Annual Report 2017

Knox Community Financial Services Limited

ABN 88 093 823 708

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

Contents

Chairman’s report

For year ending 30 June 2017

I am delighted to write my first review of the company’s performance since becoming Chairman late last year.

Initially, I want to acknowledge the work of Hurtle Lupton, the previous Chairman for an extended period of time. Hurtle provided leadership and discipline to the Board operations and lead the company through a difficult period both initially and in the latter years of his stewardship.

John Surridge also retired at the end of last year after being the person who provided leadership to the operational side of the business since the establishment of the Ferntree Gully **Community Bank**® Branch. John has continued as the Executive Officer of the Board and travels from Yarrawonga to attend Board meetings.

Your company has performed strongly in the last 12 months despite conditions in the banking sector being difficult. The full impact of the realignment of the profit sharing model by Bendigo Bank and actions by the banking regulatory authority have provided significant challenges. However, our staff team have worked diligently to grow the business significantly during the year and our total footings at June 2017 were just short of $300 million.

The Board conducted an interim review of the management structure introduced in 2016 and fine-tuned the operation to ensure the most efficient structure was in place. The development of a strategic plan and an analysis of the skills of the current Board were also on the Board’s agenda during the past 12 months. The engagement of the younger generation and the impact of social media have been a key focus of the Board more recently. A review of all aspects of marketing was undertaken with the assistance of an external consultant and a marketing plan established for the coming years. All of these are on-going projects as we look to position our Board and company for the challenges of the future. In August we welcomed Rosemary Hermans to the Board to further broaden the available skillset and we continue to seek new Board members to complement the existing team and provide for succession planning.

In order to generate additional income to distribute solely to community projects, the company established a Wealth Management Fund that will generate returns to the company well beyond those attainable by leaving funds in a bank account. The Wealth Management Fund is overseen by an external advisor and returns to the company from all investments will be used for projects through the community grants program. This includes the rental return from any property owned by the company.

Your company has also received approval from Bendigo Bank to establish a cashless presence in the Caribbean Gardens Business Park that will see its population grow over the coming years to 20,000 workers in 2,000 different businesses. This new venture provides an opportunity for the company, in collaboration with Bendigo Bank, to grow the business further in a new environment. The venture will launch in early December 2017.

I am pleased to advise that the hard work of our team has contributed once again to a healthy return to shareholders in line with previous returns.

Our banking staff team, capably lead by Mick Spruhan, has continued to provide first class service to our customers. In my travels to community organisations I receive many compliments about our staff. Tina Leslie, in her new role as Business Manager, has provided ongoing support to both the operations of the business and the Board.

I would also like to acknowledge the invaluable support our company receives from Bendigo Bank through our nominated representatives, Marisa Dickens and Gabriella Butler.

In conclusion I wish to thank my fellow Board members for their efforts on your behalf. The business of running a **Community Bank**® company is placing an increasing responsibility on Board members, thus increasing the time commitment of members.

Jeff Somers
Chairman

Manager’s report

For year ending 30 June 2017

In 2017 the combined balances of our operations increased to $290.592 million which was up from the $276.966 million reported in 2016.

This is another very good effort, especially when you consider take the age of our book overall into account. Growth has been across both lending and deposits, which is ideal for our business.

During the 2016/17 financial year, we had a number of changes within our staffing. This saw us welcome Michelle as our Customer Relationship Manager at Ferntree Gully **Community Bank**® Branch and Pat joined the group as our mobile Business Development Manager.

Both have settled in well and are contributing to our overall growth and service standards.

The success of our operation is due in no small way to the service provided by our staff and I would like to take this opportunity to thank them for their efforts over the last 12 months. Our service is what sets us apart from other banks.

Once again we are pleased to have been able to support a vast number of sporting clubs, associations, schools and groups through our sponsorships, grants and donations. It is no coincidence that the clubs that benefit the most from this distribution are those that actively promote the benefits of banking with us to their members, who in turn bank/support us.

So, ask yourself, family and friends, “Does your current bank contribute back into your local community?”

The next financial year 2017/18 will be another exciting year and we are setting our sights on having another solid year. The face of banking is changing, as we are constantly being reminded, but what remains steady is our desire and intent to make a difference in within our sphere of influence.

Mick Spruhan
Branch Manager

Finance report

For year ending 30 June 2017

The 2016/17 financial year has seen continued sustained growth, building upon the improved key financial outcomes from the previous financial year, resulting in:

- 2.9% increase in revenue to $2.298 million
- 26% increase in net profit (before tax) to $567,410
- return on shareholders funds (before tax) of 27.7%
- 29.7% increase in the earnings per share to $0.52
- declaration of a $0.15 per share dividend
- net tangible assets per share of $2.53
- market capitalisation of $1.795 million (based upon the last lasted share trade on the low volume market before 30/6/2017 of $2.30).

The key contributing factors contributing to this result is the $64,322 revenue growth combined with the $54,709 reduction in ordinary operating expenses resulting in a net increase in operating profit (before donations and sponsorships) of $119,031 for the 2016/17 financial year.

The company took the decision to establish a community investment fund, through the acquisition of a $600,000 quality 'blue chip' ASX listed share portfolio, comprising:

- Bendigo and Adelaide Bank (40%)
- Argo Investments (20%)
- Australian Investment Foundation (20%)
- Scentre Group (10%)
- BHP, Transurban, Telstra (10%).

The dividend income generated from the share investments combined with the post office rent income will be transferred to a separate bank account, to provide a sustainable passive income stream that will be used to fund community investment opportunities, not dependent upon the year to year profit performance of the ordinary banking activities of the company.

The company remains debt free, with sufficient cash reserves to maintain an excellent liquidity position and provide the capital for future business growth opportunities.

Regards,

Darren Pearce
Finance Director

Directors' report

For the financial year ended 30 June 2017

The Directors present their report of the company for the financial year ended 30 June 2017.

Directors

The following persons were Directors of Knox Community Financial Services Limited during or since the end of the financial year up to the date of this report:

Jeffrey Somers

Position	Chairman
Experience and expertise	Jeffrey is a long standing school principal and current director of the Glen Waverly Golf Club (11 years).

Etienne Clauw

Position	Marketing Director
Experience and expertise	Etienne holds a Bachelor of Engineering (Elec). Etienne is the Chair of the Marketing Committee.

John Surridge

Position	Secretary
Experience and expertise	John holds a Diploma of Management, Diploma of Retail Management and Graduate Certificate in Management.

Phillip Reibelt

Position	Director
Experience and expertise	Phillip has worked in Workforce Management for several years.

Darren Pearce

Position	Finance Director
Experience and expertise	Darren has a Bachelor of Economics, MBA and GAICD and is a current director of Turnkey Profit Solutions.

Anthony Holland

Position	Director
Experience and expertise	Anthony holds a Cert IV in Property and is a current director of Officer Real Estate Pty Ltd.

Katherine Harris

Position	HR Director
Experience and expertise	Katherine works in Ecomonic Development with the Knox City Council.

Desmond Higginbotham

Position	Director
Experience and expertise	Desmond has a Bachelor of Commerce, DipEd and Grad DIP Sec ST. Desmond is also a current director of Lyndee Properties

Richard Kent

Position	Director
Experience and expertise	Richard is a registered legal practioner and is a partner in the firm Mackinnon Jacobs Lawyers. Richard is also an ex-director of Tuville Pty Ltd, a financial mortgage broking entity.

Directors (continued)

Hurtle Lupton

(Resigned 14 November 2016)

Position	Director
Experience and expertise	Hurtle is a Member of Parliament and a Superannuation Consultant. He is an ex-director of Glengollan Village, a retirement village and aged care home in Ferntree Gully.

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

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

Directors' meetings

Attendances by each Director during the year were as follows:

	Board meetings	
Director	**A**	**B**
Jeffrey Somers	12	12
Etienne Clauw	12	9
John Surridge	12	12
Phillip Reibelt	12	10
Darren Pearce	12	10
Anthony Holland	12	10
Katherine Harris	12	12
Desmond Higginbotham	12	10
Richard Kent	12	11
Hurtle Lupton	5	5

A - The number of meetings eligible to attend.
B - The number of meetings attended.

Company Secretary

John Surridge has been the Company Secretary of Knox Community financial Services Limited since 2016.

John Surridge's qualifications and experience include Diploma of Management, Disploma of Retail Management and a Graduate Certificate in Management.

Principal activities

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

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

Review of operations

The profit of the company for the financial year after provision for income tax was $409,069 (2016 profit: $315,211), which is a 30% increase as compared with the previous year.

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

Dividends

Dividends paid or declared since the start of the financial year.

A fully franked final dividend of 15 cents per share ($117,113) was declared and paid during the year for the year ended 30 June 2016. No dividend has been declared or paid for the year ended 30 June 2017 as yet.

Options

No options over issued shares were granted during or since the end of the financial year and there were no options outstanding as at the date of this report.

Significant changes in the state of affairs

No significant changes in the company's state of affairs occurred during the financial year.

Events subsequent to the end of the reporting period

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

Likely developments

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

Environmental regulations

The company is not subject to any significant environmental regulation.

Indemnifying Officers or Auditor

The company has not agreed to indemnify each Officer (Director, Secretary or employee) against any liability incurred by that person arising out of the discharge of their duties.

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.

Auditor independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set at page 8 of this financial report. No Officer of the company is or has been a partner of the Auditor of the company.

Signed in accordance with a resolution of the Board of Directors at Ferntree Gully on 26 September 2017.

Darren Pearce
Director

Auditor’s independence declaration

Level 2, 10-16 Forest Street
Bendigo, Victoria
PO Box 448, Bendigo, VIC, 3552

Ph: (03) 5445 4200
admin@rsdaudit.com.au
www.rsdaudit.com.au

Auditor’s Independence Declaration under section 307C of the *Corporations Act 2001* to the Directors of Knox Community Financial Services Limited.

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there has been no contraventions of:

(i) the Auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSD Audit
Chartered Accountants

Kathie Teasdale
Partner
Bendigo
Dated: 26 September 2017

Richmond Sinnott & Delahunty, trading as RSD Audit
ABN 60 616 244 309
Liability limited by a scheme approved under Professional Standards Legislation

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Notes	2017 $	2016 $
Revenue	2	2,298,126	2,233,804
Expenses			
Employee benefits expense	3	1,209,024	1,244,327
Depreciation and amortisation	3	52,427	47,837
Bad and doubtful debts expense	3	439	2,056
Occupancy expenses		128,753	123,531
IT Costs		41,198	47,939
Loss on disposal and write-off of property, plant and equipment		-	48,852
Advertising and marketing expenses		29,083	30,801
Professional fees		28,465	29,960
Other expenses from ordinary activities		157,350	126,145
		1,646,739	**1,701,448**
Operating profit before charitable donations and sponsorships		**651,387**	**532,356**
Charitable donations and sponsorships		83,977	82,055
Profit before income tax		**567,410**	**450,301**
Income tax expense	4	158,341	135,090
Profit for the year		**409,069**	**315,211**
Other comprehensive income		-	-
Total comprehensive income for the year		**409,069**	**315,211**
Profit attributable to members of the company		409,069	315,211
Total comprehensive income attributable to members of the company		**409,069**	**315,211**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company (cents per share):			
- basic earnings per share	16	52.39	40.37

These financial statements should be read in conjunction with the accompanying notes.

Statement of Financial Position
as at 30 June 2017

	Notes	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents	5	638,461	863,001
Trade and other receivables	6	199,904	193,553
Financial Assets	7	600,000	-
Total current assets		**1,438,365**	**1,056,554**
Non-current assets			
Property, plant and equipment	8	844,011	872,695
Intangible assets	9	66,445	90,187
Deferred tax assets	4	88,452	56,976
Total non-current assets		**998,908**	**1,019,858**
Total assets		**2,437,273**	**2,076,412**
Liabilities			
Current liabilities			
Trade and other payables	10	105,848	108,587
Current tax liability	4	80,398	23,091
Provisions	12	179,499	180,129
Total current liabilities		**365,745**	**311,807**
Non-current liabilities			
Provisions	12	24,758	9,791
Total non-current liabilities		**24,758**	**9,791**
Total liabilities		**390,503**	**321,598**
Net assets		**2,046,770**	**1,754,814**
Equity			
Issued capital	13	780,750	780,750
Retained earnings	14	1,266,020	974,064
Total equity		**2,046,770**	**1,754,814**

These financial statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 30 June 2017

	Note	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2015		**780,750**	**775,966**	**1,556,716**
Profit for the year		-	315,211	315,211
Transactions with owners, in their capacity as owners				
Dividends paid or provided	15	-	(117,113)	(117,113)
Balance at 30 June 2016		**780,750**	**974,064**	**1,754,814**
Balance at 1 July 2016		**780,750**	**974,064**	**1,754,814**
Profit for the year		-	409,069	409,069
Transactions with owners, in their capacity as owners				
Dividends paid or provided	15	-	(117,113)	(117,113)
Balance at 30 June 2017		**780,750**	**1,266,020**	**2,046,770**

These financial statements should be read in conjunction with the accompanying notes.

Statement of Cash Flows
for the year ended 30 June 2017

	Notes	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		2,293,709	2,429,432
Payments to suppliers and employees		(1,673,042)	(1,941,926)
Interest received		4,416	8,549
Income tax paid		(132,510)	(111,105)
Net cash provided by operating activities	**17b**	**492,573**	**384,950**
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(274,725)
Purchase of investments		(600,000)	-
Purchase of intangible assets		-	(50,000)
Net cash used in investing activities		**(600,000)**	**(324,725)**
Cash flows from financing activities			
Dividends paid		(117,113)	(117,113)
Net cash used in financing activities		**(117,113)**	**(117,113)**
Net decrease in cash held		**(224,540)**	**(56,888)**
Cash and cash equivalents at beginning of financial year		863,001	919,889
Cash and cash equivalents at end of financial year	**17a**	**638,461**	**863,001**

These financial statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

For year ended 30 June 2017

These financial statements and notes represent those of Knox Community Financial Services Limited.

Knox Community Financial Services Limited ('the company') is a company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue by the Directors on 26 September 2017.

Note 1. Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The company is a for profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, were applicable, by the measurement at fair value of selected non current assets, financial assets and financial liabilities.

Economic dependency

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**® branches at Ferntree Gully and Rowville.

The branches operate as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank", the logo, and systems of operation of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank**® branches 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**® branches 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**® branches;
- Training for the Branch Managers 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
- Sale techniques and proper customer relations.

Note 1. Summary of significant accounting policies (continued)

(b) Impairment of assets

At the end of each reporting period, the company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

(c) Goods and services 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 (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(d) New and amended accounting policies adopted by the company

There are no new and amended accounting policies that have been adopted by the company this financial year.

(e) Comparative figures

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

(f) Critical accounting estimates and judgements

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

<u>Estimation of useful lives of assets</u>

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

<u>Fair value assessment of non-current physical assets</u>

The AASB 13 Fair Value standard requires fair value assessments that may involved both complex and significant judgement and experts.

<u>Employee benefits provision</u>

Assumptions are required for wage growth and CPI movements. The likelihood of employees reaching unconditional service is estimated. The timing of when employee benefit obligations are to be settled is also estimated.

Note 1. Summary of significant accounting policies (continued)

(f) Critical accounting estimates and judgements (continued)

Income tax

The company is subject to income tax. Significant judgement is required in determining the deferred tax asset.

Deferred tax assets are recognised only when it is considered sufficient future profits will be generated. The assumptions made regarding future profits is based on the company's assessment of future cash flows.

Impairment

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

(g) New accounting standards for application in future periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the company.

The company has decided not to early adopt any of the new and amended pronouncements. The company's assessment of the new and amended pronouncements that are relevant to the company but applicable in the future reporting periods is set below:

(i) AASB 9 Financial Instruments and associated Amending Standards (applicable for annual reporting periods beginning on or after 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

a) Financial assets that are debt instruments will be classified based on:

   (i) the objective of the entity's business model for managing the financial assets; and

   (ii) the characteristics of the contractual cash flows.

b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

c) Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.

d) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

e) here the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

   - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
   - the remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Note 1. Summary of significant accounting policies (continued)

(g) New accounting standards for application in future periods (continued)

(i) AASB 9 Financial Instruments and associated Amending Standards (applicable for annual reporting periods beginning on or after 1 January 2018) (continued)

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

(ii) AASB 15: Revenue from Contracts with Customers (applicable for annual reporting periods commencing on or after 1 January 2018)

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with customers;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosure regarding revenue.

When this Standard is first adopted for the year ending 30 June 2019, it is not expected that there will be a material impact on the transactions and balances recognised in the financial statements.

(iii) AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019)

AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations;
- requires all leases to be accounted for ‘on-balance sheet’ by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117; and
- requires new and different disclosures about leases.

The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity’s preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

Note 2. Revenue

Revenue arises from the rendering of services through its franchise agreement with the Bendigo and Adelaide Bank LImited. The revenue recognised is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

The entity applies the revenue recognition criteria set out below to each separately identifiable sales transaction in order to reflect the substance of the transaction.

Rendering of services

The entity generates service commissions on a range of products issued by the Bendigo and Adelaide Bank Limited. The revenue includes upfront and trailing commissions, sales fees and margin fees.

Interest and other income

Interest income is recognised on an accrual basis using the effective interest rate method.

Other revenue is recognised when the right to the income has been established.

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

	2017 $	**2016 $**
Revenue		
- service commissions	2,279,010	2,209,219
	2,279,010	**2,209,219**
Other revenue		
- interest received	4,416	8,549
- other revenue	14,700	16,036
	19,116	**24,585**
Total revenue	**2,298,126**	**2,233,804**

Note 3. Expenses

Operating expenses

Operating expenses are recognised in profit or loss on an accurals basis, which is typically upon utilisation of the service or at the date upon which the entity becomes liable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

Depreciation

The depreciable amount of all fixed assets, including buildings, but excluding freehold land, is depreciated over the asset's useful life to the company 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.

Note 3. Expenses (continued)

The depreciation rates used for each class of depreciable asset are:

Class of asset	Rate	Method
Buildings	3%	SL
Building improvements	3%	DV
Plant and equipment	3.8% - 66.7%	DV

SL = Straight line
DV = Diminishing value

<u>Gains/losses upon disposal of non-current assets</u>

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

	2017 $	2016 $
Profit before income tax includes the following specific expenses:		
Employee benefits expense		
- wages and salaries	993,716	1,020,779
- superannuation costs	107,264	108,457
- other costs	108,044	115,091
	1,209,024	**1,244,327**
Depreciation and amortisation		
Depreciation		
- plant and equipment	3,248	7,885
- leasehold improvements	9,131	4,570
- buildings	16,305	16,306
	28,684	**28,761**
Amortisation		
- franchise fees	23,743	19,076
Total depreciation and amortisation	**52,427**	**47,837**
Bad and doubtful debts expenses	439	2,056
Loss on disposal of property, plant and equipment	-	48,852
Auditors' remuneration		
Remuneration of the Auditor, Richmond, Sinnott & Delahunty, for:		
- Audit or review of the financial report	4,900	5,800
- Share registry services	3,566	3,211
	8,466	**9,011**

Note 4. Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities are measured at the amounts expected to be paid to the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

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.

Deferred income 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 management expects to recover or settle the carrying amount of the related asset or liability.

	2017 $	2016 $
a. The components of tax expense comprise:		
Current tax expense	151,110	132,967
Deferred tax expense	13,417	2,123
Under / (over) provision of prior years	(6,186)	-
	158,341	**135,090**
b. Prima facie tax payable		
The prima facie tax on profit from ordinary activities		
before income tax is reconciled to the income tax expense as follows:		
Prima facie tax on profit before income tax at 27.5% (2016: 30%)	156,038	135,090
Add tax effect of:		
- Under / (over) provision of prior years	(6,186)	-
- Change in company tax rates	8,489	-
Income tax attributable to the entity	**158,341**	**135,090**
The applicable weighted average effective tax rate is:	27.91%	30.00%
c. Current tax liability		
Current tax relates to the following:		
Current tax liabilities		
Opening balance	23,091	1,229
Income tax paid	(132,510)	(111,105)
Current tax	151,110	132,967
Under / (over) provision prior years	38,707	-
	80,398	**23,091**

	2017 $	2016 $

Note 4. Income tax (continued)

	2017 $	2016 $
d. Deferred tax asset		
Deferred tax relates to the following:		
Deferred tax assets balance comprises:		
Employee provisions	88,452	56,976
Net deferred tax asset	**88,452**	**56,976**
e. Deferred income tax included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets	13,417	2,123
Under / (over) provision prior years	(44,893)	-
	(31,476)	**2,123**

Note 5. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks and other short-term highly liquid investments with original maturities of three months or less.

	2017 $	2016 $
Cash at bank and on hand	638,461	863,001
	638,461	**863,001**

Note 6. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for doubtful debts. Trade and other receivables are due for settlement usually no more than 30 days from the date of recognition.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is established when ther eis objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The amount of the provision is recognised on profit or loss.

	2017 $	2016 $
Current		
Trade receivables	199,404	193,053
Other receivables	500	500
	199,904	**193,553**

Note 6. Trade and other receivables (continued)

Credit risk

The main source of credit risk relates to a concentration of trade receivables owing by Bendigo and Adelaide Bank Limited, which is the source of the majority of the company's income.

The following table details the company's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as "past due" when the debt has not been settled, within the terms and conditions agreed between the company and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the company.

The balances of receivables that remain within initial trade terms (as detailed in the table below) are considered to be high credit quality.

	Gross amount $	Not past due $	Past due but not impaired			Past due and impaired $
			< 30 days $	31-60 days $	> 60 days $	
2017						
Trade receivables	199,404	199,404	-	-	-	-
Other receivables	500	500	-	-	-	-
Total	**199,904**	**199,904**	**-**	**-**	**-**	**-**
2016						
Trade receivables	**193,053**	**193,053**	**-**	**-**	**-**	**-**
Other receivables	500	500	-	-	-	-
Total	**193,553**	**193,553**	**-**	**-**	**-**	**-**

Note 7. Financial assets

Classification of financial assets

The company classifies its financial assets in the following categories:

- loans and receivables,
- held to maturity investments, and
- available for sale assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Loans and receivables

This category is the most relevant to the company. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the period end, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Note 7. Financial assets (continued)

Classification of financial assets (continued)

Held to maturity investments

The group classifies investments as held-to-maturity if:

- they are non-derivative financial assets
- they are quoted in an active market
- they have fixed or determinable payments and fixed maturities
- the group intends to, and is able to, hold them to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets.

Available for sale financial asset

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

Measurement of financial assets

At initial recognition, the group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discount estimated future cash payments or receipts over the expected life (or where this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in the profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in other comprehensive income.

Impairment of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Note 7. Financial assets (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Assets classified as available for sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Financial assets are derecognised when the contractual rights to receipt of cash flows expire 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. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

	2017 $	2016 $
Available for sale financial assets		
Listed investments	600,000	-
	600,000	**-**

Note 8. Property, plant and equipment

Property

Freehold land and buildings are carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of land and buildings is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of land and buildings is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal.

Note 8. Property, plant and equipment (continued)

Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

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

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that 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 recognised as expenses in profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

	2017 $	2016 $
Land and Buildings		
At cost	652,200	652,200
Less accumulated depreciation	(171,877)	(155,572)
	480,323	**496,628**
Building improvements		
At cost	365,224	365,224
Less accumulated depreciation	(26,103)	(16,973)
	339,121	**348,251**
Plant and equipment		
At cost	219,972	219,972
Less accumulated depreciation	(195,405)	(192,156)
	24,567	**27,816**
Total property, plant and equipment	**844,011**	**872,695**
Movements in carrying amounts		
Land and Buildings		
Balance at the beginning of the reporting period	496,628	512,934
Depreciation expense	(16,305)	(16,306)
Balance at the end of the reporting period	**480,323**	**496,628**

	2017 $	2016 $

Note 8. Property, plant and equipment (continued)

	2017 $	2016 $
Building improvements		
Balance at the beginning of the reporting period	348,251	78,096
Additions	-	274,725
Depreciation expense	(9,130)	(4,570)
Balance at the end of the reporting period	**339,121**	**348,251**
Plant and Equipment		
Balance at the beginning of the reporting period	27,816	84,553
Disposals	-	(48,852)
Depreciation expense	(3,249)	(7,885)
Balance at the end of the reporting period	**24,567**	**27,816**
Total property, plant and equipment		
Balance at the beginning of the reporting period	872,695	675,583
Additions	-	274,725
Disposals	-	(48,852)
Depreciation expense	(28,684)	(28,761)
Balance at the end of the reporting period	**844,011**	**872,695**

Note 9. Intangible assets

Franchise fees have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum. The current amortisation charges for intangible assets are included under depreciation and amortisation in the Statement of Profit or Loss and Other Comprehensive Income.

	2017 $	2016 $
Franchise fee		
At cost	118,713	118,713
Less accumulated amortisation	(52,268)	(28,526)
	66,445	**90,187**
Movements in carrying amounts		
Franchise fee		
Balance at the beginning of the reporting period	90,187	59,263
Additions	-	50,000
Amortisation expense	(23,742)	(19,076)
Balance at the end of the reporting period	**66,445**	**90,187**

Note 10. Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

	2017 $	2016 $
Current		
Unsecured liabilities:		
Trade creditors	-	374
Other creditors and accruals	105,848	108,213
	105,848	**108,587**

The average credit period on trade and other payables is one month.

Note 11. Financial liabilities

Financial liabilities include trade payables, other creditors, loans from third parties and loans from or other amounts due to related entities. Financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial liabilities are initially measured at fair value plus transaction costs, except where the instrument is classified as “fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately. Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Note 12. Provisions

Short-term employee benefits

Provision is made for the company’s obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The liability for annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Other long-term employee benefits

Provision is made for employees’ long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurement for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

Note 12. Provisions (continued)

Other long-term employee benefits (continued)

The company's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the company does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

	2017 $	2016 $
Current		
Employee benefits	179,499	180,129
Non-current		
Employee benefits	24,758	9,791
Total provisions	**204,257**	**189,920**

Note 13. Share capital

Ordinary shares are classified as equity.

	2017 $	2016 $
780,750 Ordinary shares fully paid	780,750	780,750
	780,750	**780,750**
Movements in share capital		
Fully paid ordinary shares:		
At the beginning of the reporting period	780,750	780,750
Shares issued during the year	-	-
At the end of the reporting period	**780,750**	**780,750**

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At the shareholders' meetings each shareholder is entitled to one vote when a poll is called, or on a show of hands. The company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the company's residual assets.

Capital management

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

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

(i) the Distribution Limit is the greater of:

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

Note 13. Share capital (continued)

Capital management (continued)

(b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital of the Franchisee over that 12 month period; and

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

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid can be seen in the Statement of Profit or Loss and Comprehensive Income.

There were no changes in the company's approach to capital management during the year.

Note 14. Retained earnings

	2017 $	2016 $
Balance at the beginning of the reporting period	974,064	775,966
Profit after income tax	409,069	315,211
Dividends paid	(117,113)	(117,113)
Balance at the end of the reporting period	**1,266,020**	**974,064**

Note 15. Dividends paid or provided for on ordinary shares

	2017 $	2016 $
Dividends paid or provided for during the year		
Final fully franked ordinary dividend of 15 cents per share (2016:15) franked at the tax rate of 27.5% (2016: 30%).	117,113	117,113

A provision is made for the amount of any dividends declared, authorised and no longer payable at the discretion of the entity on or before the end of the financial year, but not distributed at balance date.

Note 16. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the company, excluding any costs of servcing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjsuted for bonus elements in ordinary shares issues during the year.

Note 16. Earnings per share (continued)

Basic earnings per share (continued)

	2017 $	2016 $
Basic earnings per share (cents)	52.39	40.37
Earnings used in calculating basic earnings per share	409,069	315,211
Weighted average number of ordinary shares used in calculating basic earnings per share.	780,750	780,750

Note 17. Statement of cash flows

(a) Cash and cash equivalents balances as shown in the Statement of Financial Position can be reconciled to that shown in the Statement of Cash Flows as follows:

Cash and cash equivalents (Note 5)	638,461	863,001
As per the Statement of Cash Flow	**638,461**	**863,001**
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	409,069	315,211
Non-cash flows in profit		
- Depreciation	28,684	28,761
- Amortisation	23,743	19,076
- Net loss on disposal of property, plant & equipment	-	48,852
Changes in assets and liabilities		
- (Increase) / decrease in trade and other receivables	(6,351)	(18,349)
- (increase) / decrease in prepayments and other assets	-	2,123
- (Increase) / decrease in deferred tax asset	(31,477)	(25,508)
- Increase / (decrease) in trade and other payables	(2,739)	21,862
- Increase / (decrease) in current tax liability	57,307	(7,078)
- Increase / (decrease) in provisions	14,337	-
Net cash flows from operating activities	**492,573**	**384,950**

Note 18. Key management personnel and related party disclosures

(a) Key management personnel

Any person(s) having authority or responsibility for planning, directing or controlling the activities of the entity, directly or indirectly including any Director (whether executive or otherwise) of that company is considered key management personnel.

Notes to the financial statements (continued)

Note 18. Key management personnel and related party disclosures (continued)

(a) Key management personnel

The totals of remuneration paid to key management personnel of the company during the year are as follows:

	2017 $	2016 $
Short-term employee benefits	46,583	45,088
Total key management personnel compensation	**46,583**	**45,088**

Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chair and non-executive Directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to Executive Directors and other key management personnel.

(b) Other related parties

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

(c) Transactions with key management personnel and related parties

Other than detailed below, no key management personnel or related party has entered into any contracts with the company.

The Knox Community Financial Services Limited has not accepted the Bendigo and Adelaide Bank Limited's **Community Bank**® Directors Privileges package. Payments made to Directors for their services are detailed below:

	2017	2016
Hurtle Lupton	8,100	16,200
Phillip Reibelt	2,604	2,384
Darren Pearce	5,196	5,196
Etienne Clauw	5,196	5,196
Anthony Holland	2,604	3,684
Desmond Higginbotham	2,604	2,604
Jeffrey Somers	11,615	4,406
Katherine Harris	5,196	3,899
Richard Kent	3,468	1,519
	46,583	**45,088**

Notes to the financial statements (continued)

Note 18. Key management personnel and related party disclosures (continued)

(d) Key management personnel shareholdings

The number of ordinary shares in Knox Community Financial Services Limited held by each key management personnel of the company during the financial year is as follows:

	2017	2016
Hurtle Lupton	6,000	6,000
Phillip Reibelt	-	-
Darren Pearce	5,500	5,500
Etienne Clauw	-	-
Anthony Holland	500	500
Desmond Higginbotham	1,000	1,000
Jeffrey Somers	1,000	1,000
Katherine Harris	-	-
Richard Kent	-	-
John Surridge	1,000	1,000
	15,000	15,000

There was no movement in key management personnel shareholdings during the year. Each share held has a paid up value of $1 and is fully paid.

(e) Other key management transactions

There has been no other transactions involving equity instruments other than those described above.

Note 19. Events after the reporting period

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

Note 20. Contingent liabilities and contingent assets

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

Note 21. Operating segments

The company operates in the financial services sector where it provides banking services to its clients. The company operates in one geographic area being Ferntree Gully, Victoria. The company has a franchise agreement in place with Bendigo and Adelaide Bank Limited who account for 100% of the revenue (2016: 100%).

Note 22. Commitments

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the Statement of Financial Position.

	2017 $	2016 $
Payable:		
- no later than 12 months	66,254	64,955
- between 12 months and five years	278,535	273,073
- greater than five years	147,313	270,215
Minimum lease payments	**492,102**	**608,243**

The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance and with CPI increases each year.

Note 23. Company details

The registered office and principle place of business is 65-67 Station Street, Ferntree Gully VIC 3156

Note 24. Financial risk management

Financial risk management policies

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Specific financial risk exposure and management

The main risks the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and other price risk. There have been no substantial changes in the types of risks the company is exposed to, how the risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

The company's financial instruments consist mainly of deposits with banks, short term investments, account receivables and payables, bank overdraft and loans. The totals for each category of financial instruments measured in accordance with AASB 139 Financial Instruments: Recognition and Measurement as detailed in the accounting policies are as follows:

	Note	2017 $	2016 $
Financial assets			
Cash and cash equivalents	5	638,461	863,001
Trade and other receivables	6	199,904	193,553
Financial Assets	7	600,000	-
Total financial assets		**1,438,365**	**1,056,554**

	Note	2017 $	2016 $

Note 24. Financial risk management (continued)

Financial liabilities			
Trade and other payables	10	105,848	108,587
Total financial liabilities		**105,848**	**108,587**

(a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the company.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms for normal fee income are generally 30 days from the date of invoice. For fees with longer settlements, terms are specified in the individual client contracts. In the case of loans advanced, the terms are specific to each loan.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets as presented in the table above.

The company has significant concentrations of credit risk with Bendigo and Adelaide Bank Limited. The company's exposure to credit risk is limited to Australia by geographic area.

None of the assets of the company are past due (2016: nil past due) and based on historic default rates, the company believes that no impairment allowance is necessary in respect of assets not past due.

The company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Limited and therefore credit risk is considered minimal.

(b) Liquidity risk

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

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

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Note 24. Financial risk management (continued)

(b) Liquidity risk (continued)

Financial liability and financial asset maturity analysis:

30 June 2017	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
Cash and cash equivalents	0.98%	638,461	638,461	-	-
Trade and other receivables		199,904	199,904	-	-
Financial Assets		600,000	600,000		
Total anticipated inflows		**1,438,365**	**1,438,365**	**-**	**-**
Financial liabilities					
Trade and other payables		105,848	105,848	-	-
Total expected outflows		**105,848**	**105,848**	**-**	**-**
Net inflow / (outflow) on financial instruments		**1,332,517**	**1,332,517**	**-**	**-**

30 June 2016	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
Cash and cash equivalents	0.55%	863,001	863,001	-	-
Trade and other receivables		193,553	193,553	-	-
Total anticipated inflows		1,056,554	1,056,554	-	-
Financial liabilities					
Trade and other payables		**108,587**	**108,587**	**-**	**-**
Total expected outflows		108,587	108,587	-	-
Net inflow / (outflow) on financial instruments		**947,967**	**947,967**	**-**	**-**

(c) Market risk

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

Interest rate risk

Exposure to interest rate risk arises on financial assets recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The financial instruments that primarily expose the company to interest rate risk are fixed interest securities, and cash and cash equivalents.

Note 24. Financial risk management (continued)

(c) Market risk (continued)

Sensitivity analysis

The following table illustrates sensitivities to the company's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit $	Equity $
Year ended 30 June 2017		
+/- 1% in interest rates (interest income)	6,385	6,385
	6,385	**6,385**
Year ended 30 June 2016		
+/- 1% in interest rates (interest income)	8,630	8,630
	8,630	**8,630**

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year.

The company has no exposure to fluctuations in foreign currency.

Price risk

The company's exposure to equity securities price risk arises from investments held by the company and

classified in the balance sheet as available-for-sale. Exposure to price risk arises on investments whereby a future change in share prices will affect future cash flows or the fair value financial assets.

To manage its price risk arising from investments in equity securities, the company diversifies its portfolio.

The company's equity investments are all publicly traded on the Australian Stock Exchange.

Sensitivity analysis

The following table illustrates sensitivities to the company's exposures to changes in equity prices. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit $	Equity $
Year ended 30 June 2017		
+/- 5% in equity prices (fair value gains/losses)	30,000	30,000
	30,000	**30,000**
Year ended 30 June 2016		
+/- 5% in equity prices (fair value gains/losses)	-	-
	-	**-**

Note 24. Financial risk management (continued)

(c) Market risk (continued)

Sensitivity analysis (continued)

The company did not have any investments in equity instruments in the 2016 financial year.

The company has no exposure to fluctuations in foreign currency.

The company is not exposed to any material price risk.

(d) Fair values

Fair value estimation

The fair values of financial assets and liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position.

Differences between fair values and the carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied to the market since their initial recognition by the company.

	2017		2016	
	Carrying amount $	Fair value $	Carrying amount $	Fair Value $
Financial assets				
Cash and cash equivalents (i)	638,461	638,461	863,001	863,001
Trade and other receivables (i)	199,904	199,904	193,553	193,553
Financial Assets	600,000	572,000	-	-
Total financial assets	**1,438,365**	**1,410,365**	**1,056,554**	**1,056,554**
Financial liabilities				
Trade and other payables (i)	105,848	105,848	108,587	108,587
Total financial liabilities	**105,848**	**105,848**	**108,587**	**108,587**

(i) Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term instruments in nature whose carrying amounts are equivalent to their fair values.

Directors' declaration

In accordance with a resolution of the Directors of Knox Community Financial Services Limited, the Directors of the company declare that:

1. The financial statements and notes, as set out on pages 9 to 36 are in accordance with the Corporations Act 2001 and:
   (i) comply with Australian Accounting Standards which, as stated in accounting policy Note 1(a) to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
   (ii) give a true and fair view of the company's financial position as at 30 June 2017 and of the performance for the year ended on that date;
2. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Darren Pearce
Director

Signed at Ferntree Gully on 26th September 2017.

Independent audit report

rsd Audit

Level 2, 10-16 Forest Street
Bendigo, Victoria
PO Box 448, Bendigo, VIC, 3552

Ph: (03) 5445 4200
admin@rsdaudit.com.au
www.rsdaudit.com.au

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF KNOX COMMUNITY FINANCIAL SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Knox Community Financial Services Limited, which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion:

(a) the financial report of Knox Community Financial Services Limited 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 2017 and of its performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001;* and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements related to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

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

Independence

We are independent of the entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Richmond Sinnott & Delahunty, trading as RSD Audit
ABN 60 616 244 309

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

Director's Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001,* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.
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 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, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. On connection with our audit of the financial report, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RSD AUDIT
Chartered Accountants

Kathie Teasdale
Partner
Bendigo
Dated: 26 September 2017

Fern Tree Gully **Community Bank**® Branch
67 Station Street, Fern Tree Gully VIC 3156
Phone: (03) 9756 0332 Fax: (03) 9756 0301
www.bendigobank.com.au/ferntree-gully

Rowville **Community Bank**® Branch
Shop G7, 1090 Wellington Road, Rowville VIC 3178
Phone: (03) 9755 8611 Fax: (03) 9755 8622
www.bendigobank.com.au/rowville

Franchisee: Knox Community Financial Services Limited
67 Station Street, Fern Tree Gully VIC 3156
ABN: 88 093 823 708
www.kcbg.com.au

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