on hand, deposits held at call with banks or financial institutions, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

Revenue

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

All other borrowing costs are recognised in income in the period in which they are incurred

Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Comparative figures

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

Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial report 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 internally.

Key estimates - Impairment

The Directors assess impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 2. Revenue		
Operating activities:		
Other sales revenue (including banking)	1,965,146	1,981,906
Rents	15,706	14,872
Interest revenue	29,391	14,530
Rebates & refunds	10,609	5,859
	2,020,852	2,017,167

Note 3. Profit from ordinary activities

Profit (loss) from ordinary activities before income tax has been determined after:

Charging as expense:		
Bad and doubtful debts	1,645	3,001
Depreciation of non-current assets	15,125	16,284

Note 4. Income tax

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

Current tax	135,180	168,460
Income tax expense attributable to profit from ordinary activities		
	135,180	168,460

Note 5. Dividends

Dividends provided for or paid	117,112	117,112
	117,112	117,112

Note 6. Cash assets

Bank accounts:		
Cash at bank	246,723	297,475
Investment account	320,125	574,585
Term deposit	500,000	0
Other cash items:		
Deposit bonds	500	500
	1,067,348	872,560

Notes to the financial statements (continued)

	2012 \$	2011 \$
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Note 6. Cash assets (continued)

Reconciliation of cash:

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

- Cash	1,067,348	872,560
	1,067,348	872,560

Note 7. Property, plant and equipment

Buildings:

- At cost	772,928	754,138
	772,928	754,138

Leasehold improvements:

- At cost	46,645	46,645
- Less: Accumulated depreciation	(46,645)	(46,645)
	0	0

Plant and equipment:

- At cost	266,774	263,636
- Less: Accumulated depreciation	(149,301)	(134,176)
	117,473	129,460
	890,401	883,598

Note 8. Intangible assets

Franchise fees:

- At cost	110,000	110,000
- Less: Accumulated amortisation	(110,000)	(110,000)
	0	0

Note 9. Payables

Trade creditors	23,303	6,323
Sundry creditors	18,286	15,644
	41,589	21,967

Notes to the financial statements (continued)

	2012	2011
	\$	\$
Note 10. Tax liabilities		
GST Payable	56,628	56,741
Taxation	29,019	86,465
PAYG Withholding Payable	18,088	11,316
	103,735	154,522

Note 11 Contributed capital

Ordinary shares at \$1.00 each fully paid	780,750	780,750
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Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Note 12. Company details

The registered office of the company is 67 Station Street, Fern Tree Gully VIC 3156.

Directors' declaration

The Directors of the company declare that:

1. the financial statements and notes are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations; and
 - (b) give 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;
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.

This declaration is made in accordance with a resolution of the Board of Directors.



Graeme McEwin
Director



Darren Pearce
Director

Dated: 8 October 2012

Independent audit report

KNOX COMMUNITY FINANCIAL SERVICES LTD
ABN 88 093 823 708
Independent Auditor Report

Report on the financial report

We have audited the accompanying financial report of KNOX COMMUNITY FINANCIAL SERVICES LTD, which comprises the balance sheet as at 30 June 2012, income statement, statement of changes in equity, and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the director's declaration of the company for the year ended 30 June 2012.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: "Presentation of Financial Statements" that the financial statements comply with International Financial Reporting Standards (IFRS).

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. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair 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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

Independent audit report (continued)

KNOX COMMUNITY FINANCIAL SERVICES LTD
ABN 88 093 823 708
Independent Auditor Report

(a) the financial report of KNOX COMMUNITY FINANCIAL SERVICES LTD is 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 year ended on that date, and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Signed on :



Glenn Miller

Nickless Miller Meehans Pty Ltd

110 Drummond Street, Oakleigh VIC 3166

Income statement

Income statement
for the year ended 30 June 2012

	2012 \$	2011 \$
Income		
Gross margin	1,244,384	1,206,251
Commission	15,793	16,803
Trailer commission	378,260	430,152
Fee income	226,709	228,698
Market Development Fund	100,000	100,000
Interest received	29,391	14,530
Rebates and refunds	10,609	5,859
Rent received	15,706	14,872
Total income	2,020,852	2,017,167
Expenses		
Accountancy	31,170	22,679
Advertising, marketing & sponsorship	104,350	90,180
Bad debts	1,645	3,001
Bank fees and charges	1,045	248
Bendigo and Adelaide Bank fees	79,006	75,392
Cleaning	28,941	27,892
Couriers	14,958	14,484
Depreciation	15,125	16,284
Donations	118,510	94,831
Franchise fees	0	50,000
Filing fees	2,340	1,029
Fringe benefits tax	0	4,801
Heat, light and power	13,899	15,589
Insurance	24,611	27,531
Legal fees	364	168
Payroll tax	17,284	15,355
Postage	3,286	3,374
Printing and stationery	31,222	29,067
Procedural errors	642	738

Income statement (continued)

	2012 \$	2011 \$
Expenses (continued)		
Rates and land taxes	4,504	5,109
Rent on land & buildings	69,166	86,260
Repairs and maintenance	12,236	6,550
Salaries	794,902	774,725
Security	3,995	7,239
Share registry	3,048	4,081
Staff training	14,336	17,164
Sundry expenses	33,631	24,721
Superannuation	79,943	83,843
Telephone	22,808	22,624
Uniform	5,975	6,535
Workcover insurance	2,861	2,713
Total expenses	1,535,802	1,534,210
Profit from ordinary activities before income tax	485,049	482,957



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Rowville **Community Bank**[®] Branch
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